

The Union Budget 2026-27 marks a continuation of India's reform trajectory, combining calibrated fiscal management with forward-looking sectoral interventions. The Budget underscores a commitment to enabling high-growth, innovation-driven economic expansion, supported by enhanced public capital expenditure, a stronger financial ecosystem, investment-ready infrastructure, and improved ease of doing business.

This document summarised the key proposals across major policy areas, from infrastructure financing reforms and banking sector restructuring, to strengthened MSME support, IFSC-focused tax certainty, expansion of bond market depth, and targeted sustainability and digital initiatives. Together, these measures highlight the Government's intent to create a more efficient, transparent and globally competitive economic environment.

1. Real Estate - Land, Infrastructure and Road

1.1 Amendment

- **Introduction of IRGF for private developers** undertaking large infrastructure projects.
- **Setting up of dedicated REITs for recycling and monetising** land assets held by CPSEs.
- **Expansion and deeper use of InVITs and REITs** for large-scale infrastructure financing.

1.2 Analysis

- The IRGF acts like a safety cushion for lenders. It reduces their risk during the construction stage, which is usually the most uncertain part of an infrastructure project. With this support of guarantee(s), projects become more attractive to banks and investors, allowing developers to raise longer-tenor loans at cheaper rates, especially for complex infrastructure in emerging city regions.
- Dedicated REITs help the government unlock value from unused land, improving liquidity and creating steady, long-term funding. This supports new infrastructure and urban development, especially in fast-growing Tier-2 / Tier-3 city regions.
- Greater use of InVITs / REITs allows developers to adopt asset-light models, reduces pressure on public funds, and enables refinancing of completed projects. This frees up capital for new growth corridors and economic regions.

2. Banking, Finance Institutions, NBFCs and Loans

2.1 Amendment

- **Establishment of a 'High Level Committee on Banking for Viksit Bharat'** for a comprehensive review of the banking sector.
- **PFC and REC** to be restructured.

2.2 Analysis

- 'High Level Committee on Banking for Viksit Bharat' is intended to align the banking sector with India's next phase of growth, promote India's financial stability and safeguard the consumers.
- As regards NBFCs, the intent is to improve their efficiency and scale, with clear targets for credit disbursements and technology adoption. PFC and REC are proposed to be restructured to have large scale and more effective public sector NBFC(s).

3. MSMEs

3.1 Amendment

To strengthen MSMEs as key drivers of growth, the government proposes creation of 'Champion SMEs' and supporting micro enterprises a three-part strategy:

- **Equity Support**
 - A new INR 10,000 Crores 'SME Growth Fund' to be launched to develop high-potential enterprises into future champions of industry.
 - An additional INR 2,000 Crores to be infused into the 'Self-Reliant India Fund' to continue providing risk capital for micro enterprises.
- **More opportunities for and through TReDS**

The following steps are proposed to maximise the impact of TReDS:

 - Mandate TReDS as the settlement platform for all MSME purchases by CPSEs, setting a benchmark for private companies. This move is a win-win for TReDS and MSME.
 - Provide CGTMSE-backed credit guarantees for invoice discounting on TReDS.
 - Link GeM with TReDS to give financiers visibility into government MSME purchases for cheaper, faster credit. This will basically provide transparency which will lead to credit comfort to financier.

- Allowing TReDS receivables to be used as asset-backed securities which will lead to easy accessibility of funds through the secondary market.
- **Professional Support**
Professional bodies like ICAI, ICSI and ICMAI will design short term, modular courses to create 'Corporate Mitras' - trained para - professionals in smaller cities who will help MSMEs meet compliance needs affordably.

3.2 Analysis

The proposed changes under the Budget 2026 surely are a step towards further strengthening the domestic MSME ecosystem and armouring the sector to deal with the global headwinds. If implemented with strict CPSE compliance, transparent fund governance, and robust data standards for receivables, it can meaningfully reduce MSME cost of capital and unlock scale to be achieved.

4. IFSC

4.1 Amendment

- **Till when is (tax) holiday:**
Deduction period for IFSC Units under Section 147 extended to 20 consecutive years within a 25-year window; for OBUs, 20 consecutive years.
- **What happens after (tax) holiday:**
After the deduction period, business income from IFSC activities will be taxed at 15%.
- **Treasury Centres - Deemed Dividend Relief:**
Deemed dividend provisions will not apply to IFSC treasury centres if:
 - The parent / principal entity is listed outside India, and
 - Both the parent entity and the relevant group entity are located in foreign jurisdictions notified by the Central Government.

