

# Deloitte.



## Budget expectations

2026



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# Foreword



**Gokul Chaudhri**  
President, Tax

Every Union Budget is shaped by the global and domestic forces that define the economic moment, and this year is no exception.

India enters this Budget season at a crucial point in its economic journey. The nation is steadily moving towards its goal of becoming a US\$4 trillion economy, a milestone achieved by only four countries so far. This marks an important turning point for the future.

The government's confidence has been reinforced by strong macroeconomic fundamentals, such as stable inflation, robust domestic demand, steady capital expenditure and resilient services exports. This stability has enabled India to undertake some of its most ambitious reforms in recent years, including the rollout of **GST 2.0 this year** and the **new Income-tax Act** coming into force from April 2026. India's active pursuit of **new and expanded Free Trade Agreements**, aimed at deeper market integration and diversified supply chains, further signals the country's readiness to expand its global trade footprint.

At the same time, the Finance Minister is mindful of the structural challenges ahead, especially the need to create meaningful employment opportunities for both skilled and semi-skilled workers. **Invest, innovate and grow** are the key focus areas of this year's Budget, setting the direction for India's next phase of economic expansion.

**Investment** must remain the driving force behind long-term development. A competitive tax regime, a predictable policy environment and continued focus on infrastructure can further catalyse domestic capability and global capital inflows. Rationalising duty structures, accelerating dispute resolution, providing faster refunds and simplifying corporate tax provisions under the new law will be key to attracting sustained investment.

**Innovation** is equally critical. As businesses accelerate their digital and operational transformation journeys, India must strengthen an ecosystem that rewards intellectual property creation, deep-tech development and new-age business models. Tax certainty, targeted R&D incentives, clarity on digital taxation, liberalised safe harbours and a simplified regime for cross-border compliance will be essential enablers.

**Growth**, then, becomes the natural outcome of sustained investment and purposeful innovation. To ensure this growth is both inclusive and future-ready, tax and regulatory frameworks must keep evolving. The focus should be on reducing litigation, streamlining compliance for MSMEs and large enterprises, supporting capital flows and enabling businesses to scale efficiently.

This pre-Budget publication brings together our analysis of the key policy measures that can enable India to strengthen its fundamentals and accelerate its transition into a high-impact, innovation-led economy. We hope these insights make a meaningful contribution to the broader dialogue on India's priorities for the year ahead.



# Economy

# Economy



**Dr Rumki Majumdar**  
Economist

## Current environment

### Upside:

- **Growth:** India's GDP grew at an impressive high of 7.8 percent in Q1 FY2025–26 (April–June), up from 6.5 percent<sup>1</sup> in the same quarter last year, the fastest pace in seven quarters. The momentum was underpinned by robust domestic consumption, a favourable monsoon boosting farm output and higher government spending. Reflecting this strength, the RBI raised its full-year growth forecast to 6.8 percent (from 6.5 percent).<sup>2</sup> Consumption is expected to strengthen, aided by income tax cuts, GST 2.0 reforms (just before the festive season), monetary easing and lower food inflation, which together should lift discretionary spending across households.
- **Services export resilience:** India's services exports growth expanded between April and September 2025 at 6.2 percent, higher than merchandise exports at 3.1 percent.<sup>3</sup> Services exports contributed about 46.9 percent of total exports in FY2025,<sup>4</sup> driven by a strong momentum in IT and Business Process Management (BPM), financial services, tourism and professional consulting. Looking ahead, the outlook remains upbeat, underpinned by rising global demand for digital and knowledge-based services, India's growing talent pool and deepening integration into global value chains. A possible slowdown in global economies and rising demand for data centres will also attract investments in the IT sector, thereby boosting demand for services from India. Ongoing diversification into emerging areas, such as AI, cybersecurity, fintech and climate advisory, is expected to further strengthen India's position as a global services export hub.
- **Trade agreements:** India's foreign trade architecture is undergoing a rapid transformation, driven by new agreements and strategic negotiations. As of 2025, India has 13 operational Free Trade Agreements and has recently concluded landmark deals with the United Kingdom and the European Free Trade Association (EFTA), unlocking near-zero tariffs and investment opportunities. Negotiations with the United States for a bilateral trade pact are progressing, alongside fresh dialogues with New Zealand and Chile to broaden market access. India is also expanding its Preferential Trade Agreements with MERCOSUR and reviving regional frameworks such as ASEAN and BIMSTEC. In parallel, discussions with Canada, the European Union and Israel, as well as exploratory studies with African blocs, reflect a comprehensive approach to trade diversification. All these efforts are firmly aligned with the Foreign Trade Policy 2023–2030 vision of achieving US\$2 trillion in exports by 2030.

<sup>1</sup>CMIE

<sup>2</sup><https://www.pib.gov.in/PressReleaseDetail.aspx?PRID=2173560#:~:text=Growth%20for%20FY%202025%2D26,normal%20monsoon%20and%20stable%20conditions.>

<sup>3</sup>Havers analytics

<sup>4</sup>Havers Analytics

- **Continued government capex:** The government capital expenditure on key infrastructure sectors grew at 38.8 percent between FY2020 and FY2025.<sup>5</sup> In FY2025–26, the Union budget earmarked INR11.21 trillion (equivalent to 3.1 percent of GDP).<sup>6</sup> Between April and August 2025, the government used 38.5 percent of budgeted estimates, as against 27.1 percent for the same period last year.<sup>7</sup>
- **Tax and structural policy reforms:** The Goods and Services Tax (GST) 2.0 reforms, implemented in September 2025, mark a pivotal shift in India's indirect taxation system. The overhaul streamlined the system from four rate slabs to three (5 percent and 18 percent for most goods and 40 percent for luxury and sin goods), rationalising taxes across key sectors. Tax cuts for goods and services, especially those where youth participation is high, have been prioritised as their marginal propensity to consume is higher. On the direct tax front, income tax rate reductions have bolstered disposable income, supporting private consumption and household demand, especially in the hands of the middle class. Together, these measures are expected to stimulate private consumption by improving purchasing power, lowering prices across key consumer categories and encouraging higher spending in urban and semi-urban markets. This renewed momentum in household demand will likely reinforce domestic consumption as a key driver of growth in FY2026.
- **Moderate inflation:** The RBI has revised its CPI inflation forecast for FY2025–26 downward to 2.6 percent from 3.1 percent, maintaining sustained price moderation.<sup>8</sup> The easing was supported by a 10.5 percent decline in food prices for nine consecutive months, the longest in the CPI series;<sup>9</sup> along with favourable weather conditions, robust kharif output, adequate reservoir levels and ample foodgrain buffer stocks. Additionally, the GST rate rationalisation, effective from 22 September 2025, will likely lower prices across nearly 11.4 percent of the CPI basket, contributing further to disinflation in the quarters ahead.<sup>10</sup> Over the past three quarters, inflation has remained within the RBI's 4 percent ±2 percent target band. This broad-based decline in prices is expected to boost household purchasing power while giving the RBI greater room to ease policy rates, thereby supporting credit expansion and reinforcing the economy's growth momentum. However, there is one note of caution about the rising core prices (prices of goods excluding food and fuel), which have remained above 4 percent since February 2025.
- **Favourable global commodity prices:** Global commodity prices are projected to soften further in 2025–26, offering a tailwind to India's growth outlook. According to the EIA, oil prices will fall to an average of US\$62 per barrel in the fourth quarter of 2025 (4Q25) and US\$52 per barrel in the first half of 2026 (1H26). With inventory to build up and remain elevated through 2026, there will be significant downward pressure on oil prices.<sup>11</sup> Despite a brief mid-year spike related to the Israel-Iran conflict, prices have remained within the US\$60–US\$70 range since the expansion of the OPEC+ (Organisation of the Petroleum Exporting Countries plus selected non-member countries, including Russia) in April 2025. For India, this trend translates to lower import bills, improved current account balance and reduced inflationary pressures. The moderation in energy costs also eases fiscal constraints, creating space for higher infrastructure and capital expenditure.

<sup>5</sup>PIB: <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2097902>

<sup>6</sup>[https://www.indiabudget.gov.in/doc/Budget\\_at\\_Glance/budget\\_at\\_a\\_glance.pdf](https://www.indiabudget.gov.in/doc/Budget_at_Glance/budget_at_a_glance.pdf)

<sup>7</sup><https://cga.nic.in/MonthlyReport/Published/8/2025-2026.aspx>

<sup>8</sup>PIB: <https://www.pib.gov.in/PressReleseDetail.aspx?PRID=2173560>

<sup>9</sup><https://www.pib.gov.in/PressReleseDetailm.aspx?PRID=2173560>

<sup>10</sup><https://indianexpress.com/article/explained/explained-economics/gst-impact-inflation-10281899/>

<sup>11</sup>WEO: <https://www.imf.org/en/Publications/WEO/Issues/2025/10/14/world-economic-outlook-october-2025>

## Downside:

- **Geopolitical shocks and wars:** Geopolitical shocks remain a key vulnerability, with ongoing conflicts in Europe and the Middle East and political shifts in neighbouring countries such as Nepal, Sri Lanka and Bangladesh complicating India's diplomatic balancing act. These tensions threaten access to energy and critical minerals and disruptions in global commodity supply chains, creating risks of trade disruptions, imported inflation and a wider current account deficit. India's reliance on imported oil and gas and critical minerals amplifies exposure to global price shocks and supply interruptions.
- **Global trade instability and protectionist moves:** Rising global protectionism and ad-hoc measures (tariff hikes, rules-of-origin changes and non-tariff barriers) add uncertainty for Indian exporters. The direct impact of global trade frictions on GDP growth could be limited to 40–80 basis points, but the spillover effect on MSMEs and employment could be significant. MSMEs contribute 30.1 percent to GDP, account for 45.79 percent of India's exports and employ nearly 290 million people; disruptions in export markets or tightening trade rules pose serious risks to jobs and income stability.
- **Capital outflows and currency pressures:** Episodes of foreign portfolio withdrawals in 2025 have put the rupee under sustained pressure, despite the RBI's intervention. The rupee depreciated by 6 percent between February and October 2025, compared with just 0.6 percent in the same period of 2024,<sup>12</sup> marking its sharpest slide in recent years. This weakness comes even as the US dollar softened against major currencies, highlighting India's relative vulnerability. Foreign investors have withdrawn over US\$16.5 billion from Indian equities as of mid-October, driven by global risk aversion, tariff concerns and slowing corporate earnings.<sup>13</sup> While the capital outflow is not unprecedented, the trend raises concerns about sharper currency depreciation, which could inflate import costs and stoke inflationary pressures.

## Expectations

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### Top tasks

#### 1. Support MSMEs to offset trade uncertainty

- Specific measure:
  - Expand export credit and concessional financing for MSMEs.
  - Enhance credit guarantee schemes and extend coverage to more sectors.
  - Comprehensive training to improve the last-mile competitiveness of MSMEs.
  - Reduce compliance burden through simplified digital processes.
  - Identify tariff-sensitive sectors (RMG, gems, jewellery, leather) and provide targeted export incentives or duty drawback enhancements.
- Measurable outcome:  
Strengthen MSME resilience, improve liquidity and maintain global competitiveness despite trade disruptions.

<sup>12</sup><https://frontline.thehindu.com/columns/rupee-fall-rbi-trump-trade-war/article70157618.ece>

<sup>13</sup>Bloomberg: <https://www.bloomberg.com/news/articles/2025-10-17/inr-usd-why-india-s-weak-rupee-has-suddenly-spiked-in-value>

- Rationale: MSMEs account for 46 percent of India's exports<sup>14</sup> and are the second largest employer after agriculture. Easing financial and compliance pressures will help these enterprises navigate global volatility, sustain production and remain competitive in international markets. Strengthening MSMEs will safeguard jobs and drive inclusive economic growth, boost rural incomes and support India's ambition to become a global manufacturing hub.<sup>15</sup>

## 2. Secure critical minerals and ensure access to alternative energy supplies

- Specific measure:
  - Expanded funding for exploration, extraction and processing of critical minerals such as Lithium, Cobalt and Rare Earth Magnets.
  - Allocation for a dedicated Critical Minerals Fund to finance overseas acquisitions and technology collaborations.
  - Strengthen supply chains for LNG, solar modules and rare earths through strategic bilateral trade agreements.
  - Global collaboration with Africa, Australia and Latin America to secure upstream access and joint R&D in mineral processing and recycling.
  - Incentivise investments in renewable energy, green hydrogen and grid-scale storage.
  - Modernise transmission infrastructure for renewable integration.
  - Introduction of Production-Linked Incentives (PLIs) or tax rebates for companies investing in alternative energy ecosystems and raw material security.
  - Promote decentralised clean energy solutions such as rooftop solar and microgrids.
  - Launch a Green Energy Transition Fund to accelerate R&D in grid-scale storage, carbon capture and green hydrogen technologies.
  - Expand EV charging and battery-swapping infrastructure to accelerate clean mobility adoption.
- Measurable outcome: Enhance energy and critical mineral security, reduce fossil fuel dependence and position India as a leader in the global green economy.
- Rationale: Reliable access to critical minerals and clean energy is essential for industrial growth and sustainability. Expanding domestic capability to extract and process critical minerals, as well as expand renewable capacity and their storage, will reduce dependence on such imports from geopolitically sensitive regions, lowering exposure to production disruptions and import-driven inflationary pressures.

## 3. Attract foreign capital

- Specific measure:
  - Commit to a clear fiscal consolidation roadmap with defined deficit targets.
  - Fast-track approvals for PPP and large-scale infrastructure projects.
  - Ensure tax and regulatory stability, avoiding retrospective changes.
  - Simplify FDI norms and strengthen Bilateral Investment Treaties (BITs).

<sup>14</sup><https://www.pib.gov.in/PressReleasePage.aspx?PRID=2087361>

<sup>15</sup>India Economic Outlook- October 2025

- Outcome: Boost investor confidence and attract and retain long-term FDI and FPIs.
- Rationale: Stable fiscal policy and predictable regulations reduce investment risk, enabling capital inflows that support growth across sectors, critical for sustaining economic momentum and job creation.

## Policy recommendations

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1. Recommendation #1: Accelerate digital and infrastructure push
  - Details
    - **Modernise logistics infrastructure:** Use AI-driven route optimisation, automated freight matching and integrated inland waterways.
    - Expand multimodal logistics parks, dedicated freight corridors and port digitalisation to cut turnaround time and logistics costs.
    - **Trade facilitation through technology:** Promote adoption of AI-based customs clearance, e-invoicing and real-time shipment tracking for exporters.
    - **Cluster-based export hubs:** Develop integrated manufacturing and export hubs for electronics, EVs and speciality chemicals to build scale and global visibility.
    - **Cluster-based hubs of production:** Develop focused clusters with incentives for manufacturing using local resources and catering to influence zones in proximity to the production hubs.
    - Expand the scale and scope of smart cities: With increasing investment in tier-2 and tier-3 cities as emerging growth hubs, promote planned urbanisation to help decongest megacities and ensure balanced regional development.
    - Promote more urban clusters to ensure self-sustainable growth nodes in peri-urban areas.
    - Invest in **digital public goods**, including AI-driven education platforms and digital health infrastructure.
    - AI-based training to last-mile MSMEs and local bodies.
  - Expected impact: These measures will significantly reduce logistics costs and improve efficiency, improving export competitiveness and easing inflationary pressures. Investments in digital infrastructure and urban development will enhance productivity, improve ease of living and create new growth hubs.
2. Recommendation #2: Establish a Trade Resilience Fund to support sectors affected by tariffs (exporters and MSMEs) or supply-chain disruptions.
  - Details
    - Targeted support for affected sectors: Provide temporary fiscal or credit assistance to exporters facing margin erosion due to tariffs or input cost volatility.
    - Supply chain diversification support: Facilitate financing for firms to pivot towards new

geographies and supplier networks (especially within APAC and Africa).

- Support in access to domestic (Swadeshi) markets and product diversification to cater to domestic consumers.
- Support in onboarding onto the newly constituted FTA corridors.
- Support in offsetting immediate setbacks or challenges on account of GST 2.0 reforms.
- Training, capacity building and last-mile support for GST 2.0 implementation at Point of Sale (POS) systems for traders and retailers.
- Risk-mitigation instruments: Develop government-backed trade insurance or guarantee schemes to safeguard against shipment and payment disruptions.
- Data-driven monitoring: Establish an early-warning mechanism to track global trade policy shifts and identify high-risk sectors in real time.

- Expected impact: These measures will enhance trade resilience, reduce external vulnerabilities, stimulate domestic markets and facilitate smoother adaptation to global shocks.





# Micro Small and Medium Enterprises

# Micro Small and Medium Enterprises



## Current environment

- The MSME sector is today the backbone of India's economy, accounting for nearly 30 percent of the GDP, over 35 percent to manufacturing and 45 percent to exports and employing more than 100 million.<sup>16</sup>
- The vision revolves around boosting MSME competitiveness, expanding formal financing and promoting technological integration throughout value chains.<sup>17</sup>
- Key trends defining the sector include the expansion of MSME competitive schemes, such as Raising and Accelerating MSME Performance (RAMP), Zero Effect Zero Defect (ZED) and LEAN. Additionally, the rise of digital trading platforms such as the Government e-Marketplace (GeM) and the Open Network for Digital Commerce (ONDC), along with a growing emphasis on quality standards and certification, are shaping the sector's evolution.<sup>18</sup>
- Despite these advancements, MSMEs face persistent challenges such as limited access to finance, knowledge gaps, scalability issues and slow adoption of quality standards. While programmes such as Trade Receivables Discounting System (TReDS), Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) have enabled progress, more focused interventions are needed to address market access barriers, upgrade skills and foster sustainable growth.<sup>19</sup>

## Expectations

### Top tasks

#### 1) Strengthen the capacity of MSME at the last mile

- Specific measures:
- Training and capacity building at the last mile to include, *inter alia*:
  - Accounting methods and digital platforms.
  - Export norms and domestic quality standards such as Bureau of Indian Standards (BIS), Food Safety and Standards Authority of India (FSSAI) and sectoral Quality Control Orders (QCOs).
  - Support for using MSME competitiveness programmes.

<sup>16</sup><https://ibef.org/industry/msme>

<sup>17</sup>UK Sinha Committee (RBI Expert Committee on MSMEs, 2019)

<sup>18</sup>[https://www.niti.gov.in/sites/default/files/2025-05/Enhancing\\_Competitiveness\\_of\\_MSMEs\\_in\\_India.pdf](https://www.niti.gov.in/sites/default/files/2025-05/Enhancing_Competitiveness_of_MSMEs_in_India.pdf)

<sup>19</sup>RBI Circulars (MSME restructuring and TReDS)

- Optimum use of AI in service delivery and production (quality control, demand forecasting and pricing).
- Onboarding and transacting on TReDS as well as buyer-seller platforms such as GeM and ONDC.
- Government of India subsidies and schemes such as CGTMSE and Prime Minister's Employment Generation Programme (PMEGP).

- Measurable outcome

The following outcomes may be targeted

- A more than twofold year-on-year increase in MSMEs registered and actively transacting on TReDS, GeM and ONDC.
- Increase in MSMEs certified under ZED/Lean and other competitiveness schemes for MSMEs.
- A substantial percentage of trained units are adopting digital bookkeeping and e-invoicing.
- Reduction in cycle time for order-to-cash among trained units, along with measurable improvements in product quality and on-time delivery.

- Rationale: MSMEs contribute more than 30 percent of India's Gross Domestic Product (GDP) and employ millions,<sup>20</sup> yet face persistent knowledge, standards and market-access gaps. Structured last-mile capacity building is a force multiplier that accelerates formalisation, quality adoption and market integration.

## 2) Increase channels of access to finance for MSMEs

- Specific measures:
  - "Green-channel" treatment in banks for compliant MSMEs (standardised scorecards, faster turnaround times, lower documentation for repeat borrowers).
  - Dedicated MSME liquidity and growth fund, channelised via Non-Banking Financial Companies (NBFCs)/FinTech companies, with district-level monitoring committees chaired by District authorities, using existing government support such as CGTMSE for first-loss coverage.
  - Expand TReDS interoperability and incentivise anchor-led onboarding of supplier MSMEs.
  - Enable Goods and Services Tax (GST)/e-invoice for cash-flow-based lending.
- Measurable outcomes:
  - Increase in the number and value of MSME credit accounts.
  - Increase in first-time formal borrowers.
  - Improvement in profitability among beneficiary MSMEs due to reduced financing costs and improved receivables realisation.
- Rationale: Access to finance remains a challenge for most MSMEs, constrained mainly due to high Know Your Customer (KYC) norms imposed by banks. Hence, a green channel treatment and a dedicated fund channelised through NBFCs will improve the accessibility for the last-mile enterprises.<sup>21</sup>

<sup>20</sup><https://www.pib.gov.in/PressReleasePage.aspx?PRID=2142170>

### 3) Increase channels of access to finance for MSMEs

- Specific measures:
  - District-level transformation cells to monitor MSME scaling from micro to small to medium, with tailored support at each stage.
  - Large-Small-Micro mentor-mentee networks (anchor enterprises and Public Sector Undertakings (PSUs) mentoring their supplier MSMEs on quality, finance and market access).
  - Incentivise and subsidise membership in MSME associations and industry bodies.
- Measurable outcomes:
  - Significant increase in MSMEs scaling up from micro to small and medium enterprises.
  - Higher integration of MSMEs into domestic and global value chains (measured by share of Business to Business (B2B) sales, export participation and repeat orders).
- Rationale: Over 90 percent of MSMEs are micro with constrained scale and visibility.<sup>22</sup> A structured graduation pathway, backed by mentorship, unlocks productivity, formal finance and aggregation benefits.

