

# **UNION BUDGET – 2026**

## **ANALYSIS OF INDIRECT TAX PROPOSALS**

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- *Some data points have been taken from the Economic Survey 2025-26 issued in January 2026*
- *This Budget is unique that it carries out **86 amendments** to Income Tax Act 2025 which is yet to come into force and was packaged as a simple legislation*
- *There are 7 amendments to the Customs Act; 4 amendments to the CGST Act and 1 amendment to the IGST Act.*
- *Not understanding these amendments is injurious to health and wealth*
- *Any reference to provisions or decisions is real and not imaginary*

# INDIA STORY

- India's GDP growth rate is at 7.4%
- Domestic drivers anchor GDP growth in FY 2026
- Export of goods and services grew up by 5.9% in the first half of FY 2026
- Agriculture and allied services to grow by 3.1% in FY 2026
- **High frequency indicators for Q3 of FY 2026**
  - PMI manufacturing
  - IIP manufacturing
  - E-way bill generation
- **Services estimated to grow by 9.1% in Fy 2026**
- Fiscal deficit
  - BE of 2025-26 at 4.4 percent of GDP
  - **BE 2026-27 is estimated to be 4.3 percent of GDP**

# INDIA STORY

- The **external debt to GDP ratio** has averaged around **20.2%** over the last decade
- External debt constitutes less than 5% of India's total debt
- External debt at USD 746 billion upto September 2025 which has gone up from USD 736.3 billion upto March 2025
- Some comparative data
  - **Singapore is 400% of GDP**
  - **UK is 280% of GDP**
  - **US has an external debt of 28,000 billion USD**
- **India's clean energy achievements**
  - 45 fold increase in solar energy from 2014 now at 135.81 GW
  - 4<sup>th</sup> highest wind installed capacity in the World now at 54.51 GW
  - Installed capacity of waste to energy project 309.34MW (Grid connected)
- **Targets**
  - 5MMT Green Hydrogen annually by 2030
  - 100GWe Nuclear Power by 2047

# ECONOMIC SURVEY 2025-26

- **IT Returns have increased from 6.9 crores in FY 2022 to 9.2 crores in FY 2025**
  - Improved compliance
  - Wider use of technology in tax administration
  - Increase in number of individuals filing returns as incomes rise
  - Non-intrusive Usage of Data to Guide and Enable approach (NUDGE)
  - **Foreign Asset Campaign**
    - 25,000 taxpayers revised returns with 61% responding positively
    - Declaration of foreign asset worth Rs. 29,000 crores and foreign income exceeding Rs. 1,000 crores
    - Significantly through belated returns
  - **Deduction under Section 80GGC**
    - Large scale correction of claims – 91,000 taxpayers filed updated returns
    - Reduction of excessive deductions by Rs. 2,050 crores and additional tax payments of over Rs. 680 crores
  - **Reduction in incorrect HRA claims**
    - Additional tax collection of Rs. 119 crores



