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Intrico Insights

Budget 2026: The Kartavya Perspective



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Intrico Perspective

Prepared for the first time at the newly inaugurated **Kartavya Bhawan**, the Union Budget 2026–27 was presented as a vision rooted in **responsibility, reform, and people-centric governance**. Reflecting on twelve years of economic stewardship, the Government emphasized stability, fiscal discipline, sustained growth and moderation in inflation as outcomes of conscious policy choices — even during periods of global uncertainty. The Budget is set against a challenging global backdrop marked by fragile trade relations, disrupted supply chains, rapid technological shifts and rising pressure on critical resources. Within this context, the Government reaffirmed its commitment to the vision of **Viksit**

Bharat, balancing ambition with inclusion and domestic capability with global integration.

Yuva Shakti and the Philosophy of the *Three Kartavya*:

A defining feature of Budget 2026–27 is its conceptual foundation built around Yuva Shakti and the Three Kartavya — responsibilities that guide policy design and execution.

Budget draws inspiration from ideas emerging from the Viksit Bharat Young Leaders Dialogue 2026, positioning India's youth not merely as beneficiaries, but as co-creators of growth. The Three Kartavya serve as a strategic framework rather than isolated policy objectives.



The Three Kartavya Guiding India's Budget 2026 Strategy

First Kartavya = Accelerate and Sustain Economic Growth

The first kartavya focuses on strengthening productivity, competitiveness and economic resilience amid global uncertainty. The Government has prioritized targeted interventions across manufacturing, MSMEs, infrastructure, energy security and urban development to create durable growth momentum.

Manufacturing is a key pillar, with a strong push toward strategic and high-technology sectors. Biopharma SHAKTI (₹10,000 crore over five years) aims to position India as a global biologics hub, while India Semiconductor Mission 2.0 expands focus beyond fabrication to equipment, materials and indigenous IP.

Labour-intensive and legacy sectors are revitalised through integrated support for textiles—covering fibre self-reliance, skilling under Samarth 2.0 and mega textile parks—and the modernisation of 200 legacy industrial clusters. MSMEs are supported through a three-pronged approach, including equity infusion via a ₹10,000 crore SME Growth Fund, improved liquidity through mandatory TReDS adoption, and compliance support through Corporate Mitras. Infrastructure remains the primary growth multiplier, with public capex increased to ₹12.2 lakh crore, complemented by risk-sharing mechanisms to attract private investment. Energy security is reinforced through a ₹20,000 crore CCUS programme, while the City Economic Regions framework (₹5,000 crore per region over five years) promotes decentralised, outcome-oriented urban development.

Second Kartavya = Fulfil Aspirations and Build Capacity

The second kartavya shifts emphasis from physical capital to human and institutional capacity, particularly in services and emerging professions.

A High-Powered Education-to-Employment and Enterprise Committee will identify high-potential services sub-sectors, assess the impact of AI on jobs, and recommend skilling and curriculum reforms. The overarching objective is to enable India to achieve a 10% share in global services exports by 2047.

Targeted capacity-building initiatives are announced across health, care services, medical and AYUSH tourism, animal husbandry, AVGC, design, higher education, tourism and sports



Third Kartavya = Sabka Sath, Sabka Vikas

The third kartavya ensures that economic growth translates into inclusive and balanced development. The Budget places special focus on:

- Enhancing farmer incomes through fisheries, animal husbandry and high-value crops
- Expanding mental health and trauma care infrastructure
- Women empowerment through SHE-Marts and enterprise ownership
- Accelerating development in Purvodaya states and the North-East
- Supporting Divyangjan via skilling and assistive technologies

Summary

The Three Kartavya framework of Union Budget 2026 articulates a balanced growth strategy anchored in economic acceleration, capacity building and inclusive development.

By prioritizing productivity-led growth, strengthening human and institutional capabilities, and ensuring that development outcomes are broadly shared, the Budget aligns short-term policy actions with long-term national objectives. Together, the Kartavya create a cohesive roadmap for sustainable growth, resilience and social equity, reinforcing India's vision of becoming a globally competitive and inclusive economy.



Economic Context and Budget Philosophy



The Economic Survey 2025–26 sets the analytical foundation for Union Budget 2026–27 by presenting a data-backed assessment of India’s growth trajectory, macroeconomic stability and structural priorities. The Survey highlights India’s relative resilience amid global uncertainty and underscores the need to sustain reform momentum to convert near-term growth into long-term economic strength.

❖ Growth Outlook and Macroeconomic Performance

The Survey estimates **real GDP growth for FY26 estimated to grow by 7.4%**, positioning India among the fastest-growing major economies globally. This growth has been primarily supported by **strong domestic demand, sustained public capital expenditure, and improving private sector balance sheets.**

Nominal GDP growth is estimated at around **8%**, providing a strong revenue base for fiscal consolidation.

On the inflation front, the Survey notes that CPI inflation moderated to around 5.4% in FY25, compared to higher levels witnessed post-pandemic. However, food inflation remains volatile due to climate-related shocks and supply-side disruptions, reinforcing the need for productivity improvements in agriculture, storage, and logistics.



❖ Fiscal Position and Public Investment

The Survey reiterates the role of public capital expenditure as a key growth driver. Central government capital expenditure has increased sharply from **₹2 lakh crore in FY15**

to over **₹11 lakh crore in FY26 (RE)**, contributing significantly to infrastructure creation and crowding in of private investment. Empirical evidence cited in the Survey suggests that every ₹1 of public capex has generated **₹2.5–₹3.0 of output over the medium term.**

At the same time, the Survey emphasizes fiscal prudence. The **fiscal deficit declined to about 4.4% of GDP in FY26 (RE)**, and the Government has reaffirmed its commitment to reducing the **debt-to-GDP ratio towards ~50% over the medium term.** This approach aims to balance growth imperatives with long-term macroeconomic credibility.

❖ Investment, Savings and Productivity

Gross Fixed Capital Formation (GFCF) remained robust at around 33% of GDP, supported by public infrastructure spending and a gradual revival in private investment. Corporate profitability improved significantly, with listed non-financial corporates recording healthy profit growth and deleveraging, enabling higher capacity utilisation and new investment cycles.

The Survey stresses that sustaining growth beyond 7% will require productivity-led expansion, driven by technology adoption, digitisation of public services, and deeper

integration with global value chains.

❖ Financial Sector and Credit Dynamics

India's financial sector is described as entering a "position of strength". The Gross Non-Performing Assets (GNPA) ratio of scheduled commercial banks declined to around 2.2%, the lowest in over a decade, while capital adequacy ratios remained comfortably above regulatory thresholds.