## Policy recommendations

### Recommendation #1: Operationalise a cash-flow lending and resolution playbook

- Details:
  - Adopt cash-flow based underwriting using GST/e-invoice data, utility payments and TReDS histories and expand account aggregator usage.
  - Introduce a simplified, time-bound restructuring mechanism for viable MSMEs facing temporary financial stress, with standardised documentation requirements and minimal stigma associated with Non-Performing Asset (NPA) classification.
  - Scale up receivables-discounting with anchor confirmation and legal enforceability.
  - Align with Insolvency and Bankruptcy Code (IBC) thresholds and fast-track out-of-court settlements.
- Expected impact:
  - Faster credit delivery, lower NPAs from early-resolution protocols and higher formalisation through verified transaction trails.
  - Improved working-capital velocity and reduced reliance on informal credit.

### Recommendation #2: Institutionalise district MSME competitiveness missions

- Details:
  - Dedicated district MSME cells with Key Performance Indicator (KPI) dashboards (TReDS adoption, ZED certification, export-ready compliance, credit access metrics).
  - Outcome-based grants to states and districts for hitting onboarding targets, quality and finance milestones; integrate with district and District Industries Centre systems.
  - Public procurement incentives: Preferential scoring for vendors with ZED/Lean certification and prompt payment adherence via GeM.
  - Quarterly KPI dashboards at district/state levels; public scorecards for transparency.
  - Independent evaluation every 12 months with mid-course corrections.

<sup>21</sup>[https://www.niti.gov.in/sites/default/files/2025-05/Enhancing\\_Competitiveness\\_of\\_MSMEs\\_in\\_India.pdf](https://www.niti.gov.in/sites/default/files/2025-05/Enhancing_Competitiveness_of_MSMEs_in_India.pdf)

<sup>22</sup><https://msme.gov.in/sites/default/files/MSME-ANNUAL-REPORT-2024-25-ENGLISH.pdf>

- Expected impact:
  - Rapid adoption of standards and digital platforms; measurable increases in formal credit, quality compliance and market linkages.
  - District-level convergence across schemes reduces duplication and improves delivery fidelity.
- Implementation matrix (Illustrative):

Intervention	Lead agency	Key collaborators	Timeline	KPI targets (FY26)
Green-channel bank protocols	Department of Financial Services (DFS), Reserve Bank of India (RBI), Indian Banks Association (IBA)	Banks, NBFCs, FinTech cos.	About 6–9 months	Increase in MSME credit accounts
MSME liquidity and growth fund	Ministry of Finance, Department of Economic Affairs, Small Industries Development Bank of India (SIDBI)	NBFCs, CGTMSE and State DICs	Budget FY26 launch	Target funds disbursed  Reduction in NPA by more than 3 percent
District competitiveness missions	Ministry of MSME (MoMSME), Government of India, State Departments	DICs, District Authorities	Twelve-month rollout	Increase in TReDS/ GeM/ONDC active MSMEs
ZED/Lean/RAMP scale-up	MoMSME, Quality Council of India (QCI)	Industry bodies, PSUs	Ongoing	Increase in ZED/ Lean certifications
Mentor-mentee networks	Department for Promotion of Industry and Internal Trade (DPIIT), MoMSME	Central Public Sector Enterprises (CPSEs), Large anchors	Six months setup	At least 10,000 MSMEs onboarded





A stylized illustration of a tax form and a percentage symbol on a stained glass background. The form is white with the word 'TAX' in large, bold, yellow letters with a blue outline. Below it are three horizontal lines for filling in information. To the right of the form is a large, gold-colored coin with a yellow center featuring a black percentage symbol (%). The background is a colorful, abstract stained glass pattern in shades of purple, yellow, and red.

**TAX**

Tax

# Direct Tax



**Rohinton Sidhwa**  
Partner



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Partner

## Current environment

The new Income Tax Act, 2025 (ITA 2025), to be effective from 1 April 2026, represents a transformative step towards creating a streamlined, transparent and simplified tax framework designed to enhance economic efficiency and ease of compliance.

To modernise and simplify India's outdated tax laws, the government announced a comprehensive review of the Income-tax Act, 1961 (ITA 1961). This led to the introduction of the Income-tax Bill, 2025, which was referred to a Select Committee of Parliament for detailed examination. Following extensive consultations and feedback from various stakeholders, the government decided to withdraw the original Bill and introduce a revised version, the Income-tax (No. 2) Bill, 2025. This updated Bill incorporated the Select Committee's recommendations, improved legal clarity and enhanced drafting precision. It was passed by both Houses of Parliament on 12 August 2025. The revised Bill has received the Hon'ble President's assent on 21 August 2025, thereby establishing the foundation of India's new direct tax framework.

The key features include:

- **Introduction of 'Tax Year':** The ITA 2025 simplifies tax terminology by replacing the previously used and often confusing terms 'Assessment Year' and 'Previous Year' with a single, unified concept called the 'Tax Year'. It is defined as the twelve-month period commencing on 1 April of every financial year.
- **Power to frame schemes:** The ITA 2025 authorises the central government to design new schemes for improving efficiency, transparency and accountability in tax administration.
- **Simplified compliance:** Multiple provisions have been brought together for more clarity in compliance requirements.
- **Digital-first enforcement:** The scope of Virtual Digital Assets has been broadened to cover any asset that holds value in a digital form and operates using cryptographic ledger systems such as cryptocurrencies or similar technologies.

Even though recent reforms have established a strong groundwork, the direct tax system can still be streamlined further to enhance ease of doing business in India.

## Expectations

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### Top tasks

#### Ask #1: Rationalisation of withholding tax provisions

- The current withholding tax framework involves multiple TDS/TCS rates, ranging from 0.1 percent to 35 percent, leading to significant complexity and an increased risk of compliance errors. Excessive withholding often results in liquidity constraints for taxpayers and additional administrative efforts to seek refunds.
- To further streamline the withholding tax regime and enhance compliance efficiency, the following rationalisation measures are recommended:
  - **Using GST to reduce TDS/TCS compliance:** With the implementation of a Pan-India GST framework, a unified tax reporting system already exists. This can be effectively used to reduce TDS/TCS compliance. It is recommended that TDS/TCS be eliminated on all transactions where GST is applicable (per the invoice). The Income-tax Department can obtain information and track these transactions as needed by mandating an appropriate information return from suppliers. Suppliers are already filing such returns (GST returns), so there will not be any additional compliance.
  - **Simplified categorisation of withholding tax provisions:** Withholding tax provisions should be consolidated into three broad categories, as follows:  
First category: For transactions involving the purchase of tangible/material goods and for transactions undertaken through an electronic medium/platform (if not subject to GST), a withholding tax rate of 0.1 percent can be prescribed without any threshold limit.  
Second category: For transactions involving the supply of any type of services (if not subject to GST), a withholding tax rate of 2 percent can be prescribed without any threshold limit.  
Third category: For residuary transactions, such as withholding tax on interest and dividends (if not subject to GST), a withholding tax rate of 10 percent can be prescribed.

- **Removal of requirement to issue TDS/TCS certificates:** Under Section 395 of the ITA 2025 (corresponding to Section 203 and 206C of the ITA 1961), TDS/TCS certificates must be provided by the deductors to the deductee. It is recommended that the need to issue such TDS/TCS certificates be removed. Eliminating the need for TDS/TCS certificates could help alleviate taxpayers' compliance burden.

#### Ask #2: International tax: Significant Economic Presence (SEP) provisions

The Finance Act 2018 introduced the concept of SEP to expand the scope of "business connection" in India. An SEP is defined as:

- Any transaction in respect of any goods, services or property carried out by a non-resident in India, including the provision of download of data or software in India, if the aggregate of payments arising from such transaction or transactions during the previous year exceeds the prescribed threshold; or
- Systematic and continuous solicitation of business activities or interaction with users in India through digital means, where the number of users exceeds the prescribed limit.

- The Finance Act 2020 deferred SEP provisions to the assessment year 2022–23 and amended the definition of SEP as under:
  - Any transaction involving goods, services or property carried out by a non-resident in India with any person in India, including the provision of data or software downloads in India, shall be considered if the aggregate payments arising from such transaction(s) during the previous financial year exceed the prescribed threshold.

or

Systematic and continuous soliciting of business activities or engaging in interaction with a number of users in India, as may be prescribed.
- The concept of SEP was introduced by the Finance Act, 2018, to bring within the tax ambit activities carried out by non-residents in India through digital means, in alignment with BEPS Action Plan 1. However, the new definition does not contain the said key term 'digital means', thereby covering all the modes, i.e., physical as well as digital, which does not seem to be the intent of the legislature at the time of introduction.

Further, there is no clarity regarding the persons who would be covered by the expression 'any person in India' as the same is not defined.

#### Recommendations:

- **Restore original legislative intent:** The erstwhile definition should be restored to restrict the applicability of SEP to transactions carried out only through digital modes, as was the intent of the legislature at the time of introduction of SEP under the Act. Further, in order to reduce ambiguity and prevent interpretational issues, it is recommended that the persons who would be covered by the term 'any person in India' be defined.
- **Define ambiguous terms and metrics:** Terms such as 'systematic and continuous soliciting of business activities', 'engaging in interactions' and 'users' should be defined, and guidance should be offered using appropriate examples and quantifiable metrics for explaining the meaning. Further, it should be clarified that only active users are to be considered, and a clear definition of the level of engagement required to qualify as an active user must be provided. Also, transactions with group companies should be excluded from the definition of users.
- **Issue guidance through public consultation:** Draft guidance/FAQs should be released for public consultation so that industry can provide its insights and consensus on quantification of the number of users, determine when activities could be systematic and continuous, etc.
- **Prescribe rules for income attribution:** Rules for attribution of income should be prescribed to provide certainty and smooth implementation of the SEP provisions.

- **Tax return compliance:** Non-residents filing tax returns in India must disclose if they have a SEP in the country. However, a non-resident can avail of the benefits available under the tax treaty, under which its business income is taxable only if it has a PE in India. It is unclear whether such a non-resident is required to disclose SEP with or without considering the existence of a PE in India. Hence, suitable clarification may be issued on scenarios when a non-resident is required to disclose whether or not they have an SEP in India.

#### Ask #3: Incentives for emerging sectors (such as R&D, renewable energy and AI)

- The government has expressed its intent to promote research, innovation and development in India. However, the current tax incentives available to companies operating in such emerging sectors remain limited. Presently, some of the key tax benefits include:
  - About 100 percent deduction on expenditure towards scientific research undertaken in approved research associations or institutions [Section 45 of the ITA 2025 (corresponding to Section 35 of the ITA 1961)].
  - Additional depreciation in respect of any new plant or machinery for companies engaged inter alia in the business of generation, transmission or distribution of power [Section 33 of the ITA 2025 (corresponding to Section 32 of the ITA 1961)].
  - Nearly 100 percent deduction of profits and gains for three consecutive tax years for eligible start-ups engaged in innovation or development activities [Section 140 of the ITA 2025 (corresponding to Section 80-IAC of the ITA 1961)].
- To position India as a global hub of innovation and advanced technology, it is imperative to expand and strengthen the existing incentive framework. Global economies such as South Korea have been focusing on targeted R&D investment with tax credits for investments in strategic technologies and new growth sectors, and emphasizing investment in tangible assets. The US approach, meanwhile, relies more on market-based mechanisms and tax incentives.
- Hence, it is recommended to introduce specific tax incentives, including substantial tax breaks, deductions and reduced corporate income tax rates, to drive sustained investment and innovation in such emerging and high-potential sectors.

## Policy recommendations

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### Recommendation #1: Removal of ambiguities in relation to the deduction of additional employee costs

- Section 146 of the ITA 2025 (corresponding to Section 80JJAA of the ITA 1961) was introduced to incentivise employment generation by allowing a deduction of 30 percent of the additional employee cost incurred by a business, for three consecutive tax years, beginning from the tax year in which the employment is provided.
- This provision supports the broader national objective of inclusive growth and formalisation of the workforce. However, to enhance the efficacy and relevance of this provision in the current economic and employment landscape, the following issues and inconsistencies need to be addressed:
  - The existing eligibility criterion for an “additional employee” is that their total emoluments must not exceed INR25,000 monthly. This limit has remained unchanged since the introduction of the section vide the Finance Act, 2016. Given the significant inflation and rise in wages over the past

years, it is recommended that this threshold be reviewed and suitably increased to reflect current wage structures across sectors and geographies.

- For a business to claim the deduction, there must be a net increase in the total number of employees on the last day of the tax year, compared to the preceding tax year. This can cause issues for companies with high turnover, as employees hired early in the year may leave before the year-end, wiping out any net increase and disqualifying the employee.
- Further, employees hired as replacements may not qualify for deduction under the said provisions, since they do not increase the total number of employees. In practice, distinguishing between replacement and new additional hires is administratively burdensome, requiring detailed mapping of qualifications, job roles, emoluments and timelines. This complexity often discourages businesses from availing the deduction.
- Per the existing provisions, the deduction under Section 146 of the ITA 2025 (corresponding to Section 80JJAA of the ITA 1961) is not allowed if the business is formed by splitting up or reconstruction of an existing business, or the business is acquired through transfer from any other person or as a result of business re-organisation. However, if the terms of the amalgamation scheme approved by the NCLT include provisions for the continuation and conduct of the business, denying the deduction to the resultant entity may be inconsistent with the intent of the provision.
- Thus, necessary clarifications must be introduced to broaden the scope of the benefit and better align the provision with real-world hiring practices.

#### Recommendation #2: Certainty in deductibility of stock-compensation expenses

- Indian subsidiaries of foreign multinational groups frequently grant equity-based compensation to employees by way of shares of the overseas parent/group entity. These awards are typically granted either free of cost or at a discount to fair market value, vesting over a period.
- Commercially, the overseas parent/group company issues shares to the Indian employee and raises an invoice on the Indian company for the cost of such awards. From the Indian company's perspective, the ITA does not contain a specific provision governing the deductibility of such payments by an Indian subsidiary to a foreign parent/group. Consequently, the companies typically claim such payments as ordinary business expenditure [Section 34(1) of the ITA 2025 (corresponding to Section 37(1) of the ITA 1961)].
- In a number of instances, the tax authorities have denied such deductions on grounds, including that the expense relates to shares of a foreign company and not the employer, that the liability belongs to the foreign company and not the Indian company and that the payments are notional.
- In view of the above, necessary clarifications must be issued with respect to the tax treatment of stock-based compensation in such cross-border group structures, including:
  - Nature of deduction: Amounts paid by the Indian employer/subsidiary to the foreign parent/group in discharge of the foreign company's obligation to issue shares to the Indian employee shall be deductible under Section 34(1) of the ITA (corresponding to Section 37(1) of the ITA 1961) as a revenue expenditure, to the extent such payment is bona fide and evidenced by documentary proof (invoice/payment/board resolution).

- Year of deduction: The deduction shall be allowed in the year in which the shares are actually issued to the Indian employee (i.e., when the Indian company's liability crystallises), or in the year of actual payment where payment falls in a subsequent year, consistent with accrual/accounting norms.
- Valuation: Valuation norms must be prescribed for listed/unlisted overseas entities, including the introduction of fast-track dispute resolution for valuation-related disputes.
- Documentation standard: Specify a checklist of supporting documents (invoice, payment evidence, vesting schedule, grant letters, board/salary committee approvals, valuation report, TDS compliance proof in respect of employees) required to substantiate the claim.

- This would bring clarity and uniformity in tax treatment of employee stock compensation, reduce avoidable litigation and compliance costs and provide certainty to employers designing global compensation programmes.

# Indirect Tax



**Mahesh Jaising**  
Partner

## Current environment

- As India prepares to unveil the Union Budget for FY2026–27, expectations are high for a continued push towards economic modernisation, industrial self-reliance and global competitiveness. Building on the momentum of recent transformative reforms under GST, the government is poised to reinforce its flagship initiatives, such as Make in India, Aatmanirbhar Bharat and the long-term vision of Viksit Bharat 2047, through targeted fiscal and policy interventions.
- The Union Budget 2026–27 is expected to operationalise the GST 2.0 framework, built on three foundational pillars announced by the Hon'ble Prime Minister on the 79th Independence Day. These next-generation reforms aim to bring relief to the citizens, farmers, middle class and MSMEs:
  - Pillar 1: Structural reforms: Correction of Inverted Duty Structures to align input and output tax rates, minimising accumulation of input tax credit and promoting domestic manufacturing.
  - Pillar 2: Rate rationalisation: A transition from the existing four-slab GST system to a simplified two-slab structure, supplemented by a special rate for select categories. This aims to enhance transparency and reduce classification disputes.
  - Pillar 3: Ease of living: A suite of tech-enabled measures aligned with procedural changes to streamline compliance, registration and refund processes under GST.
- In line with these announcements, the 56th GST Council Meeting marked a landmark step with the simplification of the GST rate structure into a two-slab system. GST rates on approximately 375 products were reduced, reflecting a multi-sectoral and citizen-centric approach to improve ease of doing business, especially for MSMEs and small traders. In essence, GST 2.0 and the broader indirect tax reforms represent fiscal adjustments and a foundational shift in India's economic governance.
- Looking ahead, the Union Budget 2026–27 is expected to deepen this reform agenda, focusing on structural improvements and measures to enhance the ease of living. By aligning tax policy with the principles of growth, equity, resilience and global competitiveness, the Budget is poised to act as a catalyst for India's next phase of development.

## Expectations

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### Top tasks

#### Expectation #1: Measures for unlocking working capital under GST

- To ease cash flow pressures and enable seamless circulation of funds within businesses, the Union Budget 2026–27 is expected to introduce measures aimed at unlocking working capital through efficient refund mechanisms and seamless Input Tax Credit (ITC), without adversely impacting overall fiscal collections.
- A key recommendation in this regard is the extension of Inverted Duty Structure (IDS) refund formulas to include “services” and “capital goods.” While large businesses generally remain insulated from IDS due to the presence of multiple products with higher tax rates (allowing them to offset excess credits), MSMEs and smaller manufacturers face significant liquidity constraints when refunds on higher-taxed inputs and capital goods are denied. This issue has become even more pronounced following the recent GST rate rationalisation.
- For the export sector, a similar measure is recommended, permitting refund of ITC on capital goods through appropriate changes to refund formulas. Further, allowing ITC utilisation for reverse charge payments would reduce out-of-pocket cash outflows, thereby improving liquidity while remaining revenue neutral for the government.
- Also, it is recommended that automated refund mechanisms be introduced, including 90 percent provisional refunds for exporters and businesses affected by inverted duty structures, alongside faster refund processing timelines to alleviate working capital pressures and enhance ease of doing business.
- Additionally, as employee-related expenses form a critical component of operational expenditure, removal of ITC restrictions on such expenses is also recommended to facilitate smoother credit flow and improve overall business liquidity.

#### Expectation #2: Measures for liberalisation of export rules

- While exports are intended to be zero-rated, interpretational issues and proxy levies often create an unintended tax burden on export transactions. These constraints increase operational costs, reduce price competitiveness and hinder export-led growth, weakening India’s trade balance and limiting the sector’s contribution to GDP.
- In the 56th GST Council meeting, the government announced the removal of the “intermediary” taxing provision, a long-standing demand from industry stakeholders. The Union Budget 2026–27 is expected to formalise this change through necessary legislative amendments, ensuring the effective liberalisation of export-related rules.
- It is recommended to revisit the scope of “performance-based proxies” under Section 13(3)(a) of the IGST Act, 2017, to exclude activities such as testing, R&D and innovation services from being treated as performed in India. Currently, these services attract 18 percent GST even when delivered to overseas clients, creating a cost disadvantage for high-tech sectors. Aligning their treatment with the export of services would remove this tax burden, significantly benefiting OSAT units and strengthening India’s position in the global semiconductor value chain.

### Expectation #3: Measures for ease of doing business from an administrative perspective

- In line with the Hon'ble Prime Minister's emphasis on Pillar 3 – 'Ease of Living', simplifying administrative procedures is critical to improving the day-to-day business experience and fostering a more inclusive and efficient economic environment.
- **Introduction of Large Tax Payer units (LTUs):**
  - The GST regime operates under a concurrent dual model where both the Central and State Governments administer the tax. Taxpayers with turnover exceeding INR1.5 crore are divided equally between Central and State authorities, while those below this threshold are predominantly under State administration (90 percent). This division, while respecting the federal structure, has led to complex administrative overlaps for Multi-Locational Business Entities (MBEs) registered under different tax jurisdictions.
  - There is a need for the introduction of the LTUs to address the core administrative challenges faced by MBEs by consolidating registration processes, compliance, audits, standardising tax interpretations and streamlining refund processes. This is especially relevant to entities having registration in multiple States. This initiative aligns with India's broader vision of creating a taxpayer-friendly regime and furthering the ease of doing business agenda, making India an attractive destination for global investments and one nation, one tax and one market.
- **Consolidation of audits under GST**
  - While the GST legislation is common for undertaking audits, the practice followed by the Central and State tax administrations varies widely in conducting audits. CBIC undertakes audits following the standards laid down in the GST Audit Manual; the States follow their own standards and procedures for selection of taxpayers for audits, methodology and conclusion of audits. The administrative structuring for undertaking this function also varies widely between the State and the Centre.
  - Therefore, considering the same, it is recommended that measures be introduced to separate powers to adjudicate and audit (with review provisions) and also curb parallel proceedings.
- **Simplification of the registration process under GST**
  - While announcements are being made on the simplification of the GST registration process by way of shorter timelines for registration application processing for low-risk applicants, it is recommended that the Union Budget 2026–27 introduce measures such as auto-approved GST registration within three days for low-risk businesses and simplified registration for e-commerce sellers.