# ECONOMIC SURVEY 2025-26

## ■ **GST Collection**

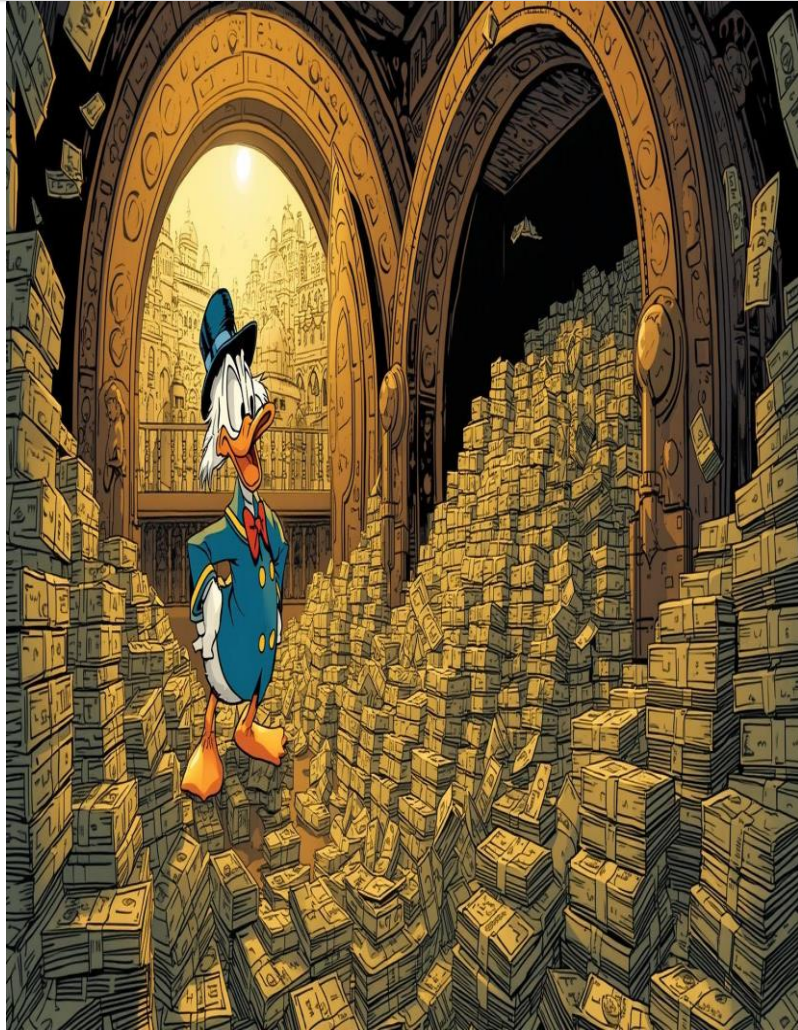
- Gross GST revenue during April to December 2025 stood at Rs. 17.4 lakh crores reflecting YoY growth of 6.7%
- Registered taxpayers have increased from 60 lakhs in 2017 to 1.5 crores at present
- E-way bill volumes growing by 21% YoY

## ■ **Next wave of GST reforms**

- Reimagining e-way bill system as a facilitator for smooth logistics rather than only as a tool for enforcement and control
- Trusted dealer framework
- Wider use of e-seals and electronic locking systems integrated with e-way bills and vehicle tracking technologies, to ensure secured end-to-end tracking of consignments without routine stoppages on road
- State Governments would be Central to this transition by shifting towards risk-based system generated alerts and limiting discretionary checks



# THE NUMBERS



	2025-2026 Budget Estimates (Rs. in Crores)	2025-2026 Revised Budget Estimates (Rs. in Crores)	2026-2027 Budget Estimates (Rs. in Crores)
Corporation Tax	<b>1082000</b>	1109000	<b>1231000</b>
Taxes on income	<b>1438000</b>	1312000	<b>1466000</b>
Goods and Services Tax	<b>1178000</b>	1046480	<b>1019020</b>
Excise Duty	<b>317000</b>	336550	<b>388910</b>
Customs	<b>240000</b>	258290	<b>271200</b>

**CUSTOMS**

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# FISHING EXPEDITION

- Para 174 of the budget speech indicates that a fish catch by an Indian fishing vessel in Exclusive Economic Zone (EEZ) or on the High Seas will be made free of duty.
- Section 1(2) of the Customs Act amended as under-
  - It extends to the whole of India, **fishing and fishing related activities by Indian-flagged fishing vessels beyond the territorial waters of India...**
  - Indian-flagged fishing vessel” means a vessel which is used or intended to be used for the purpose of fishing in the seas and entitled to fly the flag of India – Section 2(28A)

# FISHING EXPEDITION – SEC. 56A

- Fish harvested by Indian-flagged fishing vessel beyond territorial waters of India
  - May be brought into India free of duty
  - That has landed at a foreign port may be treated as export of goods
  - Conditions as provided in the rules
  - Board to make regulations in the context of entry in respect of fish harvested including its declaration, custody, examination, assessment, clearance, transit or transshipment.
- *India is the 3rd largest fish producing country in the world accounting for 8% of global production and contributing about 1.09% to the country's Gross Value Added (GVA) and over 6.7% to the agricultural GVA*
- FAQ states that the amendment is needed since under existing law, fish caught beyond territorial waters is treated as import when it lands in India, leading to duty and procedural burdens that may discourage deep sea fishing.