Bank credit growth remained strong at 15–16% year-on-year, with notable expansion in MSME, retail and infrastructure lending. The Survey cautions, however, that rapid credit expansion must be accompanied by prudent risk management, especially in a volatile global financial environment.

❖ External Sector and Global Environment

The Survey notes that India's current account deficit remained contained at around 1.2% of GDP, supported by strong services exports and remittances. Merchandise exports faced headwinds due to weak global demand, but services exports crossed USD 350 billion, reinforcing India's position as a global services hub.

Foreign exchange reserves remained comfortable at over USD 620 billion, providing a strong buffer against external shocks and supporting currency stability.

❖ Employment, Demographics and Human Capital

Employment indicators improved, with labour force participation rate (LFPR) rising above 55% and female workforce participation showing steady improvement. The Survey highlights that India's demographic dividend — with a median age of around 28 years — can be a powerful growth engine if supported by large-scale skilling, formalisation and job creation, particularly in services and emerging sectors.

❖ Structural Reforms and Governance

A recurring theme of the Survey is the importance of second-generation reforms. It argues that while first-generation reforms have stabilised macro fundamentals, future growth will depend on ease of compliance, trust-based regulation, judicial efficiency, and digital governance.

Digital public infrastructure — including GST, JAM trinity, Account Aggregators and ONDC — is cited as a key contributor to efficiency, transparency and inclusion



Policy & Regulatory Framework



Union Budget 2026–27 uses tax and regulatory policy as instruments to translate broader economic priorities into operational outcomes. The focus of the policy framework is not on altering headline tax rates, but on improving certainty, simplifying compliance, addressing long-standing interpretational issues and enabling capital flows. The measures span direct taxes, indirect taxes, international taxation and trade facilitation, and together define the regulatory environment within which sector-specific initiatives operate.

The policy measures may be analyzed across the following themes.

I. Tax Rate Continuity with Structural Rebalancing:

- The Budget does not amend personal income tax slabs or headline corporate income tax rates. However, it introduces structural changes that alter the effective tax outcome in specific cases.
- Minimum Alternate Tax continues to apply to companies (other than IFSC units) on book profits. Currently, MAT is levied at 15%, and where MAT exceeds the regular tax liability, the excess amount is allowed as MAT credit, which can be carried forward for up to 15 years for set-off against future regular tax liabilities, primarily under the old tax regime.
- Union Budget 2026–27 proposes a significant restructuring of MAT, effective 1 April 2026 (tax year 2026–27). MAT paid under the old tax regime is proposed to become a final tax, and no new MAT credit will be allowed going forward. Correspondingly, the MAT rate is proposed to be reduced from 15% to 14%, balancing lower tax incidence with simplification of the credit framework.
- For domestic companies transitioning from the old tax regime to the new regime, existing MAT credit may be utilised, subject to a cap of 25% of the normal tax liability in the relevant year. Any unutilised credit may be carried forward within the existing 15-year limitation period.
- In respect of non-residents opting for presumptive taxation, MAT is proposed to be inapplicable to specified businesses, including the operation of cruise ships and provision of services or technology in India for electronics manufacturing or production of electronic goods for resident companies.
- The tax treatment of share buybacks has been modified by shifting taxation from dividend income to capital gains. In the case of promoter shareholders, an additional tax on capital gains applies, resulting in an effective tax rate of 22% for domestic corporate shareholders and 30% for other shareholders.
- Further, the deduction of interest expenditure against dividend income and mutual fund income, which was earlier allowed up to 20% of such income, has been fully withdrawn with effect from tax year 2026–27.



Area	Earlier	Revised
MAT rate	15%	14%
MAT credit	Allowed	Restricted
Buyback taxation	Dividend	Capital gains
Interest deduction	Up to 20%	Nil

II. Personal Tax Administration and Individual Compliance

- Although personal tax rates remain unchanged, several compliance-related thresholds and timelines have been revised.
- The due date for filing income tax returns for non-audit cases, partners of non-audit firms and trusts not requiring audit has been ended from 31 July to 31 August, applicable from tax year 2025–26 onwards. The time limit for filing a revised return has been extended from 9 months to 12 months from the end of the relevant tax year, subject to payment of a nominal fee.
- The scope for filing updated returns has been expanded to include cases where losses are reduced and cases where reassessment notices are issued. Where an updated return is filed pursuant to a reassessment notice, an additional tax of 10% is payable over and above the applicable additional tax on aggregate tax and interest.
- In relation to foreign asset disclosures, limited immunity has been provided for non-disclosure of specified foreign assets up to INR 20 lakh, subject to fulfilment of prescribed conditions.
- The requirement to obtain a Tax Deduction Account Number (TAN) has been relaxed for resident individuals and Hindu Undivided Families purchasing immovable property from non-residents, provided tax has been deducted using the purchaser's PAN.
- The Budget also enhances Portfolio Investment Scheme (PIS) limits for Persons Resident Outside India (PROI). The aggregate permissible holding by PROIs in listed Indian companies has been increased from 5% to 10% of paid-up equity capital, and the overall cap (including foreign portfolio investors) has been increased from 10% to 24%, subject to sectoral caps.

Area	Earlier	Revised
ITR due date (non-audit)	31-Jul	31-Aug
Revised return timeline	9 months	12 months
Updated return	Limited	Expanded scope
Foreign asset immunity	Not available	Up to INR 20 lakh
TAN for property from NR	Mandatory	Not required
PROI equity limit	5%	10%
Overall portfolio cap	10%	24%



III. Corporate Tax Simplification and Compliance Rationalization

- The Budget proposes repeal of **Income Computation and Disclosure Standards (ICDS)** with effect from **1 April 2027**. A joint committee comprising the Ministry of Corporate Affairs and the Central Board of Direct Taxes will be constituted to integrate tax computation provisions with **Indian Accounting Standards**, addressing long-standing alignment challenges.
- Penalties and prosecution provisions have been rationalised. Penalties for certain technical defaults – including failure to get accounts audited, non-furnishing of statements of financial transactions and failure to submit transfer pricing audit reports – will be replaced with **fees**.
- Immunity from penalty and prosecution has been extended to cases of **misreporting of income**, subject to conditions. Punishments for specified offences have been rationalised by replacing rigorous imprisonment with simple imprisonment and reducing the maximum imprisonment term to **2 years for first offences and 3 years for subsequent offences**, from the earlier limit of 7 years.
- The pre-deposit required to obtain a stay on disputed tax demands has been reduced from **20% to 10%** of the disputed tax amount.