4.2 Analysis

The proposed reforms address long-standing investor concerns including tax clarity, long-term incentives, and easing cross-border treasury operations. This potentially makes IFSC more globally competitive and attractive for multinational financial institutions.

5. Capital Markets: Bonds & Funds

5.1 Amendment

- **Market making framework for corporate bond** indices, to be formed, which shall include funds and derivatives access.
- **TRS on corporate bonds** to also be proposed under the same.
- **Government proposes INR 100 Crores incentive** for any municipal corporation issuing a single municipal bond of more than INR 1,000 Crores.

5.2 Analysis

- It appears that the government is focusing to strengthen the corporate bonds market in India. A developed bond market reflects the steep upward growth of the economy. This will also boost a lot of foreign investment participation in the country. Especially, with the way equity markets have been performing on account of global economic implications, a strong bond market will assist in keeping economic growth stable.
- Incentivising municipal bond market:
 - is a significant leap forward for urban financial reform in India. This reform will create a categorized incentive structure i.e., (I) for large ULBs capable of large municipal bond issuance through these proposed reforms, and (II) for smaller ULBs through existing mechanism.
 - encourages financially strong cities to cover capital markets at scale, will help in building confidence in municipal debt instruments and in strengthening the urban infrastructure financing market.
 - if implemented properly, could help in reshaping India's municipal finance ecosystem.

6. ESG and Sustainable Financing

6.1 Amendment

Carbon Capture Utilization Storage (CCUS): ₹20,000 crore to be allocated over five years to scale CCUS technologies and advance deployment readiness across power, steel, cement, refineries and chemicals.

6.2 Analysis

Decarbonisation of hard-to-abate industries expedited, strengthening climate commitments, and catalyses domestic CCUS capabilities and investment across key industrial sectors.

7. Tax

7.1 Amendment

- **Income Tax Act, 2025, i.e. the new act** which replaces Income Tax Act, 1961, to come in force by 1st April 2026.
- **Definition of commodity derivative** introduced for the purpose of explaining specified derivative transactions under the Income Tax Act, 2025.
- **Tax holiday to a foreign company procuring services from a data centre**, up to 2047 on any income arising in India.
- **A safe harbour of up to 15% on cost for Indian data centre** providers who are related entities of the foreign company availing the incentive.
- **MAT as final tax**
 - MAT is proposed to be made as a final tax, and the corresponding rate is reduced from 15% to 14%. There shall be no allowance of credit in future tax years in respect of such payment.
 - Set-off of any brought forward MAT credit available from prior to tax year 2026-27 will only be allowed to domestic companies which shift henceforth to the new regime, to the extent of 25% of their tax liability.
 - In the case of foreign companies, set off is proposed to be allowed to the extent of the difference between the tax on the total income and the minimum alternate tax, for the tax year in which normal tax is more than MAT.
- **Period for tax free income for IFSC Units under Section 147 of the IT Act to be increased** from 10 consecutive years out of 15 years to 20 consecutive years out of 25 years. It is also proposed that the business income of these units from IFSC after the expiry of period of deduction will be taxed at rate of 15%.
- **Consideration received on buyback, to be chargeable to tax** under the head 'Capital Gains' instead of dividend income, similar to position prior to Budget 2025.
- **Rate of STT on sale of an option in securities to be raised** from 0.1% to 0.15%. The rate on sale of an option where the option is exercised is proposed to be raised from 0.125% to 0.15%. The rate of STT on sale of a futures in securities is proposed to be raised from 0.02% to 0.05%.

- **Basic customs duty exemption to be provided on import of capital goods** required for processing of critical minerals in India.
- **Information technology related services to be clubbed under a single category** with a common safe harbour margin of 15.5 percent. The threshold for availing safe harbour for information technology services is being enhanced substantially from 300 crore rupees to 2,000 crore rupees.
- **Capital gains exemption on SGBs is now restricted.** It applies only if the bonds were subscribed to at the original issue and held continuously until redemption.
- **Schedule VI to be amended** to align the definition of a "Specified Fund" in the new IT Act with the provisions of Section 10(4D) of the older Income Tax Act, 1961, to ensure tax exemptions on certain income previously available to the said funds (typically Category III AIFs located in the IFSC) continue seamlessly under the Income Tax Act, 2025.
- **Budget 2026 brings in fee payments instead of penalty** for smaller errors related to return of income.
- **Sharp cuts in TCS on overseas travel**, education and medical remittances (under LRS) – 2% from earlier 5%.
- **TDS on sale of immovable property** by a non-resident to be done basis PAN, eliminating need of TAN.