# SECTION 28

- Section 28 of the Customs Act deals with Show Cause Notice
- Section 28(4) covers scenarios where there is collusion or willful misstatement or suppression of facts.
- Section 28(5) provides a window for paying the duty in full along with interest and 15% of the penalty specified in the notice within 30 days of receipt of the notice.
- Amendment to Section 28(6) to provide that the penalty paid, on determination under Section 28(6), *shall be deemed to be a charge for non-payment of duty;*
- *FAQ states that for all practical and legal purposes the amount earlier referred to as penalty will no longer carry a punitive character and will instead be treated as a charge linked to non-payment or short payment.*



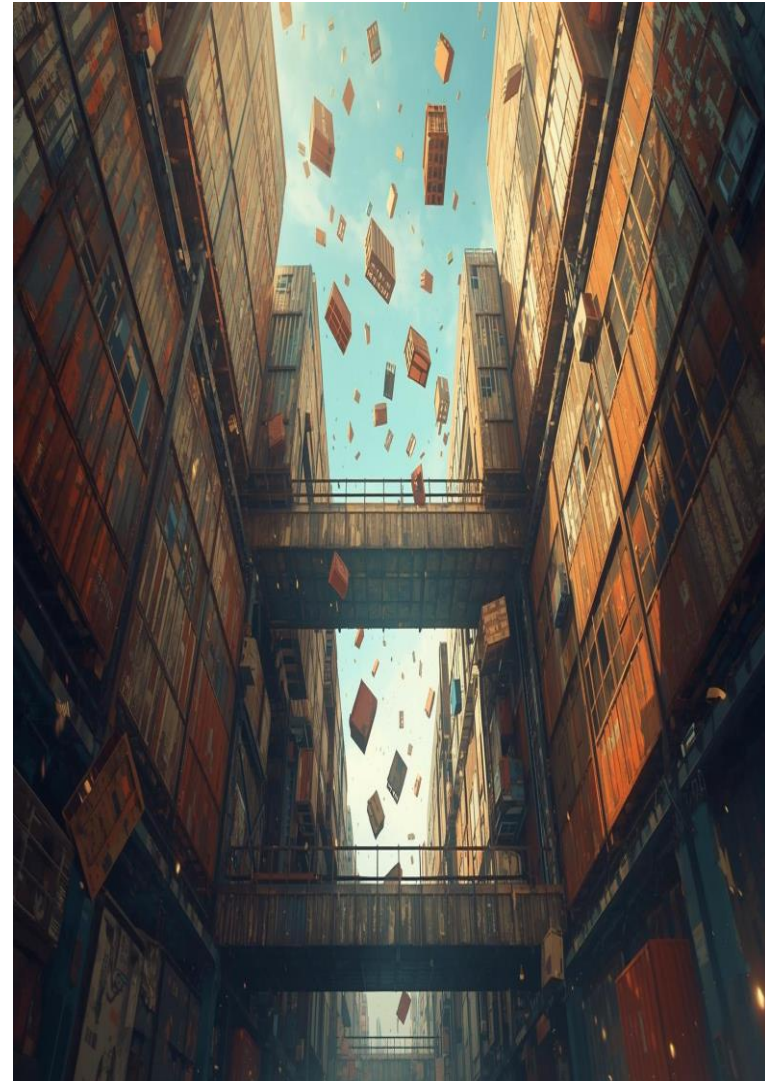
# ADVANCE RULING

- Section 28J(2)
  - Validity of advance ruling now changed from 3 years to 5 years
  - Proviso to provide the AAR the flexibility to extend the validity of earlier provided rulings in force, from 3 years to 5 years, at specific request of the Applicant
  - Ease of doing business
  - Stability in the context of customs classification