Area	Earlier	Revised
ICDS	Applicable	Repealed (from 1 April 2027)
Technical penalties	Penalty	Fee
Prosecution	Rigorous imprisonment	Simple imprisonment
Stay of demand	20%	10%



IV. International Taxation and Transfer Pricing Administration:

- The **safe harbour regime** for transfer pricing has been simplified through the introduction of a **single operating margin of 15.5%** for eligible IT and IT-enabled services, replacing earlier multiple margins ranging between 17%–20% depending on service categories. Transaction value thresholds have also been increased, expanding eligibility.
- The **Advance Pricing Agreement (APA)** framework has been strengthened by measures aimed at reducing processing timelines and enabling flexibility for modification where facts change. The Budget reiterates commitment to effective resolution of cases under the **Mutual Agreement Procedure (MAP)** to address economic double taxation.
- Further, **MAT has been excluded for certain non-residents** operating under presumptive taxation regimes, reducing tax exposure for specified cross-border service providers.

Mechanism	Earlier	Revised
Safe Harbor margin	Multiple (17–20%)	Single 15.5%
APA timelines	Extended	Shortened
MAP	Case-specific	Coordinated approach
NR MAT exposure	Applicable	Excluded (specified cases)



V. Rationalization of various provisions

- Transaction-based taxes and withholding provisions have been revised.
- Securities Transaction Tax (STT) on futures and options has been increased.

Instrument	Earlier	Revised
Futures	0.02%	0.05%
Options (premium)	0.10%	0.15%
Options (exercise)	0.125%	0.15%

- **TDS** provisions for supply of manpower have been clarified. TCS rates have been reduced for certain outward remittances.

Category	Earlier	Revised
Manpower TDS (Individual/HUF)	1%	1% (clarified)
Manpower TDS (Others)	2%	2%
LRS – education / medical	5%	2%
Overseas tour package	5% / 20%	2%
Sale of scrap	1%	2%

- Employers lose tax deductions if employee welfare contributions miss strict labor law deadlines. Budget 2026–27 relaxes this by aligning the deposit deadline with the ITR filing date. The move simplifies compliance and reduces unnecessary tax litigation for businesses.
- The Budget clarifies the computation of the 60-day period for TPO orders, prescribing specific rules for cases where limitation expires on 31 March or 31 December, including leap and non-leap years, with retrospective effect from 1 June 2007.



VI. GST and Customs Process Reforms

- GST provisions have been aligned with commercial practices by shifting the **place of supply for intermediary services to the recipient's location**, allowing post-supply discounts through credit notes, and enabling **provisional refunds** in inverted duty cases.
- **Rationalization of Post-Sale Discount Provisions:** The requirement to link such discounts to a prior agreement has been removed. Where discounts are offered after supply, the value of supply will not include the discount, provided the supplier issues a credit note and the recipient reverse the corresponding input tax credit in accordance with prescribed provisions.
- **Provisional Refund for Inverted Duty Structure:** Refunds arising due to an inverted duty structure have now been brought within the scope of the provisional refund mechanism. Eligible taxpayers will be able to receive provisional refunds pending final verification.

This measure is expected to ease working capital constraints for sectors where inverted duty structures are prevalent.

- **Removal of Threshold for Sanction of Export Refunds:** The requirement of a minimum threshold for sanctioning refund claims in respect of goods exported with payment of tax has been removed. Refund claims will now be processed without any minimum value condition.

- **Interim Appellate Mechanism under GST:** An interim appellate arrangement has been introduced to address disputes relating to advance rulings. The Government may empower an existing authority, including a Tribunal, to function as the National Appellate Authority for Advance Rulings in cases where conflicting rulings are issued by Appellate Authorities of two or more States or Union Territories.
- **Amendment to Place of Supply for Intermediary Services (IGST):** The place of supply for intermediary services has been amended to be the location of the recipient of services, replacing the earlier linkage to the supplier's location. This change aligns the treatment of intermediary services with export principles and significantly benefits service providers engaged in cross-border facilitation and support activities.
- In customs, validity of **advance rulings** has been extended from **3 years to 5 years**, deferred duty payment facilities have been expanded to **monthly settlement**, and reliance will be placed on trusted trader and AI enablers.
- To enhance ease of living, the customs duty on goods imported for personal use under heading 9804 has been reduced from 20% to 10%, along with imposition of a uniform Social Welfare Surcharge of 10%. Duty exemptions have also been expanded for drugs and medicines imported for specified rare diseases and special medical purposes.

Sectoral Implications and Business Impact



Sectoral Analysis and Budget Implications

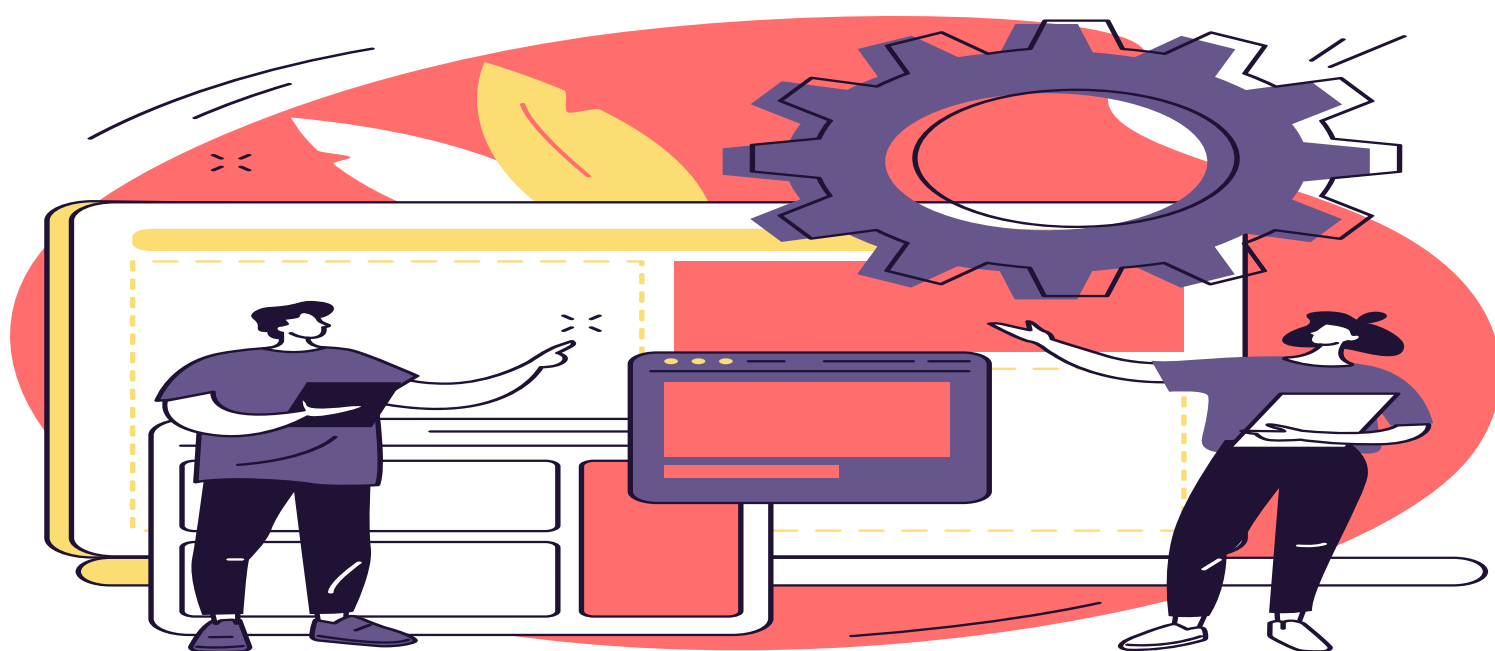
Having outlined the key policy, tax and regulatory changes introduced under Union Budget 2026–27, this section examines the sector-specific measures announced in the Budget and their implications. The analysis focuses on sectors that are central to India’s medium- to long-term growth trajectory and where the Budget has introduced targeted interventions, quantified allocations or structural reforms.