#### Expectation #4: Measures for impetus to the infrastructure and commercial leasing sector

- India's commercial construction sector has witnessed consistent year-on-year growth over the past five years. The segment is poised for further advancement, particularly in office spaces within IT Parks, driven by the emergence of Real Estate Investment Trusts (REITs), which are catalysing a surge in investment inflows. The market remains highly competitive, with both domestic and international players contributing to a dynamic and challenging business environment.
- Targeted tax measures that encourage investments in infrastructure development and commercial leasing can stimulate long-term economic growth, enhance job creation and support the government's vision of strengthening India's physical and business infrastructure.
- Therefore, a key recommendation is that clarity is provided in the taxing provisions for development rights in a joint development agreement by clarifying that transfer of land by a landowner to a developer under a Joint Development Agreement (JDA) shall be considered as sale of land covered under Schedule III (activities to be considered neither supply of goods nor supply of services) and does not attract GST.
- The Union Budget 2026-27 should address the restriction on ITC for commercial buildings intended for leasing, which are currently treated as constructed on own account. This can be achieved by amending the CGST Act to exclude such properties from the restrictions under Section 17(5)(c) and 17(5)(d). Allowing developers to claim ITC on goods and services used for construction will reduce tax costs, improve liquidity and encourage investment in commercial real estate.

# FTA Customs



**Mahesh Jaising**  
Partner

## Current environment

- The Union Budget for FY2026–27 is scheduled to be presented in February 2026 at a time of sharp global trade tensions and rapidly evolving regulatory landscapes. India's customs and trade policies are expected to play a pivotal role in balancing domestic manufacturing priorities and promoting a more open, predictable and globally competitive trade environment.
- Global trade dynamics continue to remain complex, and the recent escalation of tariffs by the US has revived the debate around India's tariff profile. Hence, it will be important for India's Budget strategy to focus on improving cost competitiveness and supporting exporters through the rationalisation of input tariffs and enhanced trade facilitation measures.
- India is also strategically expanding its Free Trade Agreement network, with the EFTA-India TEPA now in force, the India-UK CETA signed (pending implementation), and ongoing negotiations with the EU, US and New Zealand to enhance market access, attract investment and integrate with global value chains.
- At the same time, India's trade and regulatory landscape is also witnessing increasing non-tariff measures, including BIS certifications, Extended Producer Responsibility (EPR) and licensing requirements, which are shaping product quality, safety and compliance while influencing trade dynamics and market access.
- Complementing these efforts, the CBIC has undertaken several measures to enhance ease of doing business and advance the digitisation of Customs processes. These include the merger of 31 separate duty notifications into a single and comprehensive notification, the introduction of electronic filing of refunds, the implementation of the Single All-India Multi-Purpose Electronic Bond (Ekal Anubandh) integrated with e-BGs and the digitalisation of bonded procedures. Collectively, these initiatives underscore the government's commitment to a transparent, efficient and fully digitised Customs ecosystem.

## Expectations

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### Top tasks

#### Expectation #1: Digitalisation of the Customs litigation process

- Currently, the adjudication and litigation process under Customs remains predominantly physical, requiring hard-copy submissions of replies to Show Cause Notices (SCNs), appeals and supporting documents, all signed manually by authorised signatories.
- This system is not aligned with the government's larger goal of "Digital India" and adds a significant administrative burden on businesses. While steps have been taken to allow virtual hearings without physical presence, similar reforms are needed in the filing and submission processes to enable fully digital adjudication, enhance efficiency and further ease the compliance burden for businesses.
- It is recommended that appropriate enabling provisions be introduced in the Customs Act, 1962, to allow digital filing of letters, appeals and all correspondence with Customs authorities, in line with existing practices under the GST law.

#### Expectation #2: Revamp of the SVB process

- Due to cumbersome and time-consuming SVB investigations in related party transactions, there is a huge pendency of cases with SVB cells. During the pendency, all import assessments are mandatorily kept provisional, which leads to much uncertainty regarding the financial liability on account of Customs duties for the trade. This results in lost revenue for the government and an undue burden on businesses.
- Being cognizant of such inordinate delays and long-standing issues, the government has been engaging with industry stakeholders; there is a strong need for a new circular to revamp the SVB process currently governed by Circular No. 05/2016, which was issued in 2016.
- The new circular should aim to rationalise and limit the scope of SVB proceedings. All related-party transactions may be subject to post-clearance audits, without a mandatory reference to SVB in every such case. Only those related party transactions that, in the opinion of the Customs authorities, warrant further investigation beyond the post-clearance audit, should be referred to the SVB.

#### Expectation #3: Extending the scope of advance rulings and expanding the number of benches

- The revamped Customs Advance Rulings mechanism through Chapter VB of the Customs Act has witnessed trade resorting to advanced rulings on issues relating to classification, valuation and effective duty implications to obtain the certainty provided in Section 28H (2).
- Non-tariff measures trigger uncertainty, as their notification templates, language, etc., are not aligned with the WCO's Harmonised System of Nomenclature.
- It is recommended that the scope of advance rulings be expanded through the issue of a notification exercising powers vested by section 28H(2)(f) to empower the Customs Advance Rulings Authority to pronounce rulings on the applicability of specific non-tariff measures on a particular importer/exporter, after seeking the written opinion of the concerned departmental authority.
- This expansion of scope may be undertaken gradually, beginning with agencies already on board the Customs SWIFT single-window platform.

- Additionally, it is recommended that the Customs Advance Ruling mechanism be strengthened by expanding the number of benches from the existing two (New Delhi and Mumbai) to four, by adding Bengaluru and Kolkata. This expansion will enhance regional accessibility, ensure faster disposal of applications and provide greater certainty and predictability to trade.

**Expectation# 4: Revamp and strengthen the AEO certification framework**

- The Authorised Economic Operator (AEO) programme was introduced to promote ease of doing business by rewarding compliant importers and exporters with faster clearances, reduced interventions and greater predictability. However, the current implementation has become cumbersome and prone to delays, with several applications pending for considerable time periods, undermining its core objective.
- Further, while the existing focus of the AEO programme has primarily been on streamlining the import process, it needs to be significantly expanded to support trusted Indian exporters as well. With the three-tier AEO programme completing 10 years in 2026, it is an opportune time for the government and CBIC to reposition and strengthen the AEO scheme as a flagship trade facilitation initiative that enhances India's export competitiveness and global market access.
- To ensure that the AEO scheme remains effective and beneficial, it is suggested that:
  - A strict timeline is prescribed for the closing of AEO applications after their filing. In the event of a departmental delay in processing applications, a provisional approval mechanism will be introduced. Under this, for renewal applications, the existing benefits under the AEO programme should continue provisionally until the application is formally rejected, if applicable. This approach ensures legal certainty and prevents undue disruption of trade facilitation benefits.
  - The ineligibility criteria under the AEO circular with respect to having no issue of SCN invoking fraud, forgery, etc., in the last three years, are vague and interpreted inconsistently across field formations. SCNs issued under Section 28(4) of the Customs Act or Section 74 of the GST law are often treated as ineligible, even when based on interpretational issues. A guidance note/circular should be issued by the department to ensure uniform interpretation of litigation matters, which would be treated as those which render an applicant ineligible for AEO. Also, the government should issue a list of exclusions as to when an application cannot be rejected for pre-existing litigation.
  - In addition to streamlining the approval process, the AEO framework may be further used to support Indian exporters:
    - o Permit self-licensing for export of SCOMET goods to pre-verified AEO tier-2 and tier-3 status holders, ensuring trusted exporters are not burdened with repetitive authorisation procedures.
    - o The India-UK FTA includes provisions for facilitated movement for "eligible traders". This may be operationalised by integrating AEO status with Mutual Recognition Agreements (MRAs) to provide faster clearances and reduced checks in partner jurisdictions.
    - o Provide special dispensation under the Quality Control Order (QCO) framework for AEO tier-2 and tier-3 certificate holders, recognising their enhanced compliance track record.

#### Expectation #5: Operationalise Section 11(3) of the Customs Act - enable true single-window compliance:

- Over the last few years, several non-tariff regulations and compliance conditions have been introduced by multiple ministries and regulatory agencies (e.g., DGFT, FSSAI, CDSCO, BIS and WPC). Importers and exporters are finding it increasingly difficult to track, interpret and comply with all applicable requirements across numerous laws and notifications.
- Section 11(3) of the Customs Act, inserted through the Finance Act, 2018, provides a clear legal framework to simplify this ecosystem. The provision states that any import/export restriction, prohibition or compliance obligation issued under any other law will become operational under the Customs Act only when it is specifically notified under the Customs Act (with suitable exceptions, modifications or adaptations as prescribed).
- It is recommended to issue a comprehensive notification under Section 11(3) to operationalise the provision in letter and spirit, ensuring that all cross-regulatory import/export obligations are routed through the Customs Act and reflected in a common database accessible to trade and field officers.

#### Expectation #6: Strengthening the SEZ framework to promote domestic manufacturing and import substitution:

- SEZ units are facing reduced export demand due to global market uncertainties, leading to underutilisation of manufacturing capacity and cost inefficiencies.
- Current duty provisions require SEZ units to pay Customs duty on the entire value of finished goods cleared in the DTA, including on domestic inputs and value addition, making such clearances commercially unattractive. EOU and MOOWR units enjoy a more favourable duty framework where duties are payable only on duty-free imported inputs, resulting in a competitive imbalance against SEZs.
- Moreover, restrictions under Rule 43 of SEZ Rules limit subcontracting to export-only, preventing SEZ units from tapping domestic demand or optimising capacity through DTA-linked manufacturing.
- These constraints discourage manufacturing investments in SEZs and restrict domestic integration, contrary to Make in India and Atmanirbhar Bharat objectives.
- To address this and promote the competitiveness of SEZ manufacturing units, it is recommended that:
  - Rule 47 of SEZ Rules be amended to allow DTA clearances on a duty-forgone basis, i.e., Customs duty to be levied only on duty-free imported inputs contained in finished goods cleared to DTA.
  - Rule 43 of SEZ Rules may be amended to allow subcontracting for domestic supply, not restricted solely to exports, thereby enabling SEZ units to better utilise production capacities.
  - Suitable clarifications may be issued to permit duty reversal only on imported inputs used in goods cleared through subcontracting, ensuring parity with the EOU/MOOWR scheme.
  - Further, to enable the above requests in the interest of SEZs, for domestic clearance of goods of SEZ, Customs duties on value addition undertaken in SEZs may be exempted under Section 25(1) of the Customs Act. Consequently, duties shall be charged only on the value of imported inputs in the manufacture of such goods.

# Personal Tax



**Divya Baweja**  
Partner

## Current environment

- The current global economic environment is marked by significant instability. Major developed economies are experiencing slow to sluggish growth, while US tariffs continue to impact international trade, particularly affecting China and India. Geopolitical tensions, along with shifting geopolitical dynamics, have contributed to unprecedented global turbulence. In response, many multinational corporations are scaling back investments and initiating cost-cutting measures, including workforce reductions.
- Despite these challenges, India stands out as a resilient economy. The World Bank projects India's GDP growth to range between 6 percent and 6.5 percent, driven largely by the government's progressive economic policies. These initiatives are designed to boost production, stimulate demand and attract investment.
- Key government schemes such as the Production Linked Incentive (PLI) programme have significantly increased domestic manufacturing. Meanwhile, Employment Linked Incentives aim to expand formal employment and enhance social security coverage. Additionally, reforms such as the Goods and Services Tax (GST) and recent tax relief measures for individuals are intended to improve consumer spending capacity and support economic momentum.

## Expectations and policy recommendations

### 1) Clarify taxation of stock options for cross-border employees

#### Background

Under Section 17(2) of the Income-tax Act, Employee Stock Option Plans (ESOPs) are taxed as perquisites at the time of exercise. While this framework works for domestic employees, it does not address specific concerns for cross-border employees, particularly those who have rendered services both in India and abroad during the grant-to-vesting period.

#### Reasoning

The absence of clear apportionment rules for ESOP taxation in cross-border scenarios leads to:

- Inconsistent treatment by assessing officers during scrutiny or assessments.
- Litigation and appeals, despite judicial support for apportionment based on service location.
- Hardship for mobile employees, including expatriates and returning Indians.

- Increased complexity due to rising cross-border assignments and remote work arrangements, where ESOPs are earned across multiple jurisdictions.

This ambiguity undermines the fairness and predictability of tax treatment for globally mobile professionals.

### **Recommendation**

CBDT should issue clear guidelines for apportioning ESOP taxation in cross-border scenarios, including:

- A standard formula or method based on the location of services rendered during the grant-to-vesting period to determine the perquisite as well as the cost of acquisition.
- Documentation requirements for employees to substantiate service periods and locations.
- Alignment with international best practices to ensure consistency and reduce disputes.

## **2) Car perquisite valuation for electric vehicles**

### **Background**

With the government's encouragement, more employees are opting for electric vehicles as part of their employer's car scheme. While the Income tax Rules provide a detailed mechanism for calculating the car perquisite for fuel vehicles, the same clarity is absent for EVs.

### **Reasoning**

This lack of clarity leads to:

- Uncertainty and anxiety about valuation for the employer
- Increased concerns for tax withholding
- Probably future litigation

### **Recommendation**

CBDT should consider immediately notifying regulations for EVs that will help employers value the perquisite and help employees understand the tax impact better.

## **3) Foreign tax relief at the point of tax withholding**

### **Background**

The current law does not have provisions for availing credit for foreign taxes. As a result, taxpayers having income that is taxed in multiple jurisdictions suffer from double taxation. This credit can only be availed at the time of filing the income tax return, which delays relief and creates cash flow challenges for employees. Once the return is processed, the due credit is granted and refunds are issued. This issue commonly affects income from incentives, stock benefits and certain types of remuneration.

### **Reasoning**

Because employers lack a clear mechanism to factor in the FTC when computing monthly TDS, employees with significant foreign income often face excessive tax deductions in India, resulting in large refunds after filing their returns. This leads to cash flow challenges, especially for salaried individuals. In contrast, many countries allow treaty relief at source, particularly for employment income, to avoid unnecessary tax burden and refund cycles.

## Recommendation

CBDT may consider drawing up a framework that permits credit of foreign taxes with adequate guardrails, such as:

- Devising a format of declaration that would enable employers to verify the income subject to double taxation and foreign tax payment proofs.
- Permit employers to grant a tax credit based on such declarations.
- Amend the TDS returns to enable adequate reporting disclosure in line with global best practices.

## 4) Extension of revised return/belated return filing

### Background

The Finance Act, 2025, introduced a progressive provision allowing taxpayers to file updated returns within 48 months from the end of the relevant assessment year. This aims to encourage voluntary compliance and reduce litigation. However, the deadline for filing revised or belated returns remains 31 December of the assessment year following the financial year.

This poses a challenge for taxpayers, especially Resident and Ordinarily Resident (ROR) individuals, who earn foreign income and claim Foreign Tax Credit (FTC) under Sections 90/91.

### Reasoning

In countries such as the United States, tax returns for a calendar year (e.g., 2024) are finalised only by April 2025, while the Indian deadline to revise returns for FY2023–24 is 31 December 2025. This mismatch leads to:

- Provisional FTC estimates, which may later require correction.
- Disputes or refund delays due to inaccurate FTC computation.
- Overpayment of taxes results in large refunds that are often delayed due to verification issues.
- Cash flow disruptions and increased administrative burden for both taxpayers and the tax department.

## Recommendation

CBDT should consider the operational challenge faced by such taxpayers who are significant contributors to the tax kitty. The options that could be explored are either extending the deadline for filing revised or belated returns to 31 March of the assessment year following the financial year, or providing an option to such taxpayers to file for an extension, as is the case with other developed economies. This adjustment:

- Aligns better with international tax calendars, especially for countries with calendar-year systems.
- Provides a uniform compliance window for taxpayers with global income.
- Reduces the need for multiple amendments or condonation applications.
- Complements the broader compliance framework introduced by the 48-month updated return window, making it a logical and minimal adjustment.

## Changes for ease of compliance

### 1) Real-time refund tracker on the portal

#### Background

The Central Board of Direct Taxes (CBDT) has significantly improved refund processing timelines following tax return submissions. The income tax portal now also provides real-time updates on refund status for each fiscal year, indicating whether the refund is in process, issued or returned. However, taxpayers lack real-time tracking of their refund. In case of larger refunds, the anxiety of the taxpayers increases if the refunds are not credited to the bank account within a month.

#### Reasoning

This absence of tracking leads to:

- Uncertainty and anxiety about refund timelines.
- Increased queries and grievances to the tax department.
- Difficulty in financial planning, especially for individuals and businesses relying on timely refunds.

#### Recommendation

CBDT should consider implementing a real-time refund tracking dashboard within the taxpayer portal that includes:

- Clear status indicators with indicative timelines such as:
- "Under Processing," "Approved," "Sent to Bank," "Credited."
- A "Raise Concern" or "Escalate" button if the refund is delayed beyond expected timelines.
- Integration with the grievance redressal system and push notifications (SMS/emails) for status changes.

This enhancement would significantly improve the taxpayer experience, reduce manual follow-ups and align India's tax systems with global best practices.

### 2) Simplify the TDS compliance for home buyers where the seller is an NRI

#### Background

The current provisions require home buyers to withhold 1 percent of the purchase value as Tax Deducted at Source (TDS), where the property value is INR50 lakh or more. The TDS deposit process is simple and convenient if the seller is a resident (i.e., with the challan-cum-statement in Form no. 26QB).

However, if the seller is a Non-Resident (NR) in India, taxes are withheld at a higher rate and the buyer is also required to obtain a TAN, deposit the tax deducted and file e-TDS returns. This long compliance creates challenges for the buyer to buy properties from non-residents, and at the same time creates a tax burden on the seller as well, who may have no tax liability in India. The route to obtaining a No-tax deduction certificate from the tax department is long and tedious, and at times results in losing the opportunity to sell the asset.

#### Reasoning

The prolonged process

- Creates a serious compliance burden for the buyers.
- As the purchase and sale of the property is not a recurring transaction, obtaining TAN for the mentioned purpose alone may result in having more inactive TANs down the line.
- Lack of information or inaccurate confirmations from the seller creates compliance risk for buyers.

- Between 12.5 percent and 31.2 percent of the seller's funds often remain blocked with the tax department, limiting the seller's ability to reinvest or take advantage of tax-saving instruments.

### **Recommendation**

The TDS process applicable for cases where the seller is an NRI may be eased by introducing these challan-cum-statements similar to those applicable for a resident seller.

### **3) Capital Gains Account Scheme (CGAS): Recommendation for reform**

#### **Background**

The Capital Gains Account Scheme (CGAS) permits taxpayers to claim exemptions under Sections 54, 54F etc., that require investment of gains in appropriate assets. The current CGAS process is largely manual, bank-dependent and not integrated with the Income Tax e-filing portal. Taxpayers must open CGAS accounts only with designated public sector banks and manually track deposits and withdrawals.

#### **Reasoning**

This manual process creates several compliance and reporting challenges:

- Limited accessibility due to restrictions on public sector banks.
- Difficulty in tracking CGAS deposits and withdrawals.
- Manual reporting in ITR forms (especially ITR-3) increases the risk of errors.
- Procedural delays in reinvestment, which can jeopardise exemption claims.
- Lack of digital integration with PAN and the Income Tax Portal, making it harder to validate and auto-populate data.
- Challenges in withdrawing from the scheme.

These issues increase the taxpayer burden and reduce the efficiency of capital gains exemption claims.

### **Recommendation**

To simplify compliance and improve transparency, CBDT should consider the following enhancements:

- Enable online CGAS account opening through the Income Tax Portal, linked to PAN.
- Allow CGAS accounts to be opened with private banks regulated by the RBI to improve accessibility.
- Integrate CGAS deposit data with the e-filing system, enabling auto-population in Schedule CG of ITR forms.
- Introduce a simplified declaration format for CGAS deposits and withdrawals within the ITR, reducing manual errors and improving auditability.

These changes would modernise CGAS administration, reduce taxpayer effort and align with the broader goals of digital tax reform under the Finance Act, 2025.

# Mergers and Acquisitions (tax)



**Vivek Gupta**  
Partner

## Current environment

- In the first half of 2025, India recorded M&A deals worth approximately US\$50 billion, with a notable rise in big-ticket transactions. About 10 deals exceeded US\$1 billion. While overall deal volumes declined, the value concentration signals a strategic shift towards fewer but larger deals.
- Cross-border M&A activity remains robust, with several landmark transactions contributing significantly to overall deal value. Indian corporates are increasingly engaging in outbound M&A to expand their global presence, acquire advanced technologies and streamline operations.
- Key sectors driving M&A include renewables, manufacturing, automotive, IT, healthcare and financial services. The Power sector alone attracted US\$8.5 billion in H12025, largely due to renewable energy investments.
- Considering the above, the following are the expectations for the upcoming Budget, which will help streamline tax structures and improve the overall ease of doing business.