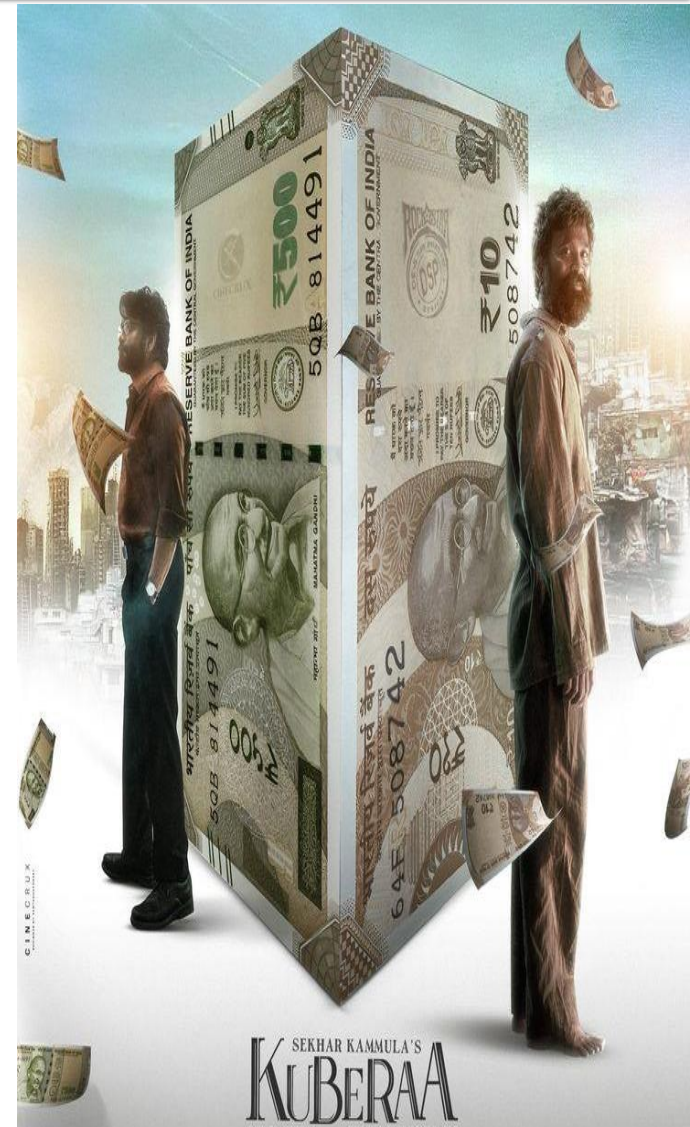
# WAREHOUSE

- Section 67
- The owner of any warehoused goods may remove them from one warehouse to another, subject to such conditions as may be prescribed.
  - Earlier provision contemplated permission of proper officer and link to due arrival
  - Self-declaration and intimation-based mechanism is the new procedure
- FAQ
  - Refers to Electronic Cargo Tracking System (ECTS) which is a GPS enabled e-seals and a common portal with web and mobile interfaces in the warehousing eco system
  - ECTS is under pilot implementation
  - Revised framework for warehousing operations will come into effect from 01.05.2026 through notified regulations.



# DEFERRED PAYMENT OF DUTY

- Section 47 empowers Central Government to permit certain class of importers to make deferred payment of duty
- Notification No. 12/2026 dated 01.02.2026 expands the scope to cover 'Eligible Manufacturer Importers' under Section 47 of the Customs Act, 1962 for duty deferral facility
- Eligible manufacturer importer means manufacturers notified as a separate class of importers approved by Directorate of International Customs
- Permitted to make deferred payment of import duty upto the 31st March, 2028