Each sectoral discussion highlights the relevant background context, key Budget announcements, numerical changes where applicable, and potential implications for businesses and investors. The objective is to provide a clear, fact-based view of how Budget 2026–27 translates into sector-level outcomes, without repeating economy-wide policy commentary covered earlier.

Structure of Sectoral Coverage

The sectoral analysis covers the following areas:

- *Manufacturing and Make-in-India*
- *Infrastructure and Logistics*
- *Financial Services*
- *Information Technology, Global Capability Centres and Services Exports*
- *Digital Economy, Data Centres and Artificial Intelligence*
- *Micro, Small and Medium Enterprises (MSMEs) and Start-ups*
- *Energy, Climate and Sustainability*
- *Agriculture and Allied Activities*
- *Tourism and the Services Economy*

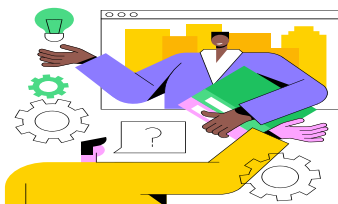


Manufacturing & Make-in-India



Sector Background

- Manufacturing has been a core focus of India's growth strategy over the last decade, particularly under the Make-in-India and Atmanirbhar Bharat initiatives. The sector contributes around **16–17% of GDP** and employs over **27 million people** directly.
- While Production Linked Incentive (PLI) schemes across 14 sectors, with an aggregate outlay of approximately **₹1.97 lakh crore**, improved capacity creation, domestic value addition in several segments—especially electronics—remained limited at **20–25%**, with continued dependence on imported components, semiconductors and critical minerals.
- Global supply chain realignments and the “China-plus-one” strategy created opportunities for India, but scaling up manufacturing required deeper ecosystem development, advanced technology integration and stronger backward linkages.



Budget 2026–27: Key Manufacturing Measures

- Union Budget 2026–27 introduces targeted interventions aimed at moving Indian manufacturing from assembly-led growth to end-to-end value creation.
- A major announcement is the expansion of the **India Semiconductor Mission (ISM 2.0)**, with an additional allocation of **₹1,000 crore**. Unlike the earlier phase, which primarily focused on fabrication units, ISM 2.0 extends support to semiconductor design, equipment manufacturing, materials, full-stack Indian intellectual property and supply-chain resilience.
- The **Electronics Components Manufacturing Scheme** has been strengthened to enhance domestic production of key inputs such as printed circuit boards, displays, sensors and power electronics. This is intended to increase domestic value addition and reduce reliance on imported components across consumer electronics, automotive electronics and industrial automation.
- To address import dependence in strategic inputs, the Budget announces the creation of **Rare Earth Corridors** in mineral-rich states.

- These corridors are designed to integrate mining, processing and downstream manufacturing of rare earth materials critical for electric vehicles, renewable energy equipment, defence systems and high-technology manufacturing.
- The Budget also provides targeted support for **capital goods manufacturing**, including the establishment of hi-tech tool rooms, incentives for construction equipment manufacturing and container production. For labour-intensive sectors, particularly textiles, continued support has been announced through cluster modernisation, sustainability initiatives and skilling programmes such as **Samarth 2.0**, along with development of mega textile parks.

Implications for the Sector

- The cumulative impact of these measures is expected to improve domestic value addition across priority manufacturing segments. In electronics and semiconductors, the focus on components, materials and design is expected to gradually raise local value addition beyond the current 20–25% range over the medium term. Reduced dependence on imported critical inputs enhances supply-chain resilience and mitigates exposure to global disruptions.
- Support for capital goods manufacturing strengthens backward linkages across sectors such as infrastructure, energy and construction, while interventions in rare earth processing address strategic vulnerabilities in clean energy and advanced manufacturing. Expansion of manufacturing into Tier-II and Tier-III locations also supports regional industrialisation and employment generation.



Strategic Considerations for Businesses

Manufacturing enterprises may consider:

- Reassessing sourcing strategies to increase domestic procurement of components and materials
- Evaluating eligibility under expanded semiconductor, electronics and capital goods support schemes
- Exploring capacity expansion or greenfield investments in emerging industrial clusters
- Strengthening partnerships across R&D, design, tooling and supplier ecosystems
- Aligning sustainability and ESG strategies with clean-tech and advanced manufacturing initiatives

Summary

The sector-specific measures announced in Union Budget 2026–27 indicate a calibrated approach towards addressing structural constraints and enabling medium-term growth across key segments of the economy. Rather than broad-based incentives, the Budget relies on targeted interventions, quantified allocations and policy refinements to support sectors that are critical for productivity, employment generation and competitiveness.

Across sectors, the emphasis is on ecosystem development, risk mitigation and long-term visibility—whether through sustained public capital expenditure, manufacturing ecosystem support, services export facilitation or energy transition financing. The consistency in approach across multiple sectors suggests an intent to balance fiscal discipline with capacity creation, while allowing sectoral outcomes to be driven by execution and private participation.

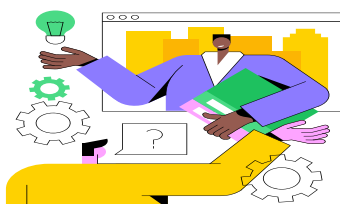
For businesses and investors, the sectoral measures call for a reassessment of investment strategies, operating models and compliance frameworks in line with the revised policy landscape. Sector outcomes will depend not only on announced allocations and regulatory changes, but also on the pace of implementation and coordination across ministries and regulators.