## Expectations

### Top tasks

Ask #1: Inclusion of fast-track demerger under Section 233 of the Companies Act, 2013, in the definition of demerger – Section 2(35) of the ITA 2025 (Section 2 (19AA) of the ITA 1961)

- Section 2(19AA) of the ITA 1961 defines “demerger” with reference to a scheme of arrangement under Sections 391 to 394 of the Companies Act, 1956.
- The Companies Act, 2013, repealed the 1956 Act and introduced Sections 230 to 232 as corresponding provisions for court-approved schemes, along with Section 233 for fast-track demergers that do not require NCLT approval.
- Section 2(35) of the ITA 2025 updates the definition of “demerger” to refer only to Sections 230 to 232 of the Companies Act, 2013, and does not include Section 233.

- Fast-track demergers under Section 233 are increasingly used for internal reorganisations, especially among group entities, and are legally recognised under company law.
- Excluding such demergers from the definition of “demerger” under tax law creates inconsistency between corporate and tax frameworks and may result in the denial of tax neutrality for genuine restructurings.
- It is recommended that Section 2(35) of the ITA 2025 be amended to include fast-track demergers under Section 233 of the Companies Act, 2013, as such demergers are approved by the Company Law regulator, such as the Regional Director.
- This will ensure alignment between company law and tax law, reduce interpretational disputes and support efficient and compliant internal reorganisations.

**Ask #2: Taxation of contingent consideration - Sections 67 and 72 of ITA 2025 (Sections 45 and 48 of the ITA, 1961)**

- At the time of making investments in India, most investors plan to introduce a combination of clauses in the shareholders’ agreement, including contingent consideration based on certain performance milestones.
- In essence, such clauses incentivise promoters to achieve better performance after the deal.
- However, under the ITA, 2025 (specifically Sections 67 and 72, corresponding to Sections 45 and 48 of the ITA, 1961), no clarity exists on whether such contingent considerations should be taxed in the year of transfer of shares or in the year of receipt after the consideration crystallises.
- It may be clarified that the contingent portion should be taxable as capital gains in the year it is crystallised, irrespective of the year the transfer of shares takes place.
- The introduction of a mechanism to defer taxation until the contingency is realised would improve tax certainty for both parties involved in the transaction.

**Ask #3: Capital gains exemption for foreign shareholders in overseas mergers – Section 70(1)(g) and 70(1)(h) of the ITA 2025 (Section 47(via) and 47(via) of ITA 1961)**

- Section 70(1)(g) provides a capital gains exemption for the transfer of shares of an Indian company in a foreign amalgamation, subject to conditions. Section 70(1)(h) provides a similar exemption for the transfer of shares of a foreign company that derives substantial value from Indian assets, in a foreign amalgamation. These provisions appear to grant exemption only to the amalgamating foreign company, not to its shareholders.
- In contrast, Section 70(1)(f) provides exemption to shareholders in a domestic amalgamation.
- This creates inconsistency in tax treatment between domestic and overseas mergers, potentially resulting in capital gains tax liability for foreign shareholders.

- It is recommended that specific provisions be introduced granting capital gains exemption to shareholders of amalgamating foreign companies in overseas mergers.
- This will ensure parity in tax treatment, reduce ambiguity and promote smoother international restructuring involving Indian assets.

## Policy recommendations

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### Recommendation #1: Introduction of a tax consolidation regime

- In India, multiple subsidiary structures are prevalent to house businesses in separate entities under the parent company for various commercial reasons.
- However, such group structures pose several challenges in terms of tax and regulatory compliance for both the taxpayer and the tax authorities.
- Adoption of the “Group Tax Consolidation Regime” is crucial and will prove to be beneficial for the taxpayer as well as the department in various ways, including:
  - Reduced tax compliance costs for corporate taxpayers
  - Efficient usage of tax losses through set-offs at the group level, thereby lowering the tax burden on large conglomerates operating in various sectors
  - Reduced tax administration costs for revenue authorities due to a reduction in the number of litigations

## Recommendation #2: Introduction of a tax-neutral regime for the merger of LLPs and carry forward of losses

- In India, Limited Liability Partnerships (LLPs) are increasingly adopted as preferred vehicles due to their operational flexibility and simplified compliance framework.
- However, as businesses grow and evolve, internal restructuring through the merger of LLPs becomes necessary to consolidate operations, streamline governance and achieve commercial efficiencies.
- The absence of tax-neutral provisions under the Act for LLP mergers creates significant challenges for both taxpayers and the tax administration.
- Introduction of a “Tax-Neutral LLP Merger Regime” similar to corporate mergers is crucial and will prove beneficial for both stakeholders in several ways, including:
  - Reduced tax uncertainty and litigation for LLPs undertaking genuine business reorganisations
  - Facilitation of operational consolidation without triggering unintended tax costs for partners or entities
  - Lower compliance and administrative burden for revenue authorities due to clearer legislative treatment and reduced disputes
- Additionally, it is recommended to extend the benefits of Section 116 to mergers and demergers between LLPs, enabling carry forward of losses and unabsorbed depreciation and ensuring parity in tax treatment across business structures.

# Transfer Pricing



**Tarun Arora**  
Partner

## Current environment

The Transfer Pricing (TP) regulations in India are more than two decades old, and over this period, the regulations have matured to include international best practices such as Safe Harbour, Advance Pricing Agreement (APA) and Mutual Agreement procedure (MAP) to ease the burden of transfer pricing compliance and litigation on taxpayers.

However, transfer pricing remains the most litigated subject in India. This is largely due to the year-on-year litigation with huge demands emanating from divergent views of the taxpayer and tax administration on the interpretation of TP laws and a lack of guidance on a few complex TP issues, a slow pace of APA conclusions and a safe harbour regime that is not taxpayer-friendly.

Further, some of the legal provisions in the TP regulations need simplification and alignment to provide an effective and unambiguous regulatory environment.

These challenges require the government's attention and necessary action to enhance tax certainty and promote ease of doing business for multinationals operating in India.

## Expectations

### Top asks

**Ask #1: Amendment to Associate Enterprise (AE) definition under Section 162 of the Income Tax Act, 2025 (ITA 2025)**

The ITA 2025 has inserted Section 162 on the definition of AE, which deviates from the existing provisions of Section 92A of the Income Tax Act, 1961 (ITA 1961). The definition of AEs under Section 92A of the ITA 1961 has two limbs. Section 92A(1) prescribes the basic attributes that must be satisfied for an AE relationship, which include participation in control, management or capital.

Further, Section 92A(2) lays down an exhaustive list of conditions to be satisfied by two or more entities to be regarded as AEs. However, Section 162 of the ITA 2025 has merged the provisions of Section 92A(1) and 92A(2) into a single Section, and one of the general conditions for an AE relationship has been

defined to be one of the specific conditions for establishing an AE relationship. The amended definition of AE has made it ambiguous and unclear. It also raises concerns that any level of participation, even below the threshold level provided under specific conditions, can be covered under the definition of an AE relationship. This could potentially broaden the scope of transfer pricing regulations and increase litigation risk.

Section 162 of the ITA 2025 should be harmonised with the existing provisions of sub-section 92A of the ITA 1961. This alignment will enhance clarity for taxpayers and mitigate interpretational ambiguities. The legislative intent and interplay between the two sections [Sections 92A(1) and 92A(2) of the ITA 1961] have also been affirmed by the Hon'ble Gujarat High Court (HC) in the case of Veer Gems.<sup>23</sup> The Special Leave Petition (SLP) filed by the tax department (Revenue) against the HC order was dismissed by the Hon'ble Supreme Court.

**Ask #2: Exemption from filing Form 3CEB for non-resident taxpayers that are exempt from filing an income tax return under Section 207 of ITA 2025 (Section 115A of ITA 1961)**

Section 207 of the ITA 2025 (Section 115A of ITA 1961) exempts a non-resident from filing an income tax return if it is assessable to tax in India for dividend, interest, royalty or fee for technical services, and the taxes have been appropriately withheld from such taxable income. However, Section 172 of ITA 2025 (Section 92E of ITA 1961) has not been amended consequent to the above exemption under Section 207 of the ITA 2025 [Section 115A (5) of the ITA 1961]. This leads to a situation where a non-resident need not file a tax return in India, but would still need to file Form 3CEB, which is a supporting document to the income tax return. Due to stringent penalty provisions, the taxpayers still need to file Form 3CEB to avoid any penalty for non-reporting of international transactions.

Considering the above anomalous situation, it is recommended that Section 172 of ITA 2025 be amended to provide an exemption to non-resident assesses from filing Form 3CEB, where they are exempted under Section 207 of the ITA 2025 from filing a tax return in India.

**Ask # 3: Rationalisation of the APA scheme to provide overall tax certainty with reduced compliance burden**

- 1. Speedy APA conclusion:** Fast tracking of APA conclusions is imperative to provide the benefit of tax certainty to taxpayers. Delay in APA conclusion leads to multiple challenges for the taxpayers, such as increased tax cost, cash repatriation issues, withholding tax and compliance burden. The government can consider introducing an objective/quantitative approach, such as indicative financial yardsticks, for resolving routine cases rather than a subjective approach and detailed case-based analysis. This may help in quicker decision-making and faster resolutions for routine/simpler cases. Regular and frequent competent authority meetings can augment the speedy conclusion of bilateral APAs.
- 2. Mechanism for corresponding tax adjustment and withholding tax refund for AEs on conclusion of APA:** If the arm's length price determined under APA is lower than the actual service fee or royalties incurred/paid to the AE by the taxpayer, the Indian taxpayer is required to claim lower deduction for such intra-group payments in the modified return for all the past covered years as well as for the rollback years and enhance its taxable income. This also effectively results in a reduction of taxable income of AEs in India, as well as the excess withholding tax in India on behalf of the non-resident AEs. The APA scheme does not provide for a corresponding tax adjustment in the hands of the associated enterprise based on the agreed arm's length price, and for the refund of excess

withholding tax in India. Thus, excess withholding tax becomes an additional tax burden for the group. The government may consider rationalising the APA scheme to allow AEs to claim a refund of any excess withholding tax in India pursuant to the conclusion of an APA. The non-resident AE may be allowed to file a modified return and make the corresponding amendment to its taxable income.

3. **Removal of restrictions on downward adjustment to the taxable income under unilateral APAs and for rollback years in bilateral APAs:** Section 161(4) of the ITA, 2025 [Section 92(3) of ITA 1961] is a restrictive tax provision. Under this provision, the taxpayer's taxable income already reported in the tax return cannot be reduced, nor can losses be increased on account of a transfer pricing adjustment. This provision was primarily introduced for transfer pricing audits, but it is applicable even to the APAs' outcomes, as there is no specific exemption for APAs from this provision. Due to restrictions imposed by Section 161(4) of ITA 2025 [Section 92(3) of ITA 1961] and Rule 10MA(3) of ITR 1962, the benefit of lower arm's length price agreed under APA and consequent reduction in taxable income for past covered years or roll back years, is not allowed to the taxpayer in unilateral APAs. Even in bilateral APAs, where the Indian Competent Authority (CA) agrees to a lower arm's length price with the other CA, the benefit of a lower arm's length price negotiated under a bilateral APA is not allowed by the Indian CA for rollback years due to a specific restriction under Rule 10MA(3). This often results in substantial tax cost to the taxpayer for the past APA years/rollback years and denies the benefit of the agreed APA terms. The taxpayer ends up paying higher tax even when the agreed arm's length price ought to be lower. This is prejudicial to the interest of taxpayers. The provisions of Section 161(4) of the ITA, 2025 [Section 92(3) of ITA 1961] may suitably be amended to exclude APAs from the restriction under this section.
4. **Exemption from the levy of interest charged under Sections 424 and 425 of ITA 2025 (Section 234B and 234C of ITA 1961) on additional income under APA and MAP.** There is no specified timeline for APA or MAP conclusions, unlike tax assessments. Per the latest annual report on APA issued by the CBDT, the cumulative average time taken for the conclusion of unilateral APA is 45.41 months and for bilateral APA is 58.9 months. MAP cases also take an average of three to four years in conclusion and final assessment order. There are multiple factors involved in the conclusion of APA and MAPs, as these are negotiated settlements. However, interest for shortfall in payment of advance tax under Section 424 and 425 of ITA 2025 (Section 234B and 234C of ITA 1961) applies to final tax liability under APA and MAP settlement as well. The above poses a substantial challenge for the taxpayers. The interest levy continues until the final tax liability is computed under APA or MAP. The taxpayer is not aware of the ALP that would be agreed in APA or MAP before the signing of APA or before MAP resolution with the other treaty partner. Thus, there is an impossibility of performance for taxpayers to pay advance tax per the ALP agreed in APA or MAP. Also, there is a deferment in payment of tax, which is unintentional and beyond the control of the taxpayer. The taxpayers cannot be prejudiced by the impossibility of performance. The provisions of Sections 424 and 425 of ITA 2025 (Section 234B and 234C of ITA 1961) need to be modified suitably to exclude any levy of interest in case of additional income offered to tax based on the arm's length price determined under APA or MAP for the covered years.

5. **Litigative issues such as Advertisement, Marketing and Promotion expenses (AMP) and profit attribution to Permanent Establishments (PE), are covered under APA without a precondition.** Currently, APA provides an arm's length price for AMP expenses with a precondition that the taxpayer accepts it to be an international transaction. Since APA authorities have a detailed and holistic understanding of the business and functions of the taxpayer, APA may be allowed to provide a resolution for the AMP issue without requiring the taxpayer to accept it as an international transaction, which may not be the correct position in the facts and circumstances of the case. Similarly, in the case of profit attribution to PEs, the taxpayers are required to first accept the existence of a PE in the APA application to conclude profit attribution. Considering that there is significant litigation on the matter of the existence of a PE and its profit attribution, the government may consider amending the APA provisions and allowing arm's length profit attribution under APA for potential PE cases that are facing litigation in India without having to accept the existence of a PE in India. This is like the approach adopted in some cases in settling such disputes under the Mutual Agreement Procedure.
6. **Exemption from filing Form 3CEB and TP documentation post APA conclusion:** Once an APA is concluded, there are specific compliance procedures under Section 169 of the ITA 2025 (92CD of the ITA 1961) and Rule 10P regarding the filing of a modified return and Annual Compliance report (ACR) for the covered international transactions under APA. Following the APA conclusion, the taxpayer provides all details relating to covered international transactions under the APA in the ACR and reports its taxable income based on the arm's length price agreed upon in the APA, either through a modified return or an annual Income tax return, for the years covered under the APA. The annual compliance audit is also done by the TPO for each year covered under APA to ensure compliance with arm's length price and other terms and conditions set out in the APA. Even after the conclusion of an APA, taxpayers are required to file Form 3CEB and maintain transfer pricing documentation for the covered international transactions, in addition to filing the ACR. This increases the compliance burden on taxpayers as they are required to do multiple filings as well as maintain TP documentation, which does not provide any additional information to the tax authorities for the covered international transactions. Form 3CEB and TP documentation may be exempted from routine annual TP compliance for international transactions covered under APA, and the taxpayer may be required to comply with annual filing of Form 3CEB and TP documentation only for the international transactions not covered under APA to ease the compliance burden on taxpayers.

#### Ask #4: Revamped, robust and effective safe harbour rules

Existing safe harbour rules have been restricted to small companies, making them inaccessible to medium and large enterprises. Safe harbour rates are also higher than the comparable benchmark, making them commercially unviable for taxpayers to adopt. Therefore, taxpayers continue to face the risk of litigation or apply for APA to attain tax certainty. This increases the APA inventory. A revamped, robust and effective safe harbour regime, as announced by the Hon'ble Finance Minister in her budget speech of 2024 and 2025, is expected to cover the following aspects:

- Reduce the class of transactions covered by safe harbour and restrict them only to Information Technology (IT), Information Technology enabled Services (ITeS), Global capability centres (GCC) and business support
- Provide safe harbour rates closer to comparable benchmarks with a little premium for certainty
- Increase the threshold to cover almost 75 percent of the companies operating in the relevant industry. This can serve the dual purpose of providing tax certainty to taxpayers and easing the APA burden

### Policy recommendations

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Recommendation #1: Amendment to the definition of Associated Enterprise (AE) in ITA 2025 in line with the provisions of Section 92A of the ITA 1961.

Recommendation #2: Exemption from filing Form 3CEB for non-residents who are exempt from filing an income tax return.

Recommendation #3: Rationalisation of the APA scheme to provide overall tax certainty with reduced compliance burden.

- Speedy APA conclusions
- To provide a mechanism for corresponding tax adjustment and withholding tax refund for AEs on the conclusion of APA by the Indian taxpayer
- Removal of restrictions on downward adjustment to the taxable income under unilateral APAs and for rollback years in bilateral APAs
- Exemption from the levy of interest charged under Sections 424 and 425 of ITA 2025 (Section 234B and 234C of ITA 1961) on additional income agreed under APA or MAP
- Litigative issues such as Advertisement, Marketing and Promotion expenses (AMP) and Profit attribution to Permanent Establishments (PE) will be covered under APA without a precondition
- To provide exemption from filing 3CEB and TP documentation for transactions covered under APA after the APA conclusion

Recommendation #4: Revamped, robust and effective safe harbour rules





# Sectors

# Agriculture and Allied Services



**Anand Ramanathan**  
Partner and consumer  
Industry leader



**Avinash Chandani**  
Partner

## Current environment

- Agriculture and allied sectors employ 46 percent of India's workforce and form the first engine of the Viksit Bharat 2047 vision. The goal is to boost productivity by 1.75 times, raise mechanisation to 75 percent, and increase processing to about 90 percent for foodgrains and 20 percent for horticulture.
- The GVA for "agriculture and allied sectors" posted a healthy 3.7 percent growth in Q1 of the current fiscal year (FY26).
- **Core agriculture:** India's foodgrain production for 2024-25 is estimated (third advance estimates) at a record 353.96 million tonnes, marking a 6.5 YoY growth. This includes ~328 million tonnes of cereals and ~25 million tonnes of pulses. Additionally, oilseed production stood at ~42.6 million tonnes, while sugarcane output reached ~450 million tonnes.<sup>1</sup> Rice exports increased by 21 percent over the previous year, driven by the relaxation of rice export restrictions.
- **Horticulture:** Production has been a key driver for this sector, projected to hit a record ~367.7 million tonnes based on the 2024-25 (second advance estimates).<sup>2</sup>
- **Dairy:** The sector is poised for strong growth with a projected 12.35 percent CAGR (2025-2033).<sup>3</sup> This is being actively stimulated by the September 2025 GST 2.0 reforms, which cut rates on most key dairy products to 0-5 percent.<sup>4</sup>
- **Livestock and fisheries:** This sector is a significant growth driver, contributing ~30 percent to Agriculture GVA. Beef production (primarily carabœuf) is estimated at 4.64 million MT,<sup>5</sup> while poultry output reached 5.6 million MT of meat and 153.5 billion eggs.<sup>6</sup> Furthermore, India is the world's second-largest fish producer, with production reaching a record 195 lakh tonnes in 2024-25.<sup>7</sup> Seafood exports are valued at INR60,000 crore.<sup>8</sup>

<sup>1</sup>[https://agriwelfare.gov.in/Documents/Time\\_Series\\_3rdAE\\_2024\\_25\\_En.pdf](https://agriwelfare.gov.in/Documents/Time_Series_3rdAE_2024_25_En.pdf)

<sup>2</sup><https://www.pib.gov.in/PressNoteDetails.aspx?id=155126&NoteId=155126&ModuleId=3>

<sup>3</sup><https://www.imarcgroup.com/dairy-industry-in-india>

<sup>4</sup><https://www.pib.gov.in/PressReleasePage.aspx?PRID=2163730>

<sup>5</sup><https://www.fas.usda.gov/data/india-livestock-and-products-annual-8>

<sup>6</sup><https://indiadatamap.com/2025/08/20/state-wise-poultry-production-in-india-2025/>

<sup>7</sup><https://www.pib.gov.in/PressNoteDetails.aspx?id=155173&NoteId=155173&ModuleId=3>

<sup>8</sup><https://www.pib.gov.in/PressReleasePage.aspx?PRID=2083813>

- The government continues to support agriculture, horticulture and allied sectors with an overall budget of INR1.27 lakh crore<sup>9</sup> in FY26. The Ministry of Agriculture and Farmers Welfare is using major schemes such as Rashtriya Krishi Vikas Yojana, Mission for Integrated Development of Horticulture, Revised Rashtriya Gokul Mission, Revised National Programme for Dairy Development and Pradhan Mantri Matsya Sampada Yojana to improve productivity, post-harvest systems and market linkages.
- Targeted interventions, such as Per Drop More Crop (PDMC) the Sub-Mission on Agricultural Mechanisation and the Agriculture Infrastructure Fund, are addressing key gaps in water efficiency, mechanisation access and storage/processing infrastructure.
- However, ground-level challenges persist, including low adoption of micro-irrigation (9 percent of net sown area),<sup>9</sup> low coverage of artificial insemination (32–35 percent),<sup>10</sup> low livestock insurance coverage (2 percent),<sup>11</sup> high cost of mechanisation for smallholders, limited last-mile extension and slow private investment in post-harvest/procurement infrastructure. Efforts to integrate digital tools such as the Digital Agriculture Mission and AgriStack are progressing; however, data standardisation and farmer digital literacy remain barriers to scale.
- The 2025 monsoon arrived 9 days earlier than normal, allowing farmers to begin planting earlier. Overall, Kharif sowing increased, with an excess of ~1.5 lakh Ha by mid-June.<sup>12</sup> However, the erratic nature of the monsoon caused severe crop damage, estimated at 25–30 percent in several regions. This has damaged standing Kharif crops and is critically delaying Rabi sowing, creating an immediate risk of renewed food inflation.<sup>13</sup>
- **Trade shock:** The export rebound is now being challenged. The new 25–50 percent US tariff (effective August 2025) is adversely affecting sectoral exports. Textiles, a key allied sector, witnessed a ~35–40 percent fall in textile and garment exports since the launch of new tariffs.
- Key strategic initiatives, such as the “10,000 FPOs” scheme 2, need to be further strengthened by ensuring easy access to FPOs for bank financing and working capital. Agri-tech has a potential worth of US\$65 billion, but fragmented data across disconnected state and central systems is holding back progress.<sup>14</sup>
- **Food and nutritional security:** The 2047 vision targets “food and nutrition security” for the increasing population of the nation.<sup>15</sup> The 2025–26 budget witnessed a strong step towards this vision with the launch of the “Mission for Aatmanirbharta in Pulses” to achieve self-sufficiency in protein-rich pulses.