# DEFERRED PAYMENT OF DUTY

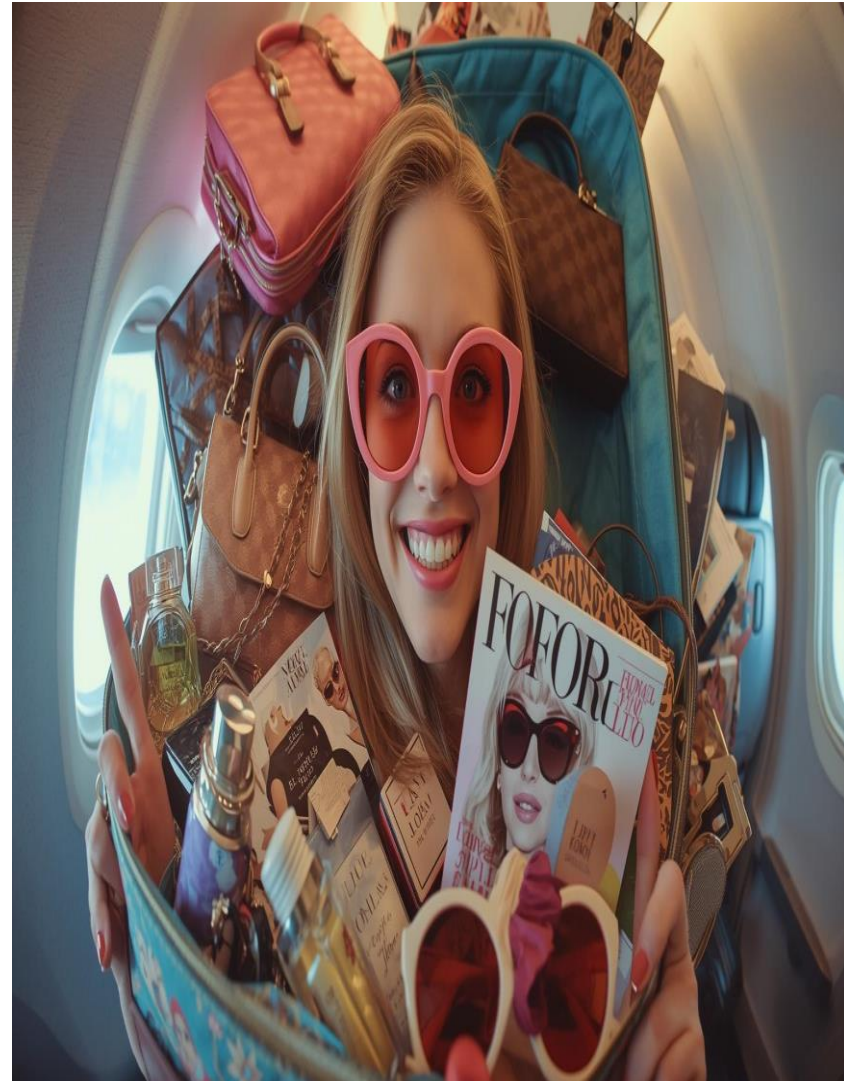
- Notification No.13/2026-NT dated 01.02.2026 seeks to amend the Deferred Payment of Import Duty Regulations, 2016 to extend duty deferral facilities for trusted entities from 15 to 30 days
- The amendments are effective from 01.03.2026
- *FAQ provides that the Deferred payment facility for eligible manufacturer importers is upto 31.03.2028 and are encouraged to obtain AEO certification to avail the benefit on a continuous basis*

# BAGGAGE RULES, 2026

- **New Baggage Rules, 2026 w.e.f. 02.02.2026;**
- Personal Effects means all articles (new or used) which a passenger may reasonably require for his personal use during the journey, taking into account all the circumstances of the journey, but excluding any goods imported or exported for commercial purposes
- Old definition of personal effects excluded Jewellery
  - *Madras High Court decision in the case of Thanushika in the context of Thali*
- Rule 3 deals with duty free imports of personal effects-where a passenger, including an infant arriving in India, shall be allowed clearance of used personal effects required for satisfying daily necessities of life and travel souvenirs, carried on the person or in his bona fide baggage, free of duty, other than those articles mentioned in Annexure-I.

# BAGGAGE RULES, 2026

- Annexure-I
  - Fire arms.
  - Cartridges of fire arms exceeding 50.
  - Cigarettes exceeding 100 sticks or cigars exceeding 25 or tobacco exceeding 125 gms.
  - Alcoholic liquor or wines in excess of two litres.
  - Gold or silver in any form other than ornaments.
  - Television.



# BAGGAGE RULES, 2026

- **Re-import and Temporary import – Rule 4**
  - Where any article of personal effects other than used personal effects required for satisfying daily necessities of life, taken out earlier by the resident or tourist of Indian origin or foreigner with a valid visa, other than tourist visa, or member of his family, from India shall be allowed free of duty, on submission of declaration made at the time of his departure from India electronically or otherwise, subject to the satisfaction of the same by the Deputy Commissioner of Customs or Assistant Commissioner of Customs, as the case may be
  - Similarly personal effects required for satisfying daily necessities of life, carried by a tourist, required for his stay in India, may be allowed to be imported temporarily free of duty on submission of a declaration made electronically or otherwise, and subject to their re-export at the time of leaving India for a foreign destination
  - The passengers availing the facility under this rule, may be subject to risk based verification



# BAGGAGE RULES, 2026

Category	Mode of Arrival	General Free Allowance
Resident not being an infant	Arriving in India other than by land	Duty Free Articles other than Annexure I upto to <b>Rs.75,000/-</b> .
Tourist of Indian Origin not being an infant	Arriving in India other than by land	Duty Free Articles other than Annexure I upto to <b>Rs.75,000/-</b> .
Foreigner with a valid Visa other than a tourist Visa not being an infant	Arriving in India other than by land	Duty Free Articles other than Annexure I upto to <b>Rs.75,000/-</b> .
Tourist of a Foreign Origin not being an infant	Arriving in India other than by land	Duty Free Articles other than Annexure I upto to <b>Rs.25,000/-</b> .
Passenger	Arriving in India by land	Only used personal effects required for satisfying daily necessities of life shall be allowed.