Infrastructure & Logistics



Sector Background

- Infrastructure has been a central pillar of India's economic strategy over the past decade, particularly during periods of global uncertainty. Central government capital expenditure increased from approximately ₹2 lakh crore in FY15 to over ₹11 lakh crore by FY25, supporting expansion in roads, railways, ports, airports and urban infrastructure. This sustained public investment helped crowd in private activity and improve connectivity across regions.
- Despite this progress, India's logistics costs remain elevated at around 13–14% of GDP, compared with 8–9% in advanced economies. Challenges persist in multimodal integration, last-mile connectivity, project risk allocation and availability of long-term financing, which have constrained private participation, especially under public-private partnership (PPP) models.



Budget 2026–27: Key Infrastructure and Logistics Measures

- Union Budget 2026–27 continues the emphasis on infrastructure-led growth by increasing central government capital expenditure to ₹12.2 lakh crore, equivalent to about 4.4% of GDP. This represents a continuation of high public investment levels aimed at sustaining growth momentum.
- A significant structural measure announced is the creation of an Infrastructure Risk Guarantee Fund, intended to mitigate project risks and improve bankability of infrastructure projects, particularly those with long gestation periods. The framework is expected to support renewed private sector participation, especially in PPP projects.
- The Budget also prioritises logistics efficiency through increased investment in multimodal freight corridors, expansion of inland waterways, and acceleration of port modernisation initiatives. These measures are aligned with reducing transit times and lowering freight costs. In addition, high-speed rail connectors between major economic nodes have been proposed to improve regional integration and productivity.

- To strengthen urban infrastructure financing, the Budget proposes enhanced access to **municipal bond markets**, enabling urban local bodies to raise market-linked funding for infrastructure development, subject to governance and reform-linked conditions.

Implications for the Sector

- The proposed risk guarantee mechanism addresses a key constraint faced by private investors—risk asymmetry—by improving credit comfort and project viability. This could lead to a gradual revival of PPP models in sectors such as roads, logistics parks, rail assets and urban infrastructure.
- Improvements in multimodal logistics and port efficiency are expected to contribute to a gradual reduction in logistics costs as a percentage of GDP, supporting export competitiveness and supply-chain efficiency for manufacturing and services sectors
- Sustained public capital expenditure at ₹12.2 lakh crore is expected to continue generating multiplier effects across construction, manufacturing and services. Empirical estimates suggest infrastructure spending can generate output multipliers of 2.5–3.0 times over the medium term.



Strategic Considerations for Businesses

Infrastructure developers, EPC contractors, logistics providers and investors may consider:

- Evaluating opportunities arising from the ₹12.2 lakh crore public capex pipeline
- Reassessing participation in PPP projects in light of proposed risk mitigation mechanisms.
- Exploring investments in multimodal logistics parks, warehousing and inland waterways
- Exploring investments in multimodal logistics parks, warehousing and inland waterways
- Leveraging municipal bond frameworks for urban infrastructure projects

Summary

The infrastructure and logistics measures in Union Budget 2026–27 reflect continuity in the Government's approach of using public capital expenditure as a growth driver, while gradually addressing constraints to private investment. The increase in central government capex to ₹12.2 lakh crore provides visibility on project pipelines and supports demand across construction, manufacturing and services.

The proposed Infrastructure Risk Guarantee Fund and renewed focus on multimodal logistics, waterways and port modernisation indicate an effort to improve project viability and reduce logistics inefficiencies. Enhanced access to municipal bond financing further diversifies funding sources for urban infrastructure.

For infrastructure developers and investors, the key considerations will be the pace of implementation of risk-sharing mechanisms, execution capacity across large projects and coordination between central, state and local authorities. The sector's medium-term outcomes will depend on effective translation of announced measures into bankable projects and timely execution on the ground.

Financial Services Sector



Sector Background

- India's financial services sector plays a central role in credit intermediation, capital formation and risk management. As of FY26, the banking system reported improved asset quality, with gross non-performing assets declining to around 2.2–2.5%, and capital adequacy levels remaining above regulatory thresholds. Credit growth remained robust at approximately 15–16% year-on-year, driven by retail, MSME and infrastructure lending.
- Despite this progress, gaps remained in terms of depth of financial markets, long-term financing instruments, and India's positioning as a regional financial hub. The International Financial Services Centre (IFSC) at GIFT City had gained traction, but post-tax-holiday taxation and regulatory complexity limited its competitiveness vis-à-vis established offshore centres.
- Further, income earned after the tax holiday will be taxed at a concessional rate of 15%, instead of the earlier applicable rates of 22% or 30%, depending on the regime. These changes apply from tax year 2026–27.
- The Budget also proposes the constitution of a high-level committee on banking sector reforms, tasked with reviewing regulatory frameworks, governance norms, risk management practices and capital requirements. The objective is to assess readiness of the banking system to support long-term economic growth while managing emerging risks.
- On the capital markets side, Securities Transaction Tax (STT) on derivatives has been increased. The STT rate on futures has been raised from 0.02% to 0.05%, while STT on options has been increased from 0.10% to 0.15% on premium and from 0.125% to 0.15% on exercise.

Budget 2026–27: Key Financial Sector Measures

- Union Budget 2026–27 introduces a set of targeted measures across banking, capital markets and offshore financial services
- A significant announcement relates to taxation of IFSC units. The eligible tax holiday period has been extended to 20 years out of 25 years, compared to the earlier 10 out of 15 years.
- The Budget also reiterates the intent to simplify and modernise foreign exchange regulations, including a review of FEMA provisions, to facilitate cross-border capital flows and enhance ease of doing business.

Implications for the Sector

- Extended tax certainty and reduced post-holiday tax rates materially improve the operating environment for IFSC entities, particularly for businesses such as asset management, aircraft leasing, insurance and treasury operations, which typically involve long-term investment horizons.
- The review of banking sector regulations could lead to changes in governance, capital and risk frameworks over time, with implications for balance sheet growth and credit allocation. Increased STT on derivatives may marginally impact trading costs, particularly for high-frequency and volume-driven market participants.
- Simplification of foreign exchange regulations is expected to reduce transaction friction and compliance complexity for financial institutions engaged in cross-border fund flows.

