

# India's Budget 2026-27: A New Chapter in Indirect Tax Reform

On 1 February 2026, India's Finance Minister Ms. Nirmala Sitharaman presented the Union Budget 2026–27 in Parliament. While the Budget drew considerable attention for its direct tax proposals, particularly the alignment of the new tax regime and reforms to Minimum Alternate Tax (MAT), it also unveiled a series of important indirect tax measures.

This article provides a comprehensive analysis of the Union Budget 2026–27 from an indirect tax perspective. It explores the policy intent of the government, key legislative and procedural reforms under the Customs law, significant customs duty rate changes across sectors, and notable developments and policy signals within the GST framework.

The key reforms have been summarised below, section-wise (Customs, GST and Excise), along with an analysis of their rationale and the expected impact on industry.

## Key customs reforms

### (a) Reduction of Basic Customs Duty ('BCD') on personal imports

The BCD on goods imported for personal use has been reduced from 20% to 10%.

- **Rationale:** Lower tariff rate to make personal imports affordable for individuals and consumers.
- **Effect on industry:**
  - Positive for importers of electronics, fashion, and personal items – reduced duty cost.
  - Domestic manufacturers of similar consumer goods may face increased competition from imports.

### (b) Duty exemptions on critical inputs

Basic customs duty has been exempted on capital goods used for manufacturing lithium ion cells, essential for EV batteries, continuing the duty relief to support battery production. Additionally, customs duty has been waived on raw materials for solar glass and certain critical minerals used in the renewable energy sector.

- **Rationale:** Encourage domestic manufacturing of EV batteries and renewable energy equipment; support Make in India initiative.
- **Effect on industry:**
  - Reduces costs for renewable energy and EV manufacturing companies.
  - Boosts competitiveness for India's solar industry.

### (c) **Deferred Duty Payment Extended from 15 Days to Monthly**

Eligible manufacturers can now pay deferred customs duty on a monthly basis instead of within 15 days.

- **Rationale:** Improve cash flow for compliant importers and encourage trusted trade operators.
- **Effect on industry:**
  - Eases working capital pressures for importers

### (d) **Advance Ruling Validity extended**

Customs advance rulings now remain valid for 5 years instead of 3.

- **Rationale:** Provide long-term certainty and reduce repetitive applications.
- **Effect on industry:**
  - Reduces compliance cost and litigation.
  - Helps businesses plan cross-border operations with confidence.

### (e) **Movement of goods between custom warehouses**

Goods can be moved from one warehouse to another without prior permission from custom authorities if conditions are met.

- **Rationale:** Reduce delays and bureaucracy in logistics
- **Effect on industry:**
  - Streamlines supply chains.
  - Reduces storage costs for logistics and warehousing companies as space in warehouse can be utilized efficiently.

### (f) **Special Economic Zone ('SEZ') concessions for Domestic Tariff Area Sale**

SEZ units can sell in Domestic Tariff Area under concessional duty for a one-time window.

- **Rationale:** Optimize utilization of SEZ capacities and facilitate domestic supply.

### • **Effect on Industry:**

- Reduces inventory costs for SEZ units.
- Provides flexibility for meeting domestic demand.

### (g) **Penalty Paid on Recovery Treated as Charge**

When customs duty and penalty are paid during recovery proceedings, the penalty will be treated as a charge related to non-payment of duty rather than a separate punitive levy. This aligns the penalty with the duty demand and reduces interpretational and litigation issues.

- **Rationale:** Encourage voluntary settlement and reduce punitive burden.
- **Effect on Industry:** Reduces litigation risk and promotes timely payments.

### (h) **Baggage Rules**

The Baggage Rules, 2026 completely replace the older baggage provisions from the Baggage Rules, 2016, consolidating various circulars and notifications into a single, clear framework for passengers arriving in India by air or sea.

- **Rationale:** Simplify and modernise customs procedures with digital declarations and clearer guidelines to reduce disputes and delays at airport.
- **Effect on industry:**
  - Higher duty-free limits may increase purchases of gadgets and luxury goods abroad by Indian travellers.
  - More favourable baggage policy may improve India's appeal as a destination for foreign tourists and NRIs

### (i) **Exemption on nuclear projects**

- **Rationale:** Extending and expanding customs duty exemptions for imports of equipment and goods for nuclear power projects underlines the government's intent to scale up nuclear energy capacity as part of India's clean energy mix and energy security strategy.
- **Effect on industry:**
  - Nuclear developers will face reduced import duty costs on key machinery and components (reactor parts, absorber rods, etc.), improving project affordability and timelines.
  - With long-term duty exemptions and clearer policy signals, both public and private investors may be more willing to fund nuclear power projects.

### (j) Integrated Digital Customs Platform

An integrated, single-window digital platform for customs clearance, bringing all approvals, filings, and compliance requirements under one system.

- **Rationale:** Improve efficiency, transparency, and reduce manual intervention.
- **Effect on Industry:**
  - Faster cargo clearance, lower compliance costs.
  - Predictable timelines for importers and exporters.

### (k) Exemption for life saving drugs

17 cancer/life saving medicines were exempted and duty exemption.

- **Rationale:** imported cancer medicines and specialised drugs attract basic customs duty (often 5–10 %), which adds to their already high prices; exempting this duty directly lowers the landed cost of these therapies.
- **Effect on Industry:**
  - Patients requiring prolonged or advanced cancer treatments may find therapies more financially accessible, particularly those without insurance coverage.
  - Duty exemptions on rare disease drugs help patients with specialised needs, where treatment options are often limited and expensive.

## Key GST reforms

### (a) Post sale Discounts

Benefit of tax deduction on credit notes raised for providing post sales discount shall be allowed without any linking with the agreements between the supplier and recipient.

- **Rationale:** Standardize treatment and reduced valuation disputes.

- **Effect on Industry:** Reduces risk of litigation on discount-related GST issues.

### (b) Place of supply for intermediary services

Place of supply for intermediary services shall be the place of recipient of services. Therefore, these services shall qualify the definition of export of services subject to fulfilment of other conditions.

- **Rationale:** Reduce disputes in cross-border services.
- **Effect on Industry:**
  - Reduced litigation and all benefits of exports of services.
  - Encourages international service business from India.

## Key Excise reforms

### (a) Biogas/Compressed Biogas (CBG) Exemption from Excise Duty

The value of Biogas/Compressed Biogas (CBG) and GST paid on CBG contained in blended CNG, has been excluded from the transaction value for the purpose of computation of central excise duty on such blended CNG.

- **Rationale:** Encourage adoption of cleaner fuels.
- **Effect on Industry:** Reduces costs for biofuel producers and distributors.

The Indirect Tax proposals in the Union Budget 2026-27 as mentioned in detail above, reflect a clear shift towards simplification, certainty, and trust-based compliance rather than headline-driven rate changes. By rationalising customs duties, easing procedural requirements, extending advance ruling validity, and leveraging digital platforms, the Budget seeks to reduce litigation, improve cash flows, and enhance ease of doing business.

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