<sup>9</sup>[https://www.researchgate.net/profile/Ajay-Kumbhar/publication/358210365\\_Penetration\\_of\\_Micro\\_Irrigation\\_in\\_India\\_A\\_State-Wise\\_Analysis/](https://www.researchgate.net/profile/Ajay-Kumbhar/publication/358210365_Penetration_of_Micro_Irrigation_in_India_A_State-Wise_Analysis/)

<sup>10</sup><https://www.pib.gov.in/PressReleasePage.aspx?PRID=2110279>

<sup>11</sup>12th National Review Conference on Pradhan Mantri Fasal Bima Yojana

<sup>12</sup><https://www.global-agriculture.com/india-region/kharif-2025-sowing-begins-strong-with-timely-monsoon-1-48-lakh-hectares-higher-than-last-year/>

<sup>13</sup><https://www.finnovate.in/learn/blog/kharif-output-2025-rainfall-impact-india>

<sup>14</sup><https://www.weforum.org/stories/2025/05/beyond-data-how-to-unlock-agriculture-full-potential/>

<sup>15</sup>[https://niti.gov.in/sites/default/files/2025-10/Reimagining\\_Agriculture\\_Roadmap\\_for\\_Frontier\\_Technology\\_Led\\_Transformation.pdf](https://niti.gov.in/sites/default/files/2025-10/Reimagining_Agriculture_Roadmap_for_Frontier_Technology_Led_Transformation.pdf)

## Expectations

### Top tasks

#### Ask #1: Mitigate US tariff shock via strategic market diversification

- **Specific measure:** Fast-track trade negotiations with diversified market geographies and announce a high-priority “Foreign Trade in Agriculture Acceleration Fund” to assist exporters in overcoming non-tariff barriers, with specific provisions to help smaller firms. Also, create a dedicated “Market Access Fund” to help exporters meet the compliance costs of these new markets.
- **Measurable outcome:** Achieve significant year-on-year export growth to the targeted market blocs and geographical corridors, diversifying the export basket beyond the US.
- **Rationale:** The 50 percent US tariff poses a notable external headwind for an important employment-generating sector. The issue has moved beyond traditional trade promotion and calls for targeted mitigation measures. Expediting FTAs with new trade blocs offers a viable pathway to offset the effects of the current trade disruptions.

#### Ask #2: Promote climate-resilient agriculture, regenerative practices and risk protection

- **Specific measures:**
  - Create an enabling environment by conceptualising a “National Mission for Climate-Resilient Agriculture, Regenerative Practices and Risk Protection”. This mission shall explicitly integrate soil health restoration (nearly 30 percent of India’s soil is degraded),<sup>16</sup> and climate-resilient variety development, addressing current fragmentation where NICRA (National Innovations in Climate Resilient Agriculture) focuses on adaptation research and NMSA (National Mission for Sustainable Agriculture) emphasizes soil conservation and crop diversification.
  - Announce a Production Linked Incentive (PLI) scheme for private sector R&D in climate-resilient seeds (drought/heat tolerant) and sustainable agrochemicals.
  - Increase allocations for micro-irrigation under PM Krishi Sinchai Yojana.
  - Launch a standalone “National Livestock and Dairy Insurance Programme” with more comprehensive or flexible insurance products and a technology-driven approach.
- **Measurable outcome by 2030:**
  - Increase area under irrigation to >50 percent<sup>18</sup> (per Viksit Bharat vision) and improve farm-level water retention by 15–20 percent<sup>17</sup>
  - Accelerate the commercialisation of new climate-resilient crop varieties
  - Restore 5 million hectares of degraded land to sustainable farming (2047 target is 26 million Ha)<sup>18</sup>
  - Increase livestock insurance coverage from 2 percent to at least 15–20 percent

<sup>16</sup>[https://www.business-standard.com/india-news/30-of-india-s-soil-degraded-urgent-action-needed-agri-minister-chouhan-124111900721\\_1.html](https://www.business-standard.com/india-news/30-of-india-s-soil-degraded-urgent-action-needed-agri-minister-chouhan-124111900721_1.html)

<sup>17</sup><https://www.niti.gov.in/sites/default/files/2023-03/Efficiency%20of%20Micro-Irrigation%20in%20economizing%20water%20use%20in%20India%20Learning%20from%20potential%20and%20under%20explored%20states.pdf?>

<sup>18</sup><https://www.pib.gov.in/PressReleasePage.aspx?PRID=2114716>

- **Rationale:** This is a critical long-term mitigation measure. The 2025 climate shocks underscore the challenge of income stability in agriculture without adequate safeguards against climatic variability. Evidence indicates that regenerative approaches contribute to both resilience and higher net incomes. A PLI scheme is essential to drive private-sector innovation in this area. At the same time, the livestock sector contributes ~25 percent of agricultural GDP and supports over  $10^{18}$  crore rural households, but only ~2 percent of livestock are insured. Expanding livestock insurance is therefore essential to reduce vulnerability and strengthen climate-resilient rural incomes.

#### Ask #3: Fund the national scale-up of Digital Public Infrastructure (DPI) frameworks

- **Specific measure:** Create a dedicated, multi-year “Agri & Allied -Tech DPI Fund” to co-finance the state-level adoption and scale-up of interoperable data exchange frameworks, modelled on the successful Agriculture Data Exchange (ADeX) framework.
- **Measurable outcome:** Achieve the adoption of the ADeX framework in at least 10 states by 2028, enabling the launch of scalable, interoperable data-driven services (e.g., smart credit, pest prediction).
- **Rationale:** The US\$65 billion economic potential of agri-tech<sup>13</sup> is currently hampered by data fragmentation. A federated, state-led approach with national standards (such as UPI) is the likely viable path to scale. The Centre should fund the creation of these essential data highways, which are fundamental to NITI Aayog’s AI-led agricultural vision.<sup>19</sup>

## Policy recommendations

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### Recommendation #1: Capitalise on GST-led demand with supply-side investment

- **Details:** The September 2025 GST 2.0 reforms were a powerful demand-side stimulus, aligning with the Viksit Bharat goal of enhancing middle-class spending power. According to SBI research, the rate cuts on household goods could lead to a 85000 crore loss in revenue, but will boost consumption by 1.98 lakh crore a year.<sup>20</sup> The success of this policy now hinges entirely on the supply-side response; efforts should be made to meet this new demand to ensure the expected growth out of the GST rate cuts. The budget should strategically scale up allocations for supply-side infrastructure, specifically by enhancing funds for the National Programme for Dairy Development (NPDD)<sup>21</sup> and post-harvest horticulture infrastructure,<sup>22</sup> to enable farmers in allied sectors to meet this rising consumption.
- **Expected impact:** This policy alignment would ensure that the benefits of the GST reforms are fully realised while supporting higher farmer incomes in high-value allied sectors (dairy, horticulture) and managing food inflation by ensuring supply keeps pace with stimulated consumer demand.

<sup>19</sup><https://markets.financialcontent.com/wral/article/tokenring-2025-11-3-india-unveils-ambitious-tech-led-farming-revolution-niti-aayogs-roadmap-for-an-ai-powered-agricultural-future>

<sup>20</sup>[https://www.business-standard.com/economy/news/gst-rate-rejig-to-give-1-98-trillion-consumption-boost-sbi-report-125081901446\\_1.html](https://www.business-standard.com/economy/news/gst-rate-rejig-to-give-1-98-trillion-consumption-boost-sbi-report-125081901446_1.html)

<sup>21</sup><https://www.pib.gov.in/PressReleasePage.aspx?PRID=2113351>

<sup>22</sup><https://www.pib.gov.in/PressReleasePage.aspx?PRID=2183607>

### Recommendation #2: Unlock FPO viability by expanding the credit guarantee fund

- **Details:** The “10,000 FPOs” scheme is a cornerstone of the Viksit Bharat strategy for small farmer collectivisation.<sup>23</sup> The reform cut rates on key value-added foods. UHT milk and paneer went to 0 percent. Butter, ghee, cheese and condensed milk fell from 12 percent to 5 percent. Ice cream dropped from 18 percent to 5 percent.<sup>23</sup> The existing Credit Guarantee Fund (CGF) managed by NABARD’s subsidiary, NABSankshan,<sup>24</sup> is the correct mechanism; however, its current corpus and restrictive access norms can be improvised to service 10,000 FPOs.
- **Expected impact:** A major policy focus should be to significantly expand the corpus of the existing Credit Guarantee Fund (CGF). Access norms should be simplified so that all registered Farmer-Producer Organisations (FPOs), not just the larger ones, can benefit. This would be a transformative intervention, de-risking bank lending and making the entire FPO ecosystem bankable, ultimately unlocking the scheme’s potential to empower millions of small and marginal farmers.

### Recommendation #3: Build ‘phygital’ infrastructure to operationalise agri-tech

- **Details:** The Viksit Bharat 2047 vision is explicitly “phygital” (physical + digital). Ask #3 (DPI) addresses the digital backbone, and technology integration becomes a key enabler for the vision. However, the government must also focus on physical technology adoption at scale. This includes advanced mechanisation, robotics and drones to address labour shortages and improve precision. The NITI Aayog’s ‘Reimagining Agriculture’ roadmap calls for this transformation. A key policy lever, as recommended by industry, is to launch a National Programme to develop three million farm technicians over the next five years.<sup>25</sup>
- **Expected impact:** This policy focus is expected to take a two-pronged approach, creating a solid tech-enabled ecosystem for the sector and establishing a skilled, on-ground workforce capable of operating and maintaining drones, soil sensors and micro-irrigation systems. This bridges the critical gap between digital innovation and farm-level adoption, building the human capital infrastructure essential for a modernised Viksit agricultural economy by 2047.<sup>26</sup>

<sup>23</sup><https://www.nafpo.in/wp-content/uploads/2025/08/SOFPO-Report-2025.pdf>

<sup>24</sup><https://www.nabard.org/auth/writereaddata/File/nabsankshan-flyer-english-1.pdf>

<sup>25</sup>[https://www.niti.gov.in/sites/default/files/2024-07/WP\\_Viksit\\_Bharat\\_2024-July-19.pdf](https://www.niti.gov.in/sites/default/files/2024-07/WP_Viksit_Bharat_2024-July-19.pdf)

<sup>26</sup><https://shikshansanshodhan.researchculturesociety.org/wp-content/uploads/SS202507024-min.pdf>

# Consumer goods and retail



**Anand Ramanathan**  
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**Bhavik Timbadia**  
Partner

## Current environment

### India's consumer sector: A dual engine of domestic strength and global competitiveness<sup>1</sup>

India's retail and consumer sector is undergoing rapid transformation, driven by strong domestic consumption, digital adoption, premiumisation and e-commerce growth. Valued at US\$1.06 trillion in 2024 and projected to nearly double to US\$1.93 trillion by 2030 at a 10 percent CAGR, the sector benefits from a resilient home market and evolving trade agreements that enhance export competitiveness. Rising purchasing power, including Gen Z's US\$250 billion spending capacity, is sustaining demand while enabling brands to scale globally. This convergence positions India as both a consumption powerhouse and a formidable export base.

### Digital acceleration and tech-driven innovation in consumer markets<sup>2</sup>

E-commerce and digital growth are enabling brands to access new markets and deliver personalised experiences to tech-savvy consumers. Advanced technologies such as AI, ML and IoT are driving innovation in consumer electronics, while collaborations with fintech and omnichannel strategies enhance customer engagement and sales. Government initiatives, such as Make in India and supportive policies, are further promoting investment, job creation and technological advancement across the sector.

### FMCG growth shows mixed signals amid urban slowdowns<sup>3</sup>

India's FMCG industry clocked 11 percent growth in March 2025, but analysts highlight that this was largely price-led due to expensive staples such as edible oil. Urban demand decelerated sharply, with volume growth at just 2.6 percent, while rural markets grew four times faster. Consumers are opting for smaller packs, signalling stress on discretionary spending in metros.

### Structural challenges persist despite GST cuts

India's consumer sector is on a strong growth trajectory, supported by GST 2.0 reforms that simplify compliance, reduce costs and enable competitive pricing, fostering a transparent and efficient marketplace.

<sup>1</sup><https://www.deloitte.com/in/en/about/press-room/india-s-us-1-06-trillion-retail-sector-is-set-to-reach-1-93-trillion-by-2030.html>

<sup>2</sup>Growth market report

<sup>3</sup><https://www.livemint.com/industry/indian-fmcg-growth-q1-2025-rural-fmcg-demand-india-urban-fmcg-demand-slowdown-inflation-impact-fmcg-india-edible-oil-11746680267898.html>

Without deeper structural reforms such as job creation and wage growth, India risks prolonged weakness in discretionary spending, as insufficient employment and stagnant wages reduce disposable income and dampen demand for non-essential goods, impacting sectors such as retail, travel and automobiles.<sup>4</sup>

## Expectations

### Top tasks

#### Ask 1: Tax incentives for healthier FMCG products and sustainable packaging

**Specific measure:** Introduce targeted tax incentives to encourage innovation in health-focused and eco-friendly FMCG products. This includes offering weighted tax deductions under Section 35(2AB) in addition to the actual expenditure incurred for R&D in low-sugar formulations, alternative oils and biodegradable packaging solutions. Additionally, provide tax holidays for companies launching new product lines that prioritise health and sustainability, and extend incentives for R&D in renewable energy adoption within packaging processes.

**Expected outcome:** These measures will accelerate product reformulation and packaging innovation, making healthier and sustainable products more affordable and accessible. Lower retail prices will boost consumption, improve public health outcomes and create new rural employment opportunities through alternative oilseed sourcing and green packaging manufacturing. Furthermore, these initiatives will strengthen India's global competitiveness in FMCG exports by aligning with international sustainability standards.

**Rationale:** Consumer demand for healthier and eco-friendly products is rising, but affordability remains a challenge due to high production costs and a lack of targeted tax support. India's heavy reliance on palm oil and conventional packaging materials poses environmental and health risks. By incentivising R&D and sustainable practices, the government can reduce import dependency, foster innovation and position India as a leader in responsible FMCG manufacturing.

#### Ask 2: Ensuring neutral tax treatment for post-sale discounts

**Specific measure:** Amend Circular No. 251/08/2025-GST (Question 2) to clarify that post-sale discounts or incentives given by manufacturers to dealers or distributors, such as performance-based bonuses or sales targets, should not be treated as payments or inducements for the dealer's onward supply to retailers or end customers even in cases where the manufacturer has some agreement with the end customer. In other words, these discounts are part of the commercial arrangement between the manufacturer and dealer and should not be viewed as consideration for the dealer's own sales, even if the manufacturer has a direct agreement or relationship with the end customer.

**Expected outcome:** This clarification will eliminate ambiguity in GST treatment of post-sale discounts, reduce litigation risk and ensure consistent interpretation across industries. It will simplify compliance

<sup>4</sup>[https://www.business-standard.com/specials/bs-events/economists-bfsi-summit-2025-india-growth-reforms-exports-demand-125102901430\\_1.html](https://www.business-standard.com/specials/bs-events/economists-bfsi-summit-2025-india-growth-reforms-exports-demand-125102901430_1.html)

for FMCG and consumer businesses, where such discounts are common, and prevent unnecessary tax burden on dealers/distributors.

**Rationale:** Post-sale discounts are a standard business practice to stimulate sales and are passed on to end customers without constituting a separate supply by the dealer to manufacturers. Treating these as inducements contradicts commercial reality and creates unwarranted tax exposure. A clear amendment will align GST provisions with business practices and maintain neutrality in tax treatment.

**Ask 3: Inclusion of Input Tax Credit (ITC) on input services in the Inverted Duty Structure (IDS) refund formula**

**Specific measure:** Amend Section 54(3) of the CGST Act, 2017, read with Rule 89 of the CGST Rules, 2017, to expand the Inverted Duty Structure (IDS) refund formula to include input services and capital goods, in addition to input goods. This will broaden the scope of eligible ITC refunds and help liquidate working capital blockages.

**Expected outcome:** Including ITC on input services and capital goods in the IDS refund formula will unlock working capital currently tied up due to accumulated credits, easing cash flow constraints. This measure will prevent undue financial strain on businesses by reducing blocked funds and improving cost efficiency. Ultimately, it will enhance liquidity and operational performance, particularly for sectors with high service and capital expenditure requirements.

**Rationale:** The GST refund formula currently excludes input services and capital goods, allowing refunds only on input goods. For FMCG and consumer sectors, where major costs involve services such as logistics, marketing and capex, this creates large ITC accumulation. These input services and capital goods are directly linked to the production of finished goods, and restricting ITC on such procurements contradicts GST's principle of seamless credit flow. There is no justification for restricting ITC availment on essential input services and capital goods that FMCG players require for manufacturing and distribution activities.

## Policy recommendations

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### 1. Recommendation: Rural FMCG infrastructure acceleration initiative

**Details:** Weak rural logistics and inadequate cold chain infrastructure continue to restrict the reach of FMCG products across India's hinterlands. Logistics costs remain high at approximately 14 percent of GDP compared with the global average of 8–9 percent, and rural storage facilities are often insufficient. To address these challenges, it is recommended to create a dedicated Rural FMCG Infrastructure Fund under the PM GatiShakti initiative. Additionally, providing Viability Gap Funding for rural cold chain development and integrating logistics infrastructure with BharatNet to *enable real-time inventory tracking and route optimisation through digital connectivity* can significantly improve last-mile connectivity.

**Expected impact:** These measures are expected to reduce wastage by 20–25 percent, unlock INR15,000–20,000 crore in annual FMCG growth and generate new employment opportunities in logistics and warehousing.

## 2. Recommendation: PLI scheme expansion for value-added consumer goods (leather and footwear)

**Details:** Extend the PLI scheme to the leather and footwear sector to incentivise domestic value addition, technology upgrades and component manufacturing. Include MSME-friendly provisions such as lower investment thresholds, simplified documentation and cluster-based participation, with a 5–7 year horizon for sustained capex and innovation.

**Expected impact:** This expansion will boost exports, reduce import dependency and create large-scale employment, especially for women and semi-skilled workers. It will strengthen India's position as a global hub for value-added footwear and ensure policy continuity post-IFLDP, aligning with Vision 2047 manufacturing goals.

## 3. Recommendation: Rationalisation of safe harbour and marketing intangible clarifications

**Details:** Amend Rule 10D of the Income Tax Rules to rationalise safe harbour mark-ups in line with current industry benchmarks and increase applicability thresholds, reducing compliance burden and litigation for multinational and consumer goods companies. Additionally, insert a clarification under Section 92A stating that brand-building items such as billboards, standees and stationery with company logos, placed for identification and display, do not constitute marketing intangibles or create any benefit, thereby eliminating ambiguity and disputes.

**Expected impact:** These measures will simplify transfer pricing compliance, reduce litigation risk and enhance ease of doing business for FMCG and consumer companies with significant marketing spends and cross-border transactions. By providing clarity and aligning safe harbour norms with global practices, the recommendation will lower compliance costs, improve certainty and free resources for growth and innovation.

# Automotive / Electric Mobility



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## Current environment

- The recent rate rationalisation under the Goods and Services Tax (GST) law is a positive development for the automotive sector. Under the revised structure, GST rates on automobiles and components have been grouped into three categories, with 5 percent applied to Electric Vehicles (EV), 18 percent to mass-market two-wheelers, small cars and auto parts and 40 percent to high-end cars and bikes. Most notably, the levy of Compensation Cess on the sale of Internal Combustion Engine (ICE) vehicles has been discontinued with effect from 22 September 2025.
- Several policy-related announcements were also made during the year to support the transition towards green mobility and provide a boost to the EV segment. PM Electric Drive Revolution in Innovative Vehicle Enhancement (PM E-DRIVE) Scheme has been extended until 31 March 2028 in respect of e-buses, whereas incentives in the form of upfront discounts were announced for e-trucks under the said scheme.