Strategic Considerations for Businesses

Banks, financial institutions, market intermediaries and investors may consider:

- Evaluating entry or expansion strategies in IFSCs in light of revised tax certainty
- Monitoring outcomes of the proposed banking sector reform committee
- Reviewing derivatives trading strategies considering revised STT rates
- Aligning cross-border fund structures with proposed FEMA simplification
- Assessing opportunities in offshore asset management, leasing and insurance

Summary

The financial services measures in Union Budget 2026–27 focus on improving long-term certainty, regulatory review and market efficiency rather than introducing broad-based incentives. Extension of the tax holiday period for IFSC units to 20 years and reduction of the post-holiday tax rate to 15% directly affect the viability of offshore financial activities in India and provide greater visibility for long-tenure business models.

The proposed review of banking sector regulations signals an assessment of the system's readiness to support sustained credit growth while managing emerging risks. Changes in Securities Transaction Tax on derivatives and the proposed simplification of foreign exchange regulations reflect an effort to recalibrate market levies and cross-border capital flows in line with evolving market dynamics.

Overall, the sector-specific measures indicate a gradual shift towards strengthening institutional frameworks, market depth and India's positioning as a regional financial centre, with outcomes dependent on regulatory implementation and adoption by market participants.

Information Technology (IT), Global Capability Centers (GCCs) & Services Exports



Sector Background

- India's IT and IT-enabled services sector remains a key contributor to economic growth, foreign exchange earnings and employment. Services exports are estimated at over **USD 350 billion**, with IT and business services accounting for a significant share. Global Capability Centres (GCCs) have expanded steadily across cities such as Bengaluru, Hyderabad, Pune, Chennai and Gurugram, providing services ranging from application development and support to data analytics, engineering, finance and research functions.
- Despite this scale, the sector has faced persistent challenges, particularly in the area of **transfer pricing litigation**. Routine service transactions of captive service providers have frequently been subject to audit adjustments, driven by multiple prescribed margins under safe harbour rules, relatively low transaction thresholds and lengthy dispute resolution timelines. These issues increased compliance costs and reduced predictability for long-term service delivery models.

Budget 2026–27: Key IT, GCC and Services Export Measures

- Union Budget 2026–27 introduces targeted measures aimed at improving certainty and reducing compliance friction for service exporters and GCCs.
- A key proposal is the simplification of the **transfer pricing safe harbour regime** through the introduction of a **single operating margin of 15.5%** for eligible IT and IT-enabled services. This replaces the earlier framework of multiple margins, which typically ranged between 17% and 20%, depending on the service category. The Budget also increases transaction value thresholds for safe harbour eligibility, enabling a larger number of captive service providers to opt for the regime.
- The **Advance Pricing Agreement (APA)** framework has been strengthened through measures aimed at reducing processing timelines, improving flexibility for modification where factual circumstances change, and streamlining renewal procedures.

- At a strategic level, the Budget reiterates the Government's objective of increasing India's share in global services exports to 10% by 2047, highlighting the continued importance of IT, digital services, consulting, engineering and emerging technology services. Skill development initiatives linked to digital technologies, artificial intelligence and advanced analytics are aligned with this services-led growth objective.
- From a broader perspective, the emphasis on services exports and future-ready digital skills supports India's continued positioning as a global services delivery hub, even as delivery models evolve with increased automation and AI adoption.

Implications for the Sector

- The introduction of a single safe harbour margin of 15.5% materially reduces ambiguity around acceptable operating margins for routine IT and IT-enabled services. For captive service providers operating close to this range, the revised framework is expected to reduce audit exposure and compliance intensity.
- Improvements to the APA process enhance predictability for larger and more complex service operations, particularly those involving multi-year investments and evolving functional profiles. Together, these measures are expected to lower long-term transfer pricing risk and improve cost certainty.
- Evaluating eligibility under the revised 15.5% safe harbour margin and higher transaction thresholds
- Reviewing existing transfer pricing policies and benchmarking outcomes
- Assessing the suitability of entering into new or renewed APAs for long-term operations
- Aligning workforce strategies with emerging skills in AI, data analytics and digital platforms
- Reviewing expansion or consolidation plans in light of improved tax certainty

Strategic Considerations for Businesses

IT companies and GCC operators may consider:

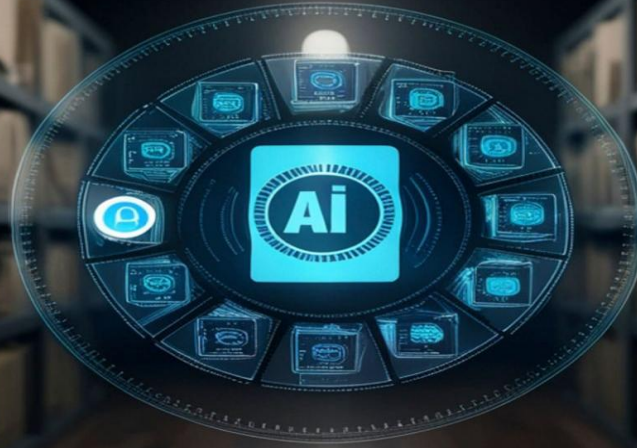
Summary

The IT and services export measures in Union Budget 2026–27 focus on improving certainty and reducing compliance friction, particularly in transfer pricing administration. The introduction of a single safe harbour margin of 15.5% and higher eligibility thresholds address long-standing concerns around audit intensity and margin uncertainty for routine service providers.

Strengthening of the Advance Pricing Agreement framework supports predictability for larger and more complex GCC operations, especially those involving multi-year investments and evolving service profiles. The continued emphasis on services exports and future-ready skills indicates a policy preference for sustaining India's role as a global services delivery hub.

Overall, the measures are expected to influence operating models, pricing strategies and long-term investment decisions in the sector, with outcomes dependent on adoption by taxpayers and effective administrative implementation.

Digital Economy, Data Centers & Artificial Intelligence (AI)



Sector Background

- India's digital economy has expanded rapidly over the past decade, driven by high internet penetration, large-scale adoption of digital public infrastructure and increasing data consumption. India's data centre capacity is estimated at around **1.1–1.2 GW**, with data traffic growing at approximately **25–30% CAGR**. The growth of cloud computing, fintech, e-commerce and AI-driven applications has significantly increased demand for secure and scalable data processing infrastructure.
- Despite strong demand fundamentals, large-scale investments in data centres faced challenges relating to high capital intensity, power and cooling costs, and uncertainty around long-term tax treatment for foreign companies procuring data centre services from India. In parallel, while India emerged as a major consumer of digital and AI-enabled services, the ecosystem for large-scale compute infrastructure and advanced AI deployment remained at a nascent stage

Budget 2026–27: Key Digital Economy, Data Centers & Artificial Intelligence

Union Budget 2026–27 introduces a significant policy intervention to support long-term growth of digital infrastructure.