7.2 Analysis

- Rationalising changes, including to mark a shift to the Income Tax Act, 2025 have been made in various provisions.
- Extension of tax-free period for IFSC Units will lead to enhanced benefits, and incentives for setting-up of IFSC Units.
- Benefits to key up and coming fields such as data centres have been provided.

8. Foreign Direct Investment, Foreign Portfolio Investment and Financial Regulatory

8.1 Amendment

- **Revamp of NDI Rules:** Towards a contemporary, streamlined framework for foreign investments.
- **Higher Limits for Individual foreign investors:** PIS cap doubled to 10%; overall limit for individual PROIs raised to 24% from the existing 10%.

8.2 Analysis

- Updating the NDI Rules will cater to creating a more practical framework for foreign investment into India. The move simplifies capital flows, boosting investor confidence, and ensuring that the regulatory regime evolves in step with India's changing economic priorities.
- There is a notable expansion in what individual PROIs can invest in under the PIS. They may now invest directly in listed equity instruments, with their investment cap proposed to increase from 5% to 10%. This move broadens market access and is expected to support more stable long term offshore capital inflows, particularly from high-net-worth individuals.

9. Aerospace

9.1 Amendment

- **Basic customs duty exemptions on the following to be introduced:**
 - components and parts required for the manufacture of civilian, training and other aircrafts.
 - raw materials imported for manufacture of parts of aircrafts to be used in the maintenance, repair, or overhaul requirements by units in the defence aviation sector.

10. AI and Data Privacy

10.1 Amendment

- **AI-Driven Farm Advisory Platform**
Launch of Bharat-VISTAAR, a multilingual AI platform integrating AgriStack and ICAR practices to accelerate AI adoption in agriculture.
- **AI & Skills oversight**
Formation of a High-Powered 'Education to Employment and Enterprise' Committee to evaluate the impact of emerging technologies, including AI, on skill development and employment.
- **AI Scanning and Imaging**
Deployment of non-intrusive scanning using advanced imaging and AI across all major ports.
- **Tax Holiday for Cloud Services Using Indian Data Centres**
Tax holiday till 2047 for foreign companies providing cloud services to global consumers using Indian data centres.

➤ **Safe harbour provision**

A 15% on cost when India data centre providers are related entities of the foreign company availing the incentive.

10.2 Analysis

Long-term foreign investment in Indian data centres shall stimulate domestic service sector revenues. Further, introduction of AI-driven insights will enable informed decision-making, thorough checks, and reduce risks for farmers.

GLOSSARY OF TERMS

Abbreviation	Meaning
AI	Artificial Intelligence
AIF	Alternative Investment Funds
Budget 2026	Union Budget 2026
CCUS	Carbon Capture Utilization Storage
CER	City Economic Regions
CGTMSE	Credit Guarantee Fund Trust for Micro and Small Enterprises
CPSE	Central Public Sector Enterprises
ESG	Environmental Social Governance
GeM	Government e-Marketplace
ICAI	The Institute of Chartered Accountants of India
ICAR	Indian Council of Agricultural Research
ICMAI	The Institute of Cost Accountants of India
ICSI	The Institute of Company Secretaries of India
IFSC	International Financial Services Centres
IFSC Units	International Financial Services Centres Units
InVITs	Infrastructure Investment Trusts
IRGF	Infrastructure Risk Guarantee Fund
IT Act	Income Tax Act, 2025
LRS	Liberalised Remittance Scheme
MAT	Minimum Alternate Tax
MSMEs	Ministry of Micro, Small and Medium Enterprises
NBFC	Non-Banking Financial Companies
NDI Rules	Foreign Exchange Management (Non-Debt Instrument) Rules 2019
OBU	Offshore Banking Units
PAN	Permanent Account Number
PFC	Power Finance Corporation

Abbreviation	Meaning
PIS	Portfolio Investment Scheme
PROI	Person Resident Outside India
RBI	Reserve Bank of India
REC	Rural Electrification Corporation
REIT	Real Estate Investment Trust
SME	Small & Medium Enterprise
SGB	Sovereign Gold Bonds
STT	Securities Transaction Tax
TAN	Tax Deduction and Collection Account Number
TCS	Tax Collected at Source
TDS	Tax Deducted at Source
TReDS	Trade Receivables Discounting System
TRS	Total Return Swaps
ULBs	Urban Local Bodies

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