## Expectations

### Top asks

#### Ask 1:

- **Specific measure:** Clarification regarding Compensation Cess to ease working capital strains.
- **Outcome:** Mitigate adverse impact on working capital requirements on account of Compensation Cess accumulation on inventory in the hands of automotive dealers.
- **Rationale:**
  - Recent rate rationalisation under GST has brought down the overall tax incidence on the sale of vehicles. Further, levy of Compensation Cess on sale of vehicles has been discontinued with effect from 22 September 2025, as part of the overhaul of the GST structure. However, the withdrawal of the levy of Compensation Cess on the sale of ICE vehicles has led to the accumulation of Input Tax Credit (ITC) on the inventory held by dealers.
  - Previously, such ITC of Compensation Cess would be used to set off outward Cess liability incurred at the time of sale. Furthermore, the existing GST framework does not permit the refund of such Compensation Cess, which has resulted in capital blockage in the hands of the dealers.

- Considering the significant carrying cost involved with inventory in the automotive industry, it is recommended that suitable clarification(s) be issued to address the treatment of accumulated ITC of Compensation Cess.

**Ask #2:**

- **Specific measure:** Inverted Duty Structure (IDS) for EV manufacturers
- **Outcome:** Reduction in working capital blockages leading to improved operational cash flow.
- **Rationale:**
  - EV manufacturers in India continue to face challenges under the inverted duty structure, as the GST rate on electric vehicles is only 5 percent, while most key inputs and components attract significantly higher rates. This disparity leads to the accumulation of input tax credit and working capital strain. Post-overhaul of the GST rate structure with effect from 22 September 2025, while the rate of tax was reduced on parts and components from 28 percent to 18 percent, it provides partial relief to EV manufacturers, as tax rate disparity persists for critical inputs vis-à-vis the finished goods.
  - Further, the non-availability of a refund under IDS on ITC attributable to capital goods continues to add to the cost of production, given the capital-intensive nature of the EV industry. Considering the government's intent to rigorously promote electrification and localised manufacturing of EVs, necessary steps should be taken to create a conducive environment for EV manufacturing in the country.

**Ask #3:**

- **Specific measure:** Introduction of a streamlined classification framework under Customs for automobiles and auto components.
- **Outcome:** A simplified and harmonised nomenclature will enhance ease of doing business by eliminating classification-related ambiguities, thereby improving compliance and reducing litigation.
- **Rationale:**
  - The recent announcements following the 56 GST Council meeting, which were implemented from 22 September 2025, were aimed at streamlining the tax rate structure under the GST laws, to minimise legacy classification disputes.
  - However, the automotive sector continues to face challenges with inconsistent Harmonised System (HS) code classifications under the Customs framework. Auto components such as engines, chassis and batteries fall under different chapters, resulting in interpretational disputes, increased complexities and protracted litigations.
  - A simplified classification structure, based on the end-use of parts and components and aligned with the form and function of the vehicle, would help harmonise tax treatment across GST and Customs. This would reduce ambiguity, improve compliance and support ease of doing business.

## Policy recommendations

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### Recommendation #1:

- **Details:** Incentives to promote R&D in the EV ecosystem
  - The previously announced PM E-DRIVE, which subsumed the previously notified Electric Mobility Promotion Scheme 2024 (EMPS-2024), is aimed at promoting faster adoption of Electric Vehicles in India. Through this scheme, incentives for EV buyers and developers engaged in setting up charging infrastructure are sought to be disbursed.
  - However, the scheme overlooks a key growth barrier in the form of insufficient R&D incentives, which hampers innovation and domestic competitiveness. The sector presently relies heavily on foreign technologies through imports, significantly impacting costs. Areas such as battery technology and Advanced Driver Assistance Systems (ADAS), which are critical components for EVs, are at a nascent stage in the country.
  - It is recommended that the government proactively implement measures via incentives to boost investment in the R&D ecosystem. This will help strengthen the local supply chain and make the domestic industry competitive to achieve long-term growth.
- **Expected impact:** Investment in innovation through integrated R&D facilities will boost the domestic sector through the development of new technologies, bringing down costs and reducing reliance on imports. This will help increase the competitiveness of the domestic players and provide consumers with greater options. Additional synergies can be generated through increased export competencies by developing low-cost alternatives to existing options, further strengthening India's position in the global EV ecosystem.

### Recommendation #2:

- **Details:** Relaxations in the Production-linked Incentives (PLI) schemes
  - The PLI Scheme has catalysed investments in the automobile and auto component sector, positively enabling domestic manufacturing and employment creation.
  - However, some issues need prompt attention to align with the overarching aim of 'Ease of Doing Business'. Lengthy and multi-layered approval processes, stringent DVA computations and delays in disbursements are some limitations under the current framework.
  - Targeted interventions to streamline the approval processes and ensure time-bound disbursal of incentives are recommended to address these challenges effectively. Additional measures aimed at relaxing the Domestic Value Addition criteria should also be considered.
  - These measures will enhance overall business efficiency and ensure increased investor confidence, resulting in higher participation in the scheme at a broader scale.
- **Expected impact:**
  - Process streamlining, including timely disbursements, will improve cash flow cycles of businesses, facilitating increased capital investments and accelerated infrastructure expansion.
  - In addition, relaxation in Domestic Value Addition (DVA) norms would ensure that applicants falling marginally short of the prescribed thresholds are not disqualified from availing incentives under the scheme.

# Energy, Resources and Industrial



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**Jimit Devani**  
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**Sanjay Sah**  
Partner

## Expectations

### Top asks

#### Ask #1: Introduction of group tax consolidation regime for the renewable energy sector

- Specific measures: Introduce a tax framework that allows a group of companies (wholly owned or majority-owned subsidiaries, including Trusts and collaborations) to be treated as a single entity for income tax purposes. This would include consolidated tax filing, intra-group loss offsetting and exclusion of intra-group transactions for tax computation.
- Outcome: It will reduce the group's Effective Tax Rate (ETR), eliminate double taxation and plug tax leakages, improve utilisation of tax attributes and significantly reduce compliance and administrative costs for both taxpayers and the tax department.
- Rationale: Current tax structures for renewable energy projects, often implemented through multiple Special Purpose Vehicles (SPVs) under a parent entity, result in significant tax inefficiencies and increased compliance burden. Introducing a group tax consolidation regime would streamline tax administration, enhance cash flow management and optimise resource utilisation across group entities. This reform would also align India's tax framework with OECD's best practices, promote ease of doing business and contribute to greater economic efficiency.

### Ask #2: Provide direct tax incentives for nuclear start-ups and manufacturers

- Specific measures: Introduce accelerated depreciation and R&D tax credits for nuclear technology development. Facilitate access to Section 80-IAC for DPIIT-recognised nuclear start-ups through a dedicated approval mechanism.
- Outcome: These measures will reduce the financial burden on nuclear start-ups and manufacturers, improve project viability and encourage private investment in advanced nuclear technologies.
- Rationale: The nuclear sector faces high capital intensity and long gestation periods. Targeted tax incentives will promote indigenous innovation, attract private capital and support India's clean energy transition. They will also align nuclear energy with broader fiscal support available to other strategic sectors, such as renewables and defence.

### Ask #3: Tax Incentives and GST rationalisation for Battery Energy Storage Systems (BESS)

- Specific measures:
  - Extend the benefit of Section 35AD to BESS projects, allowing full deduction of capital expenditure incurred in setting up and operating such systems. Section 79 should be amended to protect the carry-forward of losses for companies undertaking specified businesses under Section 35AD. This protection should apply in cases of intra-group shareholding changes, transfers to Infrastructure Investment Trusts (InvITs) or strategic transfers for refinancing, ensuring continuity of tax benefits and encouraging reinvestment in similar infrastructure projects.
  - The GST rate on lithium-ion batteries used in BESS projects in India has been standardised at 18 percent under GST 2.0, aligning all advanced battery chemistries under HSN 8507 to promote innovation and simplify compliance. While this helps reduce cost disparities for BESS deployments, a further reduction of grid-scale BESS to 5 percent is also required for the overall viability of the project.
- Outcome: This will enhance the financial viability of BESS projects, reduce tax uncertainty and encourage long-term investment in energy storage infrastructure. The GST rationalisation will lower overall project costs and improve financial viability for renewable energy developers. It will also reduce working capital blockage due to lower input tax credit accumulation, simplify compliance and encourage faster deployment of clean energy infrastructure across the country.
- Rationale: BESS provides essential support for round-the-clock renewable energy and grid stability. However, the current tax framework does not fully reflect the capital-intensive nature of such systems. By allowing capital expenditure deductions under Section 35AD and protecting loss carry-forward under Section 79, the government can incentivise private sector participation and innovation in this space. These measures will accelerate the deployment of BESS, support India's clean energy goals and contribute to energy security and economic growth.

The current 18 percent GST rate on several renewable energy components and services increases the cost burden on developers and creates classification-related ambiguities. A reduced rate of 5 percent will align with India's climate goals, promote investment in green technologies and support the government's vision of affordable and sustainable energy.

**Ask #4: Allow Inverted Duty Structure (IDS) refund of accumulated GST Input Tax Credit (ITC) on 'input services' received for Operating Expenditure (OpEx) for Compressed Biogas (CBG) plants**

- Specific measures: Amend Section 54(3) of the Central Goods and Services Tax Act, 2017 (CGST Act) and Rule 89(5) Goods and Services Tax Rules, 2017 (CGST Rules) and the definition of "Net ITC" to allow refund of unutilised ITC on input services for CBG plants under the IDS refund mechanism.
- Outcome: This amendment will enhance the utility of the IDS refund mechanism by covering a broader range of input costs. It will alleviate working capital pressures, especially for businesses in the production of CBG plants with high service-related operating expenditure, improve GST credit efficiency and support overall cost competitiveness across industries.
- Rationale: The current refund framework under Rule 89(5) of the CGST Rules limits IDS refunds to ITC on inputs, excluding input services. This creates structural inefficiencies and financial strain for businesses where services form a major part of operational costs. Allowing input services under IDS refunds will ensure equitable treatment of input costs, promote tax neutrality and align with the broader objective of facilitating ease of doing business under GST.

# Metals and Mining



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**Jimit Devani**  
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## Expectations

### Top asks

#### Ask #1: Investment/Capex Incentives

- Specific measures: In addition to the depreciation rates which the metal and mining industry is currently eligible, the rebate allowed under Section 33(1)(b)(B)(i) of the IT Act and deduction available under Section 35E of the IT Act, introduce enhanced depreciation in the first year or accelerated schedules for other metal processing and recycling units. Alternatively, allow an Investment Tax Credit (ITC) equal to a certain percentage of qualifying capex.
- Outcome: Encourage rapid investment in new processing and recycling capacity; improve cash flow and reduce payback period on heavy capital expenditure.
- Rationale: Mining and metal production are capital-intensive. Accelerated depreciation and ITC will boost domestic manufacturing and recycling, supporting green transition and circular economy objectives.

#### Ask #2: Tax credit for critical minerals projects

- Specific measures: In addition to the deduction envisaged under Section 35E of the IT Act, provide an exploration and processing tax credit for other critical and strategic minerals (e.g., lithium, cobalt, graphite, rare earths). The credit could be linked to certification from the Ministry of Mines, Government of India or an accredited agency.
- Outcome: Attract domestic and foreign investment in critical mineral projects, expand domestic supply of inputs for battery, EV and defence sectors.
- Rationale: Critical minerals are vital for energy security and technology self-reliance; targeted fiscal incentives reduce exploration risk and align with India's strategic mineral policy.

### Ask #3: Re-introduction of concessional tax regime

- Specific measures: Reintroduction of the concessional tax regime of 15 percent for new manufacturing companies.
- Outcome: This will lead to more foreign MNCs setting up manufacturing set-ups in India, leading to a boost in the economy, production of more jobs, global competitiveness in India, etc.

Rationale: Section 115BAB was introduced in 2019 to promote MNCs to set up manufacturing plants in India, which was in line with the *Viksit Bharat* objective. However, the said extension was only for manufacturing entities that have commenced production until March 2024.

### Ask #4: Conditional tax holiday/reduced rate for greenfield strategic projects

- Specific measures: Offer a five-year partial tax holiday or reduced corporate tax rate for new greenfield plants in critical minerals or recycling sectors, contingent on achieving defined domestic value-addition and employment metrics.
- Outcome: Stimulate investment in strategic, high-risk sectors and incentivise value addition within India.
- Rationale: Conditional and time-bound incentives will encourage capacity creation while maintaining fiscal discipline and accountability.

### Ask #5: Boost to domestic steel and aluminium manufacturing

- Specific measures: Reduction of basic customs duty on raw material (such as Coking coal, ferro-niobium) for steel manufacturing, declaration of RoDTEP (Remission of Duties and Taxes on Exported Products) rates for the aluminium sector.
- Outcome: Support for domestic steel manufacturers, reduction of dumping from countries such as China and Vietnam and global competitiveness of Indian products.
- Rationale: The raw materials, such as molybdenum ore, pure nickel and ferro-nickel, are not available domestically in sufficient quantities due to high customs rates. Further, increased customs duty affects the cost competitiveness of steel in global markets, affecting the business of domestic companies. It also aligns with the *Viksit Bharat* vision to make India a global manufacturing hub.

# Financial Services



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## Current environment

- The year 2025 has been driven by a reordering of policy priorities in the US and the adaptation of policies in the other economies to new realities. According to the International Monetary Fund (IMF), global growth in 2025 is at 3.0 percent, slightly lower than 3.3 percent in the previous year. It is decisively below the pre-pandemic average of 3.7 percent.
- Despite global headwinds, the Indian economy demonstrated resilience in 2024–25, supported by strong macroeconomic fundamentals, proactive policy interventions and sustained government capital expenditure. Real GDP growth moderated to 6.5 percent, yet India retained its position as the fastest-growing major economy. On the expenditure side, economic activity was bolstered by rising consumption demand and improved net exports. On the supply side, growth was driven by a buoyant services sector and a recovery in agricultural output.
- In response to the evolving economic landscape and to further stimulate growth, the Reserve Bank of India (RBI) announced a comprehensive package of 21 measures. These initiatives aim to:
  - Strengthen the resilience and competitiveness of the banking sector
  - Enhance credit flow
  - Promote ease of doing business
  - Simplify foreign exchange management
  - Improve consumer satisfaction
  - Advance the internationalisation of the Indian Rupee
- India's banking sector remains robust. To further reinforce its strength, the RBI has proposed the following:
  - a. Remove the regulatory ceiling on lending against listed debt securities
  - b. Enhance limits for lending by banks against shares from INR2 million to INR10 million and for IPO financing from INR1 million to INR2.5 million per person.
  - c. Withdrawal of the framework introduced in 2016 that disincentivised lending by banks to specified borrowers (with a credit limit from the banking system of INR100 billion and above).
  - d. Provide an enabling framework for banks to finance acquisitions by Indian corporates.

## Expectations

### Top tasks

#### Expectation #1: Accelerate the growth of IFSC GIFT City

- IFSC GIFT City has emerged as a focal point for India's economic advancement in the financial sector. The primary objective of the International Financial Services Centres Authority (IFSCA) is to develop IFSCs into well-diversified and globally competitive financial hubs. These hubs are envisioned to support international banking, insurance, capital markets and other allied financial services.
- IFSCA aims to achieve this by fostering a pro-business environment, underpinned by a progressive regulatory framework, advanced technology and infrastructure and a pool of skilled financial professionals. The goal is to create a financial ecosystem that serves the Indian economy and contributes to the broader regional financial landscape.
- To further enhance IFSC GIFT City's stature as a premier international financial services hub, the following measures may be considered:
  - Treat Broker-Dealers and Finance Companies that set up in IFSC GIFT City on par with International Banking Units (IBU) that are set up by foreign banks in IFSC GIFT City: Currently, the IFSCA has permitted IBUs and all businesses that are established in IFSC GIFT City and which are registered with SEBI as FPIs (non-bank entities such as Broker-Dealers and Finance companies) to issue Offshore Derivative Instruments (ODIs) and Over-the-Counter derivatives (OTCs) (with underlying Indian securities) from GIFT City. Consequently, the Indian income-tax law was recently amended in 2025 to extend income-tax exemption to non-resident investors on their income earned from ODIs and OTCs issued by such non-bank entities, similar to the income-tax exemption that non-resident investors enjoy from their income earned from ODIs and OTCs issued by IBUs from GIFT City.

Separately, the Indian income-tax law currently exempts (i) the investment division of an IBU of a foreign bank that commences operation in GIFT City prior to 31 March 2030 and which is licensed and registered with SEBI as Category-I FPIs, from, inter alia, capital gains tax in India on transfer of securities listed on an IFSC stock exchange as well as from transfer of all other Indian securities (other than shares of Indian companies). However, the Income-tax law does not confer a similar tax treatment to Broker-Dealers and/or Finance Companies that operate from IFSC-GIFT City in their capacity as SEBI-registered FPIs. Hence, it is recommended that the Income-tax law be amended to treat such Broker-Dealers and Finance Companies that set up their operations in IFSC-GIFT City on par with the investment division of an IBU of a foreign bank that operates from IFSC-GIFT City. This ought to help bring the offshore access products market onshore to India.

- Exemption from Indian GAAR provisions: The Action Plan 5 on Harmful Tax Practices under the Base Erosion and Profit Shifting (BEPS) framework specifies that claiming any deduction in respect of income generated from a unit located in an International Financial Services Centre (IFSC) would not constitute a harmful tax practice. Further, an entity setting up a unit in an IFSC

is required to establish significant economic substance within the IFSC. This includes having a proper office in IFSC-GIFT City from which the operations are to be carried out, hiring employees to perform such activities and earning income by conducting those activities.

Additionally, any entity intending to set up a unit in an IFSC must register with the IFSC authorities. In this context, and to provide tax certainty while attracting more businesses to IFSC-GIFT City, an exemption from the applicability of Indian GAAR provisions should be granted to:

- i. All businesses/units that are set up in IFSC-GIFT City; and
- ii. Arrangements entered into by all businesses/units with such businesses/units that are located in IFSC-GIFT City.
- c. Exemption from section 92C(4): Section 92C(4) of the Income-tax Act, 1961 (Act) provides that an IFSC unit will be ineligible to claim the 10-year, 100 percent income-tax holiday benefit in India on any part of its income that is subsequently enhanced by the transfer pricing authorities as part of a transfer pricing audit. This could result in unnecessary tax litigation between an IFSC unit and the TP authorities regarding the determination of the Arm's Length Price (ALP). This creates an impression in the minds of the international community that even if an IFSC unit were entitled to a 100 percent income-tax holiday benefit, it may still be required to pay taxes in India on account of any adjustments that might be made by the TPO. Therefore, to provide tax certainty, IFSC units should be exempted from the applicability of section 92C(4) of the Act.
- d. No TDS on any payment to IFSC units: Section 80LA provides a 100 percent income-tax deduction on income earned by an IFSC unit for a period of 10 consecutive years within a block of 15 years. The CBDT notification 28/2024 dated 7 March 2024 provides for no deduction of tax on "*specified payments*" to IFSC units, if a statement-cum-declaration in the prescribed Form No. 1 is furnished by the IFSC unit to the payer.

Considering that the income of IFSC units is not taxable, with the objective of ease of doing business and reducing compliance burden, "*all payments*" made to units in IFSC on which the IFSC unit is eligible to claim section 80LA income-tax deduction should be exempted from the applicability of TDS provisions. To ensure appropriate tracking and monitoring, the payer and payee (i.e., the IFSC unit) can be required to comply with the reporting requirements stipulated in the CBDT notification.

This is also relevant for foreign banks that have set up an IBU (by way of a branch office) in IFSC-GIFT City, regardless of whether they have obtained a Nil withholding tax order under Section 195(3) order.

#### **Expectation #2: Tax Deduction for Head Office (HO) expenditure incurred by foreign banks.**

- The HO of foreign banks provides shared management services such as business strategy guidelines, accounting, HR, Payroll, IT and legal support, to its Indian Branches. For some foreign banks, such services are provided by their regional hubs based in Singapore/Hong Kong. Common expenses are allocated among group entities using appropriate allocation keys.