- A key announcement is the **income tax exemption for foreign companies earning income from procuring data centre services from India**.
- Earlier position: Such income was taxable in India at applicable corporate tax rates of 22% or 30%, depending on the tax regime.
- Budget change: Income earned by foreign companies from procuring data centre services from specified Indian data centres will be fully exempt from income tax up to tax year 2046–47, subject to prescribed conditions.
- This provides tax certainty for more than 20 years, a timeline that is uncommon in global digital infrastructure policy.
- In addition, the Budget reiterates policy support for the development of the AI ecosystem, including investment in digital public platforms, compute infrastructure and technology-led public service delivery. While no standalone AI fund allocation has been

specified, AI adoption has been embedded across sectors such as healthcare, agriculture, logistics and governance.

Implications for the Sector

- The long-term tax exemption materially improves the investment proposition for hyperscalers, global cloud service providers and large technology companies. Extended certainty reduces cost of capital, improves project internal rates of return and supports long-gestation investments in power-intensive data centre facilities.
- Domestic data centre operators are expected to benefit from increased demand from global clients, enabling faster scale-up of capacity and improved utilisation. The measure also strengthens India's position as a global data processing destination at a time when data localisation, cybersecurity and supply-chain resilience are increasingly important considerations.
- From an AI perspective, enhanced data centre infrastructure acts as a foundational layer for large-scale AI model training, analytics and platform-based services. Improved availability

of compute infrastructure supports the transition from AI consumption to AI development and deployment within India.

Strategic Considerations for Businesses

Digital infrastructure players and technology companies may consider:

- Reassessing India as a long-term hub for data processing and cloud services in light of tax exemption till **FY 2046–47**
- Accelerating greenfield and expansion investments in data centres, including renewable energy sourcing
- Structuring long-term service contracts with Indian data centre operators to leverage tax efficiency
- Integrating AI and advanced analytics capabilities with domestic digital infrastructure
- Reviewing compliance frameworks relating to data protection, cybersecurity and operational resilience

Summary

The digital economy measures in Union Budget 2026–27 focus on addressing long-term structural constraints rather than short-term incentives. The income tax exemption for foreign companies procuring data centre services from India until FY 2046–47 provides extended certainty for capital-intensive digital infrastructure investments and improves the feasibility of large-scale projects.

By linking data infrastructure development with broader policy support for artificial intelligence and digital public platforms, the Budget positions data centres as a foundational layer for future digital and AI-led growth. For technology companies and investors, the measures warrant a reassessment of long-term infrastructure strategies, investment timelines and operational models, with outcomes dependent on execution and coordination across regulatory frameworks.

MSMEs & Start-ups



Sector Background

- Micro, Small and Medium Enterprises (MSMEs) form a critical component of India's economy, contributing approximately **30% to GDP**, **around 45% of exports**, and providing employment to over **110 million people**.
- Start-ups have also emerged as a key driver of innovation, technology adoption and new-age employment, particularly in digital services, manufacturing and clean-tech.
- Despite their economic importance, MSMEs and start-ups have historically faced structural constraints, including limited access to growth-stage equity, delayed receivables, dependence on debt financing and high compliance costs. Earlier policy interventions largely focused on credit expansion and guarantees, which improved liquidity but did not fully address long-term capital needs.



Budget 2026–27: Key IT, GCC and Services Export Measures

- Union Budget 2026–27 introduces measures aimed at improving access to capital, accelerating cash flows and supporting scale-up of high-potential enterprises.
- A key announcement is the creation of a **₹10,000 crore SME Growth Fund**, designed to provide equity and quasi-equity funding to MSMEs and start-ups with scalable business models. The fund is intended to complement existing debt-based schemes and reduce over-leveraging of growing enterprises.
- To address persistent delays in receivable realisation, the Budget mandates that **all Central Public Sector Enterprises (CPSEs)** onboard onto the **Trade Receivables Discounting System (TReDS)**. This measure aims to enable MSMEs supplying to CPSEs to convert receivables into liquidity more efficiently.
- The Budget also expands **credit guarantee coverage** for MSMEs by increasing eligible borrower categories and enhancing coverage limits.

- Continued support for start-ups has been indicated through innovation-focused funding schemes, ecosystem infrastructure and facilitation of technology-driven enterprises.
- Expanded credit guarantees are likely to encourage banks and non-banking financial companies to extend credit to smaller and first-time borrowers, particularly in Tier-II and Tier-III regions.

Implications for the Sector

- The introduction of a ₹10,000 crore Growth Fund marks a shift towards equity-based support for MSMEs and start-ups, addressing a long-standing gap in growth-stage financing. Access to equity capital is expected to improve balance sheet strength and enable capacity expansion, technology investment and market diversification.
- Mandatory onboarding of CPSEs on TReDS is expected to shorten receivable cycles, which often extend to 90–120 days, potentially reducing them to 30–45 days for eligible MSMEs. Improved liquidity can lower borrowing costs and improve operational resilience.
- Strengthening governance, financial reporting and compliance systems to attract institutional capital

Strategic Considerations for Businesses

MSMEs and start-ups may consider:

- Aligning business models with priority sectors such as manufacturing, digital services and clean energy
- Evaluating eligibility for funding under the ₹10,000 crore SME Growth Fund
- Registering and actively utilising TReDS platforms, especially for CPSE-linked receivables
- Rebalancing capital structures to include equity or quasi-equity instruments

Summary

The MSME and start-up measures in Union Budget 2026–27 focus on addressing structural constraints related to access to capital and liquidity rather than short-term relief. The introduction of a ₹10,000 crore SME Growth Fund signals a shift towards equity and quasi-equity support for scalable enterprises, reducing reliance on debt-led financing.

Mandatory onboarding of CPSEs on the TReDS platform and expansion of credit guarantee coverage aim to improve receivable realisation and access to formal credit, particularly for smaller enterprises. Taken together, the measures seek to strengthen financial resilience and support sustainable growth of MSMEs and start-ups, with effectiveness dependent on execution and adoption across stakeholders.