# BAGGAGE RULES, 2026

- General Free Allowance
  - Articles carried on the person or in the bona fide accompanied baggage of the passenger
  - Where the passenger is 18 years plus other than crew, one new laptop including notepad can be allowed clearance duty free in Bonafide baggage
  - GFA cannot be pooled with free allowance of any other passenger





# BAGGAGE RULES, 2026

## ■ Special Allowance for Jewellery

- "Jewellery" means articles of adornment ordinarily worn by a person, made of gold, silver, platinum or such other precious metals, whether studded or not
- Resident or tourist of Indian origin residing abroad for more than one year on return to India
- Allowed a duty allowance of Jewellery brought in Bonafide baggage
- Upto 40 grams - female passenger
- Upto 20 grams – Other than female passenger

## ■ Transfer of Residence

- Resident or tourist of Indian origin engaged in a profession abroad or transfers his residence to India shall be allowed a duty-free clearance in addition to Rule 3 and Rule 5, items mentioned in Appendix I, subject to conditions.
- The personal and household articles specified in Annexure-II may be brought on transfer of residence upto the value mentioned in Appendix-I and II.



# BAGGAGE RULES, 2026

- **New Customs Baggage (Declaration and Processing) Regulations, 2026.**
  - Electronic declaration in Form CBD-1 if there are dutiable or prohibited articles;
  - Green channel walk through;
  - Red channel – Articles listed in 16 to 18 of Form CBD-1 such as pets, prohibited articles, gold bullion, drones or currency exceeding thresholds.
- **Pets**
  - Import of pets by a passenger shall be regulated by Rules notified by any Ministry or Department or any Authority of the Central Government;
- Baggage Rules are applicable to unaccompanied baggage;
- Rules applicable to crew members engaged in a foreign going conveyance for import of their baggage at the time of final pay off on termination of their engagement;
- **Crew can bring articles like chocolates, cheese and other gift articles for their family use provided the value does not exceed Rs.2,500/-;**



# MISCELLANEOUS

- Amendment to Section 84 to enable the Board to make provisions for the custody of goods imported or to be exported under the regulations framed under this section
- Circular No. 6/2026 dated 01.02.2026 for implementation of Auto Goods Registration and Auto out of Charge in Import
  - System driven automated registration
  - Available to AEO T2, T3, approved eligible manufacturer importers, importers having long standing supply chain, importers availing facility of Direct Port delivery
  - No manual intervention



# CUSTOMS TARIFF



# CUSTOMS TARIFF

- Certain effective rates which were implemented through notifications are now being incorporated in the First Schedule to the Customs Tariff Act
- New Tariff Lines created
- Review of existing customs duty exemptions including conditional and unconditional exemptions

# CUSTOMS TARIFF

- Notification No.2/2026 amends Notification No. 45/2025
  - 201 Entries amended/ substituted
- Customs duty exempted w.e.f. 02.02.2026 for a number of items. Some examples are
  - Monazite
  - Specified capital goods for use in manufacture of lithium-ion cells for batteries of battery energy Storage system
  - All goods for generation of nuclear power falling under 8401 30 00
  - Goods required for setting up Nuclear Power Plant
  - Goods used for manufacture of Microwave Ovens
  - Components or parts including engines, of aircraft, for manufacture of aircraft and parts of the aircraft
  - Raw materials for manufacture of parts of aircraft for maintenance, etc. when imported by PSU under Ministry of Defence
  - 17 new drugs
  - Expansion of list of Rare Diseases where medicines qualify for exemption



# CUSTOMS TARIFF

- Increase in rate of duty
  - Potassium Hydroxide from nil to 7.5%
  - Umbrellas other than garden umbrellas - 20 % or Rs 60 per piece
  - Parts, trimmings and accessories of umbrellas and walking sticks
- Various exemption notifications to lapse from 02.02.2026/01.04.2026 – few examples
  - Animals and birds imported by zoo
  - Coffee roasting, brewing, or vending machines for use in the manufacture or processing of coffee
  - Naphtha, for use in the manufacture of fertilisers
  - Television equipment, cameras, etc. for taking films imported by a foreign film unit or television team