- Section 44C of the Act allows a non-resident taxpayer (e.g. a foreign bank that operates in India through the branch office form of presence) to claim a tax deduction in India for HO expenditure incurred while computing its business income. The tax deduction is permitted to the extent of the lower of (i) the actual expenditure incurred, or (ii) 5 percent of the Adjusted Total Income (ATI) of the taxpayer. Generally, a Branch office has dependency on its HO in the initial years of setting up its business in the host country, as well as in subsequent years to implement the strategies of the HO and operational adaptabilities developed by the HO. The burden of proof of the correct claim of HO expenditure is on the non-resident taxpayer, for which the non-resident taxpayer procures a certificate from an overseas Chartered Accountant (CA), which confirms the nature and quantum of HO expenditure.
- The CBDT has not prescribed any guidance as regards what documentary evidence is to be maintained by the non-resident taxpayer, for claiming the aforesaid tax deduction under section 44C. This often leads to non-resident taxpayers following different practices when it comes to providing documentary evidence for claiming the aforesaid tax deduction and obtaining such overseas CA certificates in different formats, which are sometimes challenged by the Indian Revenue authorities (IRA).
- With a view to reducing tax litigation in India on this issue and providing tax certainty, it is important for the CBDT to issue clear guidance on the documentary evidence that can be maintained by non-resident taxpayers for claiming a tax deduction in India for HO expenditure, as well as a format of certificate that can be provided by the non-resident taxpayer. In this regard, the following is recommended:
  - i. Firstly, a Rule should be introduced in the Income Tax Rules, 1962 (the IT Rules) that will provide that the IRA (including the TPOs) should accept a certificate to be issued by the overseas statutory auditor of a non-resident taxpayer as conclusive evidence to enable the taxpayer claim a tax deduction in India under section 44C of the Act, towards HO expenditure that is incurred by the taxpayer outside India.
  - ii. Secondly, the CBDT can prescribe the format of the certificate to be procured by the non-resident taxpayer.
  - iii. Thirdly, the CBDT can consider issuing a clarification expanding the illustrative list of expenses that fall within the definition of “HO expenditure” for the purposes of section 44C. The CBDT should consult with industry prior to finalising the aforesaid list, so as to get insights into the types of new-age expenses that can fall within the ambit of section 44C (e.g., technology-related expenses).
  - iv. Fourthly, the existing cap of 5 percent of ATI was set in 1976 when section 44C was first introduced in the statute books. There has been a significant passage of time (i.e., nearly 50 years) since the setting of this limit. Additionally, today, non-resident taxpayers incur sizeable amounts of HO expenditure for which they are unable to claim a full tax deduction in India as they are limited by the 5 percent tax deductibility cap. It is time to re-examine the 5 percent tax deductibility cap. To this end, it is recommended that the overall cap prescribed in section 44C(a) be increased from the existing 5 percent of ATI to 10 percent of ATI, to keep pace with the expenditure patterns of modern businesses.

## Policy recommendations

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### Recommendation #1: Enhance the voting rights for holdings in the bank

The banking sector contributes significantly to India's GDP, making it one of the important components of the financial services industry. India's BFSI (Banking, Financial Services & Insurance) sector has witnessed remarkable growth, with market capitalisation increasing 50-fold over the past two decades, from INR1.8 trillion in 2005 to INR9 trillion in 2025,<sup>1</sup> underscoring its expanding role in economic development. This robust growth has attracted significant interest from foreign banks seeking entry into the Indian market through Foreign Direct Investment (FDI).

Under the current policy, FDI of up to 74 percent is permitted in private sector banks in India, with investments up to 49 percent allowed under the automatic route and any investment beyond this threshold requiring government approval. Additionally, there are various sub-limits prescribed in the exchange control regulations that apply to FDI in Indian private sector banks. Separately, the Banking Regulation Act, 1949, limits the voting rights of promoters of Indian private sector banks to 26 percent of the total voting rights in a bank, irrespective of their level of ownership in the bank. This voting right restriction applies uniformly to both domestic and foreign investors. This has traditionally discouraged foreign investors from investing in or acquiring a majority stake or a significant minority stake in an Indian bank, and thereby failed to attract large pools of capital into the Indian banking sector.

As the Indian economy grows to US\$5 trillion by 2028 and US\$30 trillion by 2047, it will require large and resilient Indian banks to support this expansion. To this effect, it is important for the Government of India, in consultation with the Reserve Bank of India, to relook at the 26 percent voting rights cap and have it aligned to the ownership pattern of the shareholder.

<sup>1</sup> Per a report by Bajaj Finserv Asset Management

# Insurance



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## Current environment

India's insurance industry stands at a pivotal stage of transformation. Over the past decade, regulatory liberalisation, digital acceleration and heightened financial awareness have contributed to the sector's consistent growth. Investments have quadrupled over the last decade, and the total premium has grown from INR7.8 lakh crore to INR11.2 lakh crore from FY2020 to FY2024. IRDAI's reform momentum, such as the introduction of "Use and File" for new products, simplified licensing norms and ongoing efforts on the various BIMA initiatives, has helped the industry gain some momentum. Along with this, IFRS norms and the move towards a principle-based solvency regime have led to safeguarding policyholder interests.

However, penetration remains modest at ~4.2 percent of GDP, compared with a global average of over ~7 percent. The protection gap, especially in health, life and catastrophic events, remains wide. Rapid digitalisation and the government's "Insurance for All by 2047" vision are setting the stage for a broader inclusion drive, yet several operational and policy bottlenecks persist.

## Key trends and opportunities

- FDI and ownership liberalisation: Given the FDI limit already raised to 100 percent, several multinational insurers are seeking new company opportunities, aiming for full managerial control while using Indian collaborators primarily for distribution or strategic association. This has also led many Indian players to pump in more money.
- Composite licensing framework: The move towards composite insurers, permitting both life and general business under a single entity, is a major reform in progress. With the hope of putting this out there, this fiscal year could optimise shared infrastructure, reduce Expenses of Management (EoM) and improve utilisation of GST input tax credits, especially in segments such as motor insurance that continue under the GST net.
- Digitalisation and data ecosystems: Increased use of AI, telematics and alternative data sources (e.g., health and lifestyle data) is redefining underwriting and claims. Institutions such as the Insurance Information Bureau (IIB) are expected to evolve into broader data-sharing platforms, potentially including electronic health records and environmental risk data. Opportunity for other private players to get into this space of data/score/rating provider in the insurance space will be a great move forward.

- BIMAs and microinsurance: The “Bima Vistaar” and “Bima Sugam” platforms promise inclusivity. However, much of their potential remains to be realised; operational clarity and digital adoption in rural markets are still evolving. While there is a lot of promise, only time can tell how the industry and policyholders react to these initiatives.
- Rural and niche innovation: Insurance penetration in rural and semi-urban markets continues to lag. This presents a clear opportunity for specialised, low-premium, niche products designed for these geographies. Collaboration among players from the micro-finance, logistics, agriculture, e-Commerce/retail and government sectors can help tap into this opportunity, supported by innovation in product design and affordability from insurance providers.

## Gaps to address

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Despite encouraging reforms, critical issues persist:

- Distribution and agent costs remain high due to **GST on commissions** and limited input credits.
- The fixed capital requirement threshold continues to deter small or specialised insurers that want to play in a specialised segment. A risk-based capital regime may solve this.
- Limited availability of deep insurance knowledge, new age actuarial and data science skills constrain growth and innovation capacity.

## Expectations

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FDI and ownership liberalisation: Given the FDI limit already raised to 100 percent, several. In this context, the industry's expectations from Union Budget 2026 centre around capital liberalisation, cost efficiency and technological enablement.

## Top tasks

### Ask #1: Composite insurance licensing framework

- Specific measures: Expedite IRDAI's composite licensing regime, allowing life, non-life and health segments under a unified licence.
- Outcome: Optimised resource utilisation, reduced EoM and better usage of common infrastructure (claims, IT, branches).
- Rationale: Composite operations will enable insurers to achieve economies of scale, share compliance resources and extend cross-selling opportunities, thereby improving consumer affordability.

### Ask #2: Rationalisation of GST and tax benefits

- Specific measures:
  - Zero-rate or exempt GST on insurance agent commissions and allow full ITC on distribution expenses.
  - Introduce enhanced deductions for term and health insurance under Section 80D, or ideally, a new section altogether for all insurance premium-related benefits across life, general, etc.
- Intended outcome: Reduced operational costs, improved agent viability and enhanced uptake of protection products.

- Rationale: Rationalisation will encourage penetration in low-income and rural segments, ease the compliance burden and increase long-term savings mobilisation.

#### Ask #3: Risk-based capital framework

- Specific measures: Allow the capital requirement based on the risk appetite of the company.
- Intended outcome: If a company wants to only focus on micro-insurance and affordable products for rural and semi-urban areas, then provide incentives on capital, and other corporate rebates for such niche companies.
- Rationale: Provide incentives to realise the “insurance for all by 2047” vision. Currently, awareness and affordability are challenges; hence, we need to give companies an extra push in this area.

## Policy recommendations

### Recommendation #1: Incentivise climate and parametric insurance

- Details: Establish a sovereign reinsurance backstop or co-funding guarantee for pilot schemes in climate-linked or parametric insurance, covering weather and disaster risks.
- Expected impact: De-risk insurers entering new lines, reduce fiscal burden on post-disaster relief and enhance resilience in agriculture and coastal sectors.

### Recommendation #2: Lower entry barriers for new and niche insurers

- Details: Introduce a tiered capital requirement regime for micro, digital-only, InsurTechs or speciality insurers and offer transitional capital subsidies for new entrants.
- Expected impact: Increased competition, product innovation and targeted insurance solutions for rural and emerging risk categories (e.g., cyber, climate, SME).

### Recommendation #3: Promote data, tech and skill ecosystem development

- Details:
  - Allocate R&D incentives for insurers adopting AI, IoT and alternative data for underwriting and fraud detection.
  - Create a joint public-private Insurance Data Exchange Hub integrating IIB, EHR data and lifestyle datasets under a privacy-preserving architecture.
  - Introduce scholarships and tax credits for core insurance ops, as well as actuarial and analytics training programmes.
- Expected impact: Strengthened talent base, improved risk pricing, higher consumer trust and a globally competitive InsurTech landscape.

### Recommendation #4: Health claims oversight and pricing transparency

- Details: Empower IRDAI to oversee hospital pricing and integrate the National Health Claims Exchange (NHCX) with direct audit trails.
- Expected impact: Reduction in medical inflation, sustainable health insurance premiums and greater transparency in the claims ecosystem.

# Private Equity



**Nandita Tripathi**  
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## Current environment

- Amid prevailing global economic uncertainties, India has emerged as a resilient and attractive destination for Private Equity (PE) and Venture Capital (VC) investments. In 2024, India recorded PE-VC inflows amounting to approximately US\$43 billion, reflecting a nine percent increase over 2023, underpinned by the country's strong macroeconomic fundamentals and policy stability. India was also the second-largest destination for PE-VC investments in the Asia-Pacific region, accounting for nearly 20 percent of total investments.
- Investor confidence remains robust, with PE and VC funds increasingly capitalising on public market and open-market transactions, signalling the depth and maturity of India's capital markets and the availability of viable exit opportunities.
- Traditional sectors such as real estate, infrastructure, financial services, healthcare and Information Technology (IT) (including IT-enabled services) continued to attract significant capital inflows. The real estate and infrastructure segment was the largest beneficiary, accounting for nearly 16 percent of total investments. The renewable and clean energy sectors are expected to witness accelerated investment momentum in line with India's long-term sustainability and energy transition objectives.
- PE investments play a key role in driving India's economic growth aspirations, particularly in the context of the country's ambition to become a US\$35 trillion economy by 2047. PE investors provide growth capital to next-generation sectors and bring strategic value through operational expertise, governance improvements and access to global markets. This results in job creation, productivity enhancement and wealth generation through successful exits.
- The Indian government has strongly focused on ease of doing business and simplifying the tax laws, leading to greater interest from PE investors in the Indian economy. The following focus areas could further assist in enhancing PE/VC investments in India from a Budget 2026 perspective.

Source – (1) India Private Equity Report 2025, published by Bain & Company, and (ii) Press Information Bureau of the GOI

## Expectations and recommendations

### Top tasks

- **Exemption from anti-abuse provision on acquisition of listed company shares (off the stock exchange):** Section 92 of the Income Tax Act, 2025 (ITA, 2025) (corresponding to section 56(2)(x) of the Income Tax Act, 1961 (ITA, 1961)) states that if the consideration for the transfer of property (including company shares) is lower than the Fair Market Value (FMV) determined under Indian tax laws, the differential is taxable as income from other sources in the hands of the recipient, subject to certain exemptions provided under the provisions.

For listed companies, the provision further specifies that when listed shares are acquired off the stock exchange at a price lower than the lowest quoted price on a recognised stock exchange on the transaction closing date, the difference is taxable in the hands of the acquirer.

In practice, there is often a time gap between the signing and closing of such transactions. Due to market fluctuations, the price of listed securities may vary during this period. Consequently, bona fide investors may face unintended tax exposure if the market price rises by the closing date, even though the transaction was entered into at fair value.

Therefore, it is recommended that a specific carve-out be introduced under Section 92 of the ITA, 2025, to exclude genuine transactions involving frequently traded listed shares acquired off the stock exchange from the ambit of the anti-abuse provisions. This would align the law with its intent, curbing abusive tax practices without adversely impacting bona fide commercial transactions.

- **Clarity on the taxation of carry interest:** A key deterrent for foreign PE fund managers to establish onshore operations in India is the ambiguity surrounding the tax treatment of carried interest (carry), i.e., the portion of a fund's profits allocated to the fund manager. In most established fund management jurisdictions, tax frameworks provide explicit guidance on the characterisation and taxation of carried interest. Typically, such income is treated as investment income and taxed under the capital gains regime, often at concessional rates, with no Indirect Tax implications, such as Value Added Tax (VAT) or Goods and Services Tax (GST), on such receipts.

In contrast, the Indian Income Tax framework does not currently provide specific guidance on the taxability of carried interest. This lack of clarity creates uncertainty for fund managers, as carried interest may be subject to tax as business income at the applicable tax rate. Further, there is ambiguity whether carried interest qualifies as consideration for services rendered by the fund manager under the GST regime.

To enhance India's attractiveness as a global fund management hub and to align with international best practices, it is imperative for the Government of India to introduce a clear and facilitative tax framework governing the treatment of carried interest. Specifically, recommendatory measures may include:

- a. **Characterisation of carried interest** as income chargeable under the head "capital gains" in the hands of fund managers

- b. **Exemption of carried interest** from the levy of GST
- **Clarity on the taxation of contingent consideration:** While investing in India, most investors plan to introduce a combination of clauses in the shareholders' agreement, including contingent consideration, based on certain performance milestones.

In essence, such clauses incentivise promoters to achieve better performance after the deal. However, under ITA, 2025 (specifically Sections 67 and 72, corresponding to Sections 45 and 48 of the ITA, 1961), no clarity exists on whether such contingent considerations should be taxed in the year of the transfer of the shares or in the year of receipt after the consideration crystallises.

It may be clarified that the contingent portion should be taxable as capital gains in the year it crystallises, irrespective of the year the share transfer takes place.

The introduction of a mechanism to defer taxation until the contingency is realised would improve tax certainty for both parties involved in the transaction.
- **Reintroduction of concessional tax rate for interest income on specified securities:** Under the erstwhile ITA, 1961, a concessional tax rate of five percent was applicable on interest income earned by Foreign Portfolio Investors (FPIs) from investments in specified securities, such as rupee-denominated bonds, up to July 2023, subject to certain conditions. This benefit was not extended beyond the sunset date and has not been incorporated in the ITA, 2025.

Debt instruments remain a key channel for foreign investment, providing stable returns through coupon payments. Reintroducing the concessional tax rate of five percent would enhance the post-tax yield for FPIs, incentivise debt inflows and strengthen India's position as an attractive destination for foreign capital.

It is therefore proposed that the concessional five percent tax rate on the interest income of FPIs from specified debt instruments be reintroduced under ITA, 2025, to promote sustained foreign investment in India's debt markets.
- **Restoration of holding parameter period for the classification of nature of capital assets (long term/short term) for unlisted debentures:** The Finance Act, 2024, reclassified unlisted debentures or bonds as short-term capital assets, regardless of the holding period [(Section 76 of Income Tax Act, 2025 (ITA, 2025) corresponding to Section 50AA of the Income Tax Act, 1961 (ITA, 1961)]. This change has resulted in a significant increase in the tax burden on the transfer or redemption of debentures held long-term by non-resident investors, with the tax rate rising from 13.65 percent to 38.22 percent.

In the infrastructure sector, funding through debentures, such as compulsory convertible debentures or optionally convertible debentures, is a common practice. It offers investors stable returns via coupon payments, along with flexibility in terms of conversion options, moratorium periods and more.

However, classifying these capital assets as short-term and applying a higher tax rate could

discourage the use of debentures, potentially hindering infrastructure funding. Therefore, it is recommended to reinstate the classification of unlisted debentures as short-term or long-term capital assets based on their actual holding period.

- **Exemption/relief from GST levy on corporate guarantee:** Corporate guarantees are inevitable elements in the funding of capital-intensive projects. Levy of GST at 18 percent on one percent p.a. of the guaranteed amount makes it a costly affair, especially for sectors such as renewable energy, real estate and infrastructure, where Input Tax Credit (ITC) is not available.

Under some writ petitions filed under GST, taxpayers have argued that the issuance of corporate guarantees is not a taxable supply. While certain High Courts have granted interim stays, none of these cases have reached finality. Hence, a clarification on the taxability of corporate guarantees is awaited.

The industry expects the forthcoming Budget to review corporate guarantee provisions and provide exemptions/relief. Relief can be either in the form of declaring a corporate guarantee as neither supply of goods nor supply of services, reducing the value of one percent p.a., or through a change in the taxable base from the guaranteed amount to the used amount.

# Infrastructure



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## Current environment

- Infrastructure growth is critical for the country's economic progress and overall advancement. It is a growth multiplier due to the downstream demand created for goods and services used to build, operate and maintain infrastructure assets.
- Most developed and large economies have invested a lot in infrastructure assets and continue to upgrade their assets. India has developed impressive infrastructure assets over the past few decades and evolved its PPP models. However, given the country's size, population and the strong pace of economic growth, infrastructure development must continue as the economy evolves.
- Over the years, there have been many reforms to strengthen the maturity of the Public Private Partnership (PPP) model, along with targeted industry-specific interventions and allocations to promote PPP and boost local manufacturing in the value chain across sectors. In infrastructure subsectors, such as renewable energy, power, highways, ports and airports, concession agreements have evolved as these sectors mature with more assets being awarded under the PPP route.
- However, there have also been some challenges in recent times in awarding projects on a BoT basis or to have PPP projects in sectors such as Railways and water. While asset monetisation has been a key focus for the government, most activity so far has been concentrated in the Coal and Highways sectors. Monetisation efforts are now being extended to the distribution sector and other areas.
- As new sectors such as digital infrastructure (data centres, fibre, towers) emerge in response to the rise of AI and data sovereignty, they will need clear policy interventions and focused reforms to ensure investments are appropriately incentivised.
- Further, an important consideration would be to ensure that newly constructed assets and existing assets are maintained to a quality standard which enables optimum use of the assets and allows the assets to be used through their useful life and, in some cases, beyond their useful lives. New infrastructure development should also be environmentally friendly to ensure that India meets its net-zero commitments by 2070 and, if possible, earlier.

- From a budget 2026 perspective, the following focus areas could help improve the build-out of infrastructure assets.
 

Re-look at concession agreement structures and risk-reward sharing structures to improve private participation in sectors such as Railways and Water, and higher participation in the roads sector under the BoT model.

  - The government should look at existing concession agreements and, with appropriate consultation, devise a set of concession agreements that will boost private sector participation in these sectors.
  - This can lead to incremental investment in the current allocations of INR2.87 lakh crore in the roads space, and INR2.55 lakh crore in the railways space.
  - This will result in a faster build-out of the sectors and create demand for labour, underlying goods and services that will have a multiplier effect on GDP growth. Moreover, encouraging private sector participation can help expand execution capacity, enabling faster project delivery. This becomes important as government-led execution alone may face resource constraints that could slow down the pace of infrastructure development.
- Have a defined asset monetisation plan at the centre/states with consultation on transaction structures.
  - India had an asset monetisation target of INR30,000 crore (primarily for roads and highways) for FY2025–26, which is expected to be achieved or exceeded. The government, in the FY2025 budget, also defined an expectation of asset monetisation of INR10 lakh crore for the period FY2025–2030, which is a significant step up from the target of INR6 lakh crore for the period FY2022–2025. While roads, highways and coal assets formed a significant portion of the monetised assets under the previous plan, sectors such as Railways and Power fell short of their monetisation targets.
  - The government should identify key sectors where assets can be monetised, have appropriate consultations with states and also with potential bidders on transaction structures and evolve a sector-wise monetisation plan that can be executed. This should include sectors such as power distribution, railways, pipelines, water and logistics assets.
  - A well thought-through monetisation plan can help generate funds for the government, which can be deployed to build out additional infrastructure assets, especially in emerging sectors.
- Have clear policies for incentivising build out of digital infrastructure, which includes data centres, fibre, towers and their associated value chains.
  - Given the widespread adoption of AI, connected assets, automation, improved communication networks and the digitisation of citizen services, demand for digital infrastructure is rising. To meet this requirement, India needs to set up a large incremental capacity of data centres, fibre networks, telecom towers and related assets. Further, India generates over 15 percent of global data but has under 5 percent of global data centre capacity, signalling the need for a large build-out of digital infrastructure.
  - To assist in developing a large digital infrastructure, the government should re-examine the current policies and approval process, streamlining the permits required for such projects. Also, it is important to assess the key components needed to build out such infrastructure and incentivise the production of some of these components in India.
  - Such interventions can help expand digital infrastructure capacity in a time-bound manner, help keep data sovereign and also use this data to train India-specific models for AI use cases.

## Policy recommendations

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### Recommendation #1: Clarity on the taxation of contingent consideration

- At the time of making investments in India, most investors plan to introduce a combination of clauses in the shareholders' agreement, including contingent consideration, based on certain performance milestones.
- In essence, such clauses incentivise promoters to achieve better performance after the deal. However, under ITA, 2025 (specifically Sections 67 and 72, corresponding to Sections 45 and 48 of the ITA, 1961), no clarity exists on whether such contingent considerations should be taxed in the year of the transfer of the shares or in the year of receipt after the consideration crystallises.
- It may be clarified that the contingent portion should be taxable as capital gains in the year it is crystallised, irrespective of the year the transfer of shares takes place.
- The introduction of a mechanism to defer taxation until the contingency is realised would improve tax certainty for both parties involved in the transaction.