Energy, Climate & Sustainability



- India's energy sector is gradually transitioning in response to rising demand, climate commitments and energy security considerations. Energy demand is projected to grow at 4–5% annually, while national targets include 500 GW of non-fossil fuel capacity by 2030 and net-zero emissions by 2070. Despite steady growth in renewable capacity, decarbonisation of hard-to-abate sectors such as steel, cement, refining and fertilisers remains a key challenge, compounded by high capital requirements and technology risks.
- Union Budget 2026–27 introduces targeted fiscal and trade measures to support this transition. A key announcement is the allocation of ₹20,000 crore over five years for Carbon Capture, Utilisation and Storage (CCUS) to enable emissions reduction in carbon-intensive industries. In addition, customs duty exemptions and concessional rates have been extended to selected clean-energy inputs and equipment, including lithium-ion batteries, renewable energy components and nuclear power equipment, with the objective of lowering project costs and supporting domestic manufacturing. Continued policy support for renewable energy expansion, grid modernisation and energy storage has also been reiterated.
- From a sector perspective, CCUS funding improves the feasibility of emission-reduction initiatives where direct electrification is not immediately viable, with potential emissions intensity reduction of 30–50% in certain industrial processes.
- Duty concessions enhance project economics for clean-energy investments and support energy security by strengthening grid stability and reducing import dependence.

Summary

The energy and climate measures in Union Budget 2026–27 focus on supporting a gradual transition towards lower-carbon growth while addressing energy security considerations. The allocation of ₹20,000 crore for Carbon Capture, Utilisation and Storage provides financial support for emissions reduction in hard-to-abate sectors, where immediate transition alternatives remain limited.

Customs duty concessions for clean-energy components and continued policy support for renewable energy and grid infrastructure aim to reduce project costs and improve feasibility of sustainable energy investments. For businesses, the measures necessitate a review of long-term capital planning, technology adoption and ESG strategies, with effectiveness dependent on project execution and regulatory coordination.

Agriculture & Allied Sectors



- Agriculture remains a core pillar of India's economy, employing over **40% of the workforce** and contributing around **18% to GDP**. While foodgrain production has shown resilience, farm incomes continue to face pressure due to climate variability, low productivity, fragmented landholdings and limited value addition. Policy focus has gradually shifted from production volumes towards income diversification, resilience and sustainability.
- Union Budget 2026–27 introduces targeted measures to support this transition. Emphasis is placed on **high-value crops** such as coconut, cocoa, cashew and horticulture, which offer higher per-hectare returns than traditional cereals. Continued support has also been announced for **fisheries and aquaculture**, including strengthening cold-chain infrastructure, processing capacity and export enablement, with fisheries exports currently exceeding **USD 8 billion annually**. In addition, the launch of **Bharat-VISTAAR**, an AI-enabled agriculture platform, aims to provide real-time advisory on crop planning, input usage and market access, improving decision-making at the farm level. The cooperative sector continues to receive support to strengthen aggregation and market linkage, particularly for small and marginal farmers.
- From a sector perspective, diversification towards high-value crops and allied activities can improve income stability, with returns typically **2–3 times higher per hectare** than staple crops. Technology-led advisory platforms can enhance productivity and reduce input inefficiencies, while improved cold-chain and processing infrastructure can help reduce post-harvest losses, currently estimated at **5–7% of output**. Overall, the measures focus on strengthening income resilience and value-chain integration across agriculture and allied sectors.

Tourism & Services Economy



- Tourism is one of India's most employment-intensive service sectors, contributing around **7–8% to GDP** and supporting over **40 million direct and indirect jobs**. While domestic tourism has recovered strongly post-pandemic, international tourist arrivals remain below pre-COVID levels. Despite strong cultural, spiritual and natural tourism potential, the sector has faced challenges relating to infrastructure gaps, skill shortages, limited destination branding and concentration of activity in a few urban and leisure centres.
- Union Budget 2026–27 positions tourism as a lever for employment generation and regional development through targeted, destination-specific interventions. A key focus is on **spiritual, cultural and heritage tourism**, particularly temple towns and pilgrimage circuits, to be developed under the **City Economic Regions (CERs)** framework, with funding of up to **₹5,000 crore per CER over five years**, subject to reforms. The Budget also emphasises skilling across hospitality and travel services to improve service quality, alongside continued support for **medical and wellness tourism**, including AYUSH-based offerings, with India's medical tourism market expected to exceed **USD 10 billion** over the medium term.
- From a sector perspective, destination-led infrastructure development can create significant employment multipliers and support balanced growth in **Tier-II and Tier-III regions**. Improved service quality can enhance tourist spend per visit, while growth in medical and wellness tourism strengthens foreign exchange earnings and allied sectors. Integration of tourism planning with urban infrastructure under the CER framework supports sustainable expansion of the tourism ecosystem.

Intrico Perspective



Intrico Perspectives on Budget 2026–27

Union Budget 2026–27 signals a **decisive shift** from headline-driven fiscal actions to execution-led governance and long-term institutional strengthening. Rather than pursuing short-term demand stimulus, the **Budget reinforces policy continuity** anchored in capacity creation, administrative efficiency and regulatory predictability—an approach that aligns well with India’s medium-term growth aspirations.



From a business and investor standpoint, the most notable feature of the Budget is what it does not attempt. The absence of major tax rate changes underscores the government’s intent to preserve stability, while targeted refinements across direct tax, GST and customs indicate a conscious move toward reducing friction, improving certainty and aligning compliance frameworks with commercial realities. Rationalised timelines, simplified transfer pricing procedures and trust-based customs administration point to an evolution in the quality of governance rather than an expansionary tax agenda.

Sectorally, the Budget continues to **prioritise manufacturing, infrastructure and logistics** through sustained public capital expenditure, reinforcing India’s role as a global production and supply-chain hub. Support for financial services, services exports and digital infrastructure reflects a longer-term view on market depth, data-led growth and energy transition. Measures aimed at MSMEs, agriculture and tourism are more structural than populist, focusing on liquidity access, diversification and regionally balanced development.

At Intrico, we view Budget 2026–27 as a **framework Budget**—one that rewards businesses that align early with policy direction rather than those seeking immediate fiscal incentives. The real test will lie in execution: inter-ministerial coordination, consistency in regulatory interpretation and the pace at which reforms translate into on-ground ease of doing business.

For corporates, promoters and investors, the Budget reinforces a clear message—strategic planning must increasingly factor in long-term policy signals, compliance robustness and execution readiness. Those who recalibrate governance structures, capital allocation and operating models in line with these priorities are likely to be the primary beneficiaries of this phase of India’s growth journey.

Disclaimer

This document has been prepared based on information collated from the Union Budget 2026–27 speech, the Finance Bill, and other publicly available sources as on the date of publication. While due care has been taken to ensure accuracy, the information contained herein is subject to human or interpretational errors and subsequent legislative or regulatory changes. The content is intended for general information purposes only and should not be construed as professional advice. All images, charts and visual elements used in this document are sourced from publicly available or permitted sources and are not intended to infringe any copyright or proprietary rights. Readers are advised to independently verify information before relying on it for any decision-making



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