# CUSTOMS TARIFF

- Notification No.1/2026 amends various notifications bringing in extensions, sunset clauses and also modifying scope
- Notification No. 3/2026 (SWS) amends various notifications to make specific changes in tariff references as well as effective date and also carries out omissions

# CUSTOMS TARIFF – EXPORT PROMOTION MEASURES

- Increase in value limit of duty free import of specified goods for use in processing of seafood (1 % to 3 % of FOB value)
- Time period of export of textile/ leather garments, leather/ synthetic footwear or any other leather product extended from 6 to 12 months
- Extension of duty exemption on inputs for manufacture of leather/ synthetic footwear for export extended to shoe uppers

# EXCISE DUTY

- Value of biogas, compressed biogas (CBG) along with the appropriate GST paid on such items contained in the blended CNG, excluded from transaction value for Central Excise duty on blended CNG
- Tariff rate changed for NCCD w.e.f 01.05.2026 but effective rate maintained at 25% on the items namely chewing tobacco, jarda, etc.

**GST**

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# INTERMEDIARY

- Section 13(8)(b) of the IGST Act has been omitted by Finance Bill 2026
- Place of supply for intermediary would be the default provision Section 13(2)
  - Big relief for intermediaries
  - Earlier provision resulted in tax despite receipt in convertible foreign exchange
  - Negative impact for payments to intermediaries located outside India
  - *Litigation still open on intermediary vs other services for the past period*





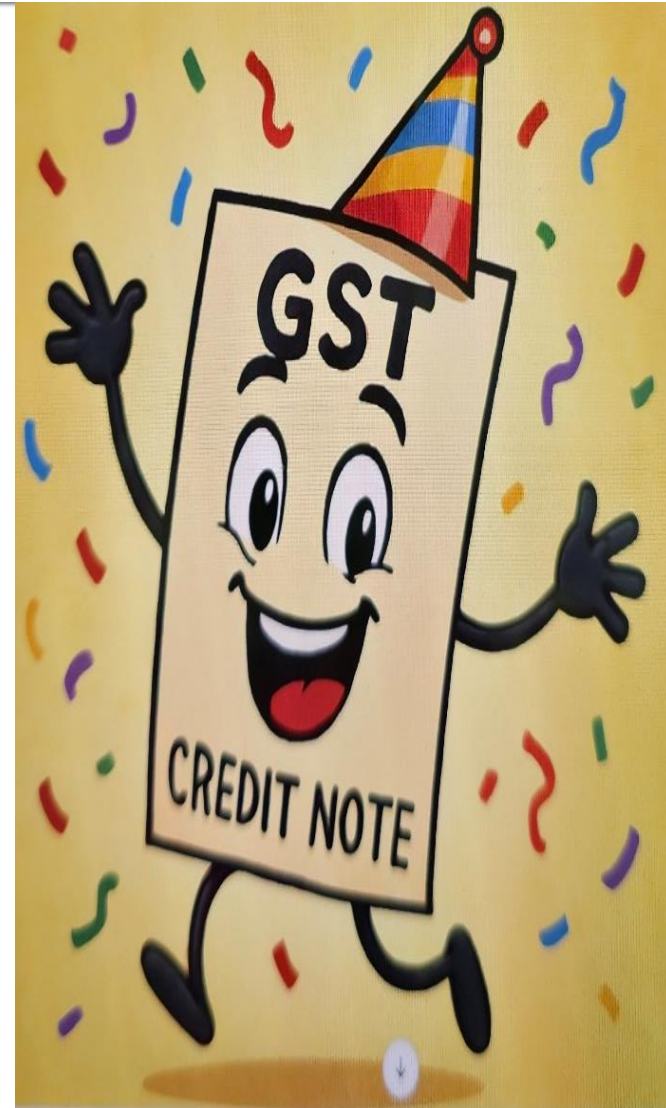
# POST SALE DISCOUNT

- Section 15(3)(b) contemplates discount under an agreement and reversal of ITC by the recipient
- Litigation across the country
  - What constitutes an agreement?
  - What is post supply discount?
  - How can supplier monitor reversal by recipient?
  - Refusal by tax authorities to cross verify
  - **No mechanism in portal**
  - CA certificate as a solution through Board Circular



# POST SALE DISCOUNT

- Section 15(3)(b) now provides that post supply discount should be granted through a credit note under Section 34 and the attributable ITC on such discount has been reversed by the recipient.
  - No more reference to an agreement
  - Credit note and reversal would suffice
- Corresponding amendment to Section 34 to facilitate credit note for post supply discounts under Section 15(3)(b).
- Amendments shall be effective from a date to be notified.

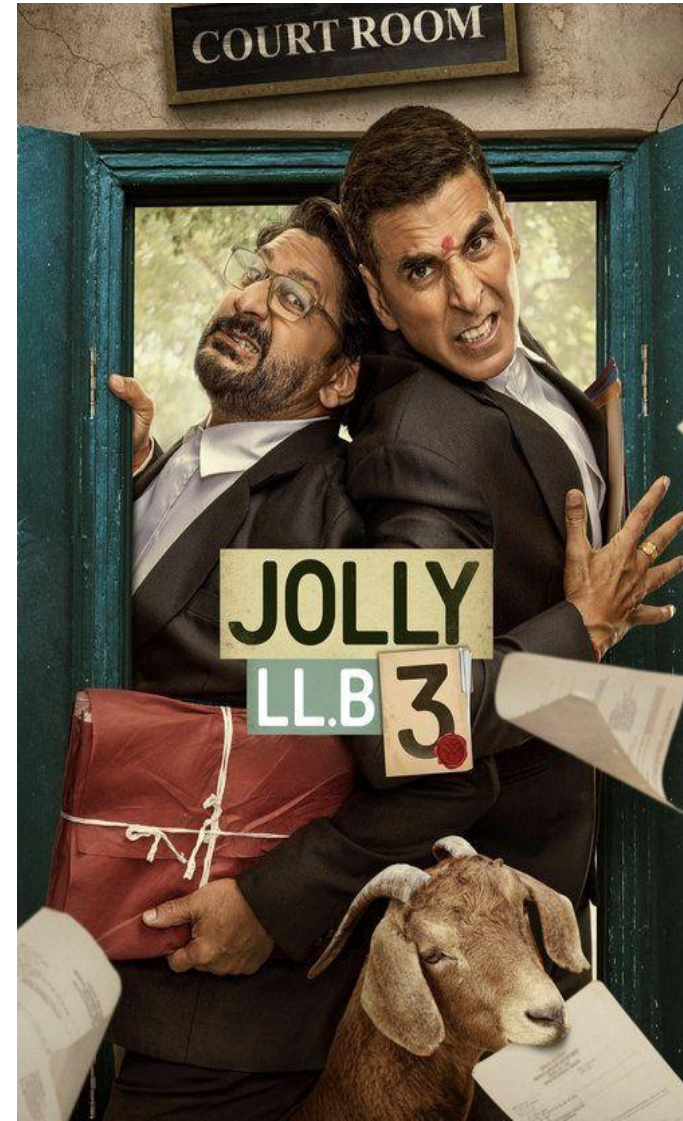


# REFUNDS

- Inverted Duty Structure
  - Refund claimed under Section 54(3)(ii)
  - Amendment to Section 54(6) to provide for provisional grant of 90% of the refund claimed subject to conditions
  - *Main issue yet to be addressed*
    - *Input services at 18% while output goods or services are at a lower rate*
    - *ITC accumulation with no exit by way of refund*
- Exports
  - Refund claim – amendment to Section 54(14) to remove the threshold limit of Rs 1000

# AAAR – AAAR – NATIONAL APPELLATE AUTHORITY FOR ADVANCE RULINGS

- Appellate Authority for Advance Ruling (AAAR)
- Conflict between AAAR Rulings
- FA (2) 2019 constituted National Appellate Authority for Advance Rulings (NAAAR) in order to hear such conflicts under Section 101A
  - Amendment not implemented
- Government on the recommendations of the GST Council to empower any existing authority constituted under any law for the time being in force to exercise such function till NAAAR is constituted
- Existing authority shall include a Tribunal
- Other sub-sections in Section 101A shall not apply



# THANK YOU

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