### Recommendation #2: Enhancement of the scope and coverage of the SWF/PF tax exemption

- The Government of India (GoI) has demonstrated commendable resolve in promoting infrastructure development, notably through the extension of the tax exemption under Section 11, read with Sl. No. 7 of Schedule V of ITA, 2025 [corresponding Section 10 (23FE) of ITA, 1961], until 31 March 2030, from the erstwhile sunset date of 31 March 2025.
- Despite recent progress, investors continue to face specific challenges. To mitigate these issues and enhance the investment environment, the following key policy amendments are recommended:
  - Extension of exemption to pre-1 April 2021 domestic holding companies. Currently, the tax exemption for specified investment income is available for investments made in a domestic company incorporated on or after 1 April 2021 and which has further invested a minimum of 75 percent of funds in companies engaged in an eligible infrastructure business ('eligible domestic company' or popularly known as 'Hold Cos').

Limiting the exemption to post-April 2021 Hold Cos restricts the benefit to only new platforms and hampers the monetisation of existing platforms, which are often better positioned to deliver stable returns and align with the investment preferences of PFs and SWFs.

Thus, it is recommended to extend the benefit to Hold Co structures established even before 1 April 2021 as well.

- Clarification and relief under indirect transfer provisions for notified PFs and SWFs. Currently, upstreaming of funds by any notified SWF/PFs through any means other than via distribution of dividend, such as capital reduction, redemption of shares or buyback, attracts tax under the indirect transfer provisions.

Given that their income from eligible Indian investments is intended to be fully exempt, any further taxation upon repatriation results in an unwarranted tax burden.

Thus, it is recommended to provide specific exemption from the indirect transfer provisions to notified SWFs/PFs.

### Recommendation #3: Improving the ecosystem and rationalising tax provisions related to InvITs

- Infrastructure Investment Trusts (InvITs) have played a pivotal role in facilitating long-term capital mobilisation and attracting institutional investments for India's infrastructure sector. Notwithstanding this progress, several challenges remain that require government attention through the implementation of specific amendments, as detailed below:
  - **Exemption from capital gains on migration to the InvIT structure to be extended to all securities/assets.**  
On "setting up" or on "migration" to an InvIT structure, a "sponsor" transfers its infrastructure assets/shares/securities of SPVs to the InvIT in exchange for its units. Currently, only the transfer of shares of SPVs in lieu of units of InvIT is specifically exempted under the Act at the time of migration. Taxability is deferred to the time of sale of units of the InvIT. Migration to the InvIT structure may entail other forms of contribution from the sponsor to InvIT (such as security other than shares of SPVs). However, no exemption is provided in such scenarios. Wholistic exemption should be provided for the transition to InvIT structures.
  - **Safeguards from lapse of losses under section 119 of ITA, 2025 (corresponding to Section 79 of ITA, 1961) on migration to InvIT structure.** Any business loss in the underlying SPVs transitioned to InvIT that lapses due to a change in shareholding, per Section 119 of the ITA, 2025, creates a barrier for legitimate business restructurings and transactions. Therefore, it is recommended to have a specific carve-out from the rigour of the provisions of Section 119 of ITA, 2025, on migration to the InvIT structure.
  - **Introduction of regulatory and tax framework for mergers of InvITs.** Allowing the merger of Infrastructure Investment Trusts (InvITs) in India can enhance scale, efficiency and investor confidence in the infrastructure financing ecosystem. It enables consolidation of smaller trusts into stronger, diversified entities, improving liquidity, reducing costs and attracting long-term institutional capital. With the introduction of clear regulatory and tax frameworks, InvIT mergers can accelerate capital recycling, support new infrastructure development and align India's market with global best practices, ultimately strengthening the country's infrastructure growth and investment landscape.

### Recommendation #3: Exemption/relief from GST levy on corporate guarantee

- Corporate guarantees are inevitable elements in the funding of infrastructure sector projects. Levy of GST at 18 percent on 1 percent p.a. of the guaranteed amount makes it a costly affair, especially as ITC is not available to infrastructure sector players (such as renewable energy and real estate).
- Industry expects the forthcoming Budget to review corporate guarantee provisions and provide exemption/relief to the infrastructure sector. Relief can be either through a sector-specific exemption, reducing the value of 1 percent p.a., or through a change in the taxable base from guaranteed amount to used amount.
- Reducing GST liability would reduce the cost of infrastructure projects and align with the broader policy goal of fostering business growth.

# Life Sciences and Healthcare



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## Regulatory

### Expectation #1: Streamline the existing regulatory framework through a 'one regulator' approach

- Multiple regulators regulate several licenses and compliances for both the pharmaceutical and medical device sectors in India. For instance, a drug license is required for each state, separately for each category; the central license is also required for clinical trials and new drug approvals. Similarly, in the case of certain categories of drugs/medical treatments, additional approvals from PESO, the Atomic Energy Regulatory Board, may be required. For Pharma and Medical Devices policies, the nodal agency is the Department of Pharmaceuticals.
- Due to the multiplicity of regulatory processes and regulators, undertaking operations becomes complex and time-consuming. Additionally, the practices adopted by different regulators for licensing and enforcement vary from state to state.
- In light of the above, the government should consider forming a single regulatory authority for both pharmaceuticals and medical devices, with experts from across the sectors on board. This would promote ease of doing business through a streamlined regulatory framework and boost investments in the sector.

### Expectation #2: Introduction of a policy on refurbished medical devices to streamline their import in India

- The medical device industry is facing challenges pertaining to the timely approval of licenses for refurbished/pre-owned medical devices for import/sale within the country.
- This can be due to the absence of a clear regulatory framework for refurbished/reused medical equipment in India, which has severely affected patients in underserved communities, depriving them of access to cost-effective medical equipment and has also led to significant financial losses for the medical devices industry.
- To address these challenges, it is recommended that the government release a new policy on refurbished/reused medical devices with specific provisions that ensure the safety and efficacy of the equipment. Some of the key provisions for consideration include:
  - Requirement for a minimum shelf-life of 5 years for the refurbished equipment for which responsibility lies with the OEM or the authorised representative.
  - Certification of the refurbished medical equipment by a certified Chartered Engineer from a

recognised notified body.

- Responsibility for preventive maintenance and servicing by OEM or their authorised representative.
- Responsibility of Post Market Surveillance (PMS) and reporting by OEM or their authorised representative.
- The refurbished product should have been approved by regulators of the IMDRF management committee (Australia, Brazil, Canada, China, European Union, Japan, Russia, Singapore, South Korea, the United Kingdom and the United States of America).
- Undertaking to be given by OEM or their authorised representative, for adherence to the provisions

**Expectation #3: Reform the Intellectual Property (IP) landscape in India by further reducing patent approval timelines**

- The government has recognised the need to reduce the pendency time for patent approvals, currently averaging 50 months, substantially higher than the global average.
- By targeting a reduction to approximately 30 months, the government aims to align India's IP framework more closely with global standards, enhancing its appeal to international pharmaceutical companies.
- Furthermore, introducing Patent Term Extension (PTE) and Data Exclusivity (DE) provisions is expected to provide additional incentives for pharmaceutical companies to invest in innovative drug development.

## **Direct Tax:**

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**Expectation #1: Reintroduction of weighted deduction for R&D**

- For a company engaged in the business of biotechnology or any business of manufacture or production (excluding certain articles), a weighted deduction was allowed on the expenditure incurred on scientific research (other than the cost of any land or building) on an in-house R&D facility as approved by the DSIR.
- To promote research, innovation and development in India, weighted deduction for expenditure on R&D could be reintroduced under section 45 of the IT Act 2025. Further, the reintroduction should include the service sector as well as innovation/significant process improvements undertaken during the course of service delivery.

Furthermore, eligibility for the weighted deduction could be extended to companies that have opted for the concessional tax rate regime under Section 200 of the IT Act 2025, which entitles them to a lower tax rate of 25.17 percent.

**Expectation #2: Relaxation of conditions to avail a concessional rate of tax on income from patents, i.e., patent box regime**

- Section 194 of the IT Act 2025 provides a concessional rate of tax of 10 percent on royalty income in respect of a patent developed and registered in India. The interpretation of conditions such as 'true and first inventor' could create certain practical difficulties and uncertainty in availing the benefit. Further, a patent developed in India but registered outside India for IP protection may not be eligible for the concessional regime.
- Therefore, the conditions in this section could be relaxed to clarify that revenue from patents developed in India would be covered (such that they are not impacted by interpretational issues in the current provisions). Furthermore, the section could be broadened to include revenue from any IP in India, rather than being limited only to patents. This can help to provide better opportunities for talent in India, especially in the fields of R&D and aid growth.

**Expectation #3: Revival of the eligibility period for the concessional tax rate for new manufacturing domestic companies**

- The Taxation Laws (Amendment) Act, 2019, inter-alia, inserted section 115BAB in the Income-tax Act, 1961 (the Act) to provide that new manufacturing domestic companies set up on or after 1 October 2019 commence manufacturing or production by 31 March 2023, provided that these companies do not avail of any specified incentive or deductions; they may opt to pay tax at a concessional rate of 15 percent.
- The time for commencing manufacturing or production was extended to 31 March 2024 by the Finance Act, 2022.
- Despite the expectations of the manufacturing industry, the deadline for new companies to commence manufacturing or production under Section 115BAB/Section 201 of the Income-tax Act, 2025 ('the IT Act 2025') was not extended beyond 31 March 2024. Consequently, the concessional regime will not apply to new companies starting manufacturing or production after 31 March 2024.
- Considering that the government promotes companies to "Make in India" and aims to achieve the "Viksit Bharat" vision, the time limit for commencing manufacturing or production should be revived in the IT Act 2025.

**Expectation #4: Modification of section 201 of the IT Act 2025**

- Section 201 of the IT Act 2025 provides a concessional tax rate of 15 percent to the company engaged in the business of manufacturing or production of any article or thing and research in relation to, or distribution of, such article or thing manufactured or produced by it. Companies engaged in contract R&D (such as for their group companies) are not covered.
- Considering that the government intends to promote research, innovation and development in India, companies involved only in research-related activities should also be included for a concessional tax rate under section 201 of the IT Act 2025 and not be restricted to only research in relation to an article/thing manufactured or produced by the company.

### Expectation #5: Revival of the eligibility period for the concessional tax rate on interest on borrowings

- For interest income on borrowings in foreign currency up to 1 July 2023, the concessional tax rate is 5 percent per section 195LC read with section 115 of the Act/Section 207 read with section 393(2) of the IT Act 2025. This has significantly provided a viable and attractive avenue for raising funds by Indian businesses, thus helping India maintain the momentum in economic growth over the years.
- However, this window has not been further extended or revived so far.
- The period for borrowings by way of foreign loans should be revived; this would support the vision of "Make in India" and "Viksit Bharat".

### Expectation #6 Clarification on product samples and low-value brand reminder items

- Product samples

According to CBDT Circular No. 18 of 2022 (Question No. 4), Section 194R (and, accordingly, Section 393 (1) of the IT Act, 2025), is applicable to free samples. Furthermore, a per-person threshold of INR20,000 under Section 393(1) is practically too low, as some medical samples cost more than INR20,000 each.

As distribution of samples is a business practice and required for marketing purposes, the distribution of free product samples (up to a permissible threshold with certain conditions aligning with UCPMP/UCPMD policy, along with criteria mentioned therein) be allowed as a deduction under Section 34 of the IT Act 2025, as well as not be subject to withholding provision under Section 393(1).

- Low-value brand reminders

Pharmaceutical and medical device companies are permitted to provide specific brand reminders not exceeding INR1,000, as mentioned in the UCPMP/UCPMD policy. Further, MCI regulations do not provide a penalty for HCPs accepting items of value below INR1,000. Considering this regulatory framework, items of up to INR1,000 per item, given as part of marketing activities, can be allowed as a deduction under Section 34.

### Expectation #7 Relaxation of conditions for availing benefit under Section 146 of the IT Act 2025

- Section 146 of the IT Act 2025 provides a deduction in respect of employment of new employees; and such deduction is available under the concessional tax regime as well, per section 200/201 of the IT Act 2025. Further, one of the conditions is that these additional employees should have a total emolument of not more than twenty-five thousand rupees per month.
- Considering that the above limit is quite low, and life sciences and healthcare sector companies may require employment of persons at higher pay scales, this section has limited applicability, and the purpose of encouraging employment generation is not being met.
- Therefore, this section could be amended to increase the limit suitability such that maximum healthcare companies can avail a deduction under section 146 of the IT Act 2025, which could incentivise new projects and employment generation in India.

## Indirect Tax:

### Expectation #1: Inclusion of Input Tax Credit (ITC) on input services in the Inverted Duty Structure (IDS) refund formula

- Following the recent GST Reform 2.0 and associated rate rationalisation, many industries are now encountering an inverted duty structure, where the GST rate on outputs is lower than that on inputs and input services, thereby blocking the working capital. Further, there are multiple companies intending to expand, requiring substantial procurement of capex, which also results in a high quantum of ITC.
- While the GST law permits cash refund of accumulated ITC on account of IDS, the formula for refund only includes input goods and not input services and capital goods. For this sector, where a significant portion of expenses relates to input services and capital goods procurement as well, this anomaly in the IDS formula prescribed under law leads to significant ITC accumulation and shall increase the cost burden on the companies.
- We recommend that the government amend Section 54(3) of the Central Goods and Services Tax Act 2017, read with Rule 89 of the Central Goods and Services Tax Rules, 2017, pertaining to the IDS refund formula, thereby expanding the scope of eligible ITC refunds on input services and capital goods. This change would help liquidate working capital blockage and prevent undue financial strain on businesses.

### Expectation #2: ITC reversal on physician samples

- GST law provides that ITC on goods lost, stolen, destroyed, written off or disposed of by way of gifts or free samples is required to be reversed. A literal interpretation of this provision in the pharma industry leads to adverse consequences, such as in cases of physician samples.
- Making samples available to physicians is a time-tested and established industry practice prevailing, and therefore, such transactions should not fall within the ambit of the restriction.
- Government may address these issues as a priority, providing long-awaited relief to the pharmaceutical industry.

### Expectation #3: Treatment of post-sale discounts, whether to be included in consideration as an inducement towards supply by the dealer

- Circular No. 251/08/2025-GST dated 12 September 2025 clarifies GST treatment of secondary or post-sale discounts.
- The circular provides that where a manufacturer has an agreement with an end customer and offers a post-sale discount to its dealer/distributor to enable supply of goods to the end customer at a discounted rate, such a discount would form part of the overall consideration for the distributor/dealer, being an inducement towards the supply made by the dealer to the end customer.
- In a normal course, manufacturers provide post-sale discounts to dealers/distributors to stimulate sales, which are eventually passed on to end customers. These discounts do not represent a separate service by the dealer to the manufacturer, and hence, treating them as monetary inducements

linked to further supplies may not be appropriate. Per the business requirement itself, many times, companies are required to execute contractual agreements with end customers/retailers to boost sales, which are sold through distributors/dealers. In such a contractual arrangement, there is no inducement by the dealer/distributor to the retailer/end customer and the nature of the discount passed on by the distributor to the retailer, based on the guidance from the manufacturer, continues to be in the nature of a post-sale discount.

- It is recommended that the government should suitably amend Question no. 2 of the above circular to clarify that post-sale discounts given by manufacturers to dealers/distributors for sales incentives should not be treated as an inducement towards goods supplied by the dealer to retailer/end customer (irrespective of whether the manufacturer has a direct contract with the end customers).

#### Expectation #4: Rationalisation of the budgetary support scheme in line with GST reform 2.0

- Under the Scheme for Budgetary Support, companies are entitled to a cash refund equivalent to 58 percent of Central Goods and Service Tax (CGST) and 29 percent of Integrated Goods and Service Tax (IGST) paid through the cash ledger.
- Following GST Reform 2.0 and the consequent reduction in GST rates on various pharmaceutical products, companies are increasingly discharging output tax liability through ITC rather than cash payment. Consequently, eligible companies are losing out on budgetary support benefits, as the scheme currently links support to taxes paid through the cash ledger.
- It is recommended that the government suitably amend the Budgetary Support Scheme for the eligible refund amount, which currently is limited to GST paid in cash. This amendment would preserve the intended fiscal support for affected industries and promote equitable relief during the pending period up to 1 March 2027. Further, it is also recommended that the government extend the period of the Budgetary Scheme so that the necessary relief can be recouped by the companies.

# Technology, Media and Telecom



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## Current environment

The Union Budget for FY2026-27, scheduled to be presented in February 2026, comes at a time of sharp global trade tensions and rapidly evolving regulatory landscapes. India's Customs and trade policies are expected to play a pivotal role in balancing domestic manufacturing priorities and promoting a more open, predictable and globally competitive trade environment.

Global trade dynamics continue to remain complex, and the recent escalation of tariffs by the US has revived the debate around India's tariff profile. Hence, it will be important for India's Budget strategy to focus on improving cost competitiveness and supporting exporters through the rationalisation of input tariffs and enhanced trade facilitation measures.

## Expectations and recommendations

### Top tasks

**Ask:** Operationalise voluntary post-clearance revision under Section 18A of the Customs Act

- Finance Act 2025 introduced a trade-friendly provision under **Section 18A of the Customs Act**, allowing importers and exporters to voluntarily revise entries post-clearance, self-assess duty and claim refunds or pay shortfalls.
- However, in the absence of the requisite notification specifying the form, manner and conditions, trade remains unable to avail this benefit.

It is recommended that the government issue the necessary notification promptly, enabling businesses to come forward and use the voluntary disclosure option.

It is recommended that appropriate enabling provisions be introduced in the Customs Act, 1962, to facilitate the digital filing of letters, appeals and all correspondence with Customs authorities, in line with existing practices under the GST law.

## Other expectations

- Legislative clarity on taxability of permanent transfer of Intellectual Property Rights (IPR) / Intangibles
- Under the GST law, permanent transfer of IPR/Intangibles is categorised as a supply of goods, but clarity is lacking for cross-border transactions involving such transfers. Permanent transfer of IPR/ Intangibles from India to a person outside India may qualify as an export of goods. However, Section 2(5) of the IGST Act defines "export of goods" as requiring the physical movement of goods out of India. For IPR/Intangibles, physical movement is often not feasible, leading to disputes over the export benefit despite the transaction qualifying as an export of goods.
- For exports, the requirement for physical movement outside India should be substituted with proof of title transfer through an agreement to ensure compliance.

**Increase in scope of the benefit of carry forward of losses on amalgamation:** Benefit of carry forward of losses and unabsorbed depreciation is available in case of amalgamation of companies owning an "industrial undertaking". The term "industrial undertaking" is defined to mean any undertaking engaged (a) in the manufacturing of or processing of goods (b) manufacturing of computer software (c) the business of generation or distribution of electricity or any other form of energy (d) the business of providing telecommunication services, whether basic or cellular, including radio paging, domestic satellite service, network of trunking, broadband network and internet services (e) mining or (f) the construction of ships, aircraft and railway systems.

- The benefit under Section 72A to carry forward losses and depreciation on amalgamation should be extended to include other sectors to encourage synergistic consolidations. Consolidating entities within an industry helps in rapid growth and the generation of substantial employment opportunities. This will, in turn, help make India a competitive country for foreign investment

### Provide relief in Safe Harbour Margins for the IT/ITES sector amid AI-led disruption

- The Indian IT/ITES sector is undergoing a significant transformation due to the rapid adoption of AI, GenAI and automation technologies. This shift has led to:
- Margin compression due to reduced billing rates and increased competition from AI-enabled global service providers.
- Reskilling costs and investments in AI infrastructure, which are not immediately revenue accretive.
- Uncertainty in benchmarking traditional service models against evolving AI-driven delivery mechanisms.

Considering these developments, the following relief measures are sought:

- Reduce Safe Harbour Margins for eligible IT/ITES transactions under Rule 10TD to reflect current economic realities and cost pressures.
- Introduce a separate Safe Harbour category for AI-enabled services, with lower margins, recognising the nascent and volatile nature of this segment.
- These measures will help maintain India's competitiveness as a global outsourcing hub while providing much-needed relief to taxpayers navigating the AI transition.

Streamline the Advance Pricing Agreement (APA), Mutual Agreement Procedure (MAP) regulations:

- With a view to resolving backlog and managing the load of new applications expected to be filed, the government should increase the bandwidth of the APA workforce.
- Most APA applications, which culminated in agreements, pertain to the service sector. A majority of these, in turn, are captive companies involved in software development and Business Process Outsourcing (BPO). Some of these companies are also involved in engineering design services, R&D services and Knowledge Process Outsourcing (KPO). In relation to the same, the following recommendations should be taken into consideration:
  - For forthcoming applications, the government should release a standard readiness questionnaire based on which APAs may be speedily concluded with CBDT. For applications already filed and currently pending with the APA authorities, a list of standard data points should be released, based on which pending APAs may be concluded speedily.
  - Prescribe fixed timelines for the closure of APAs for transactions where a significant number of APAs are already concluded (such as provision of ITeS, software development services).
  - Currently, a Permanent Establishment (PE) located outside India of an Indian company is subject to transfer pricing provisions in the country where the PE is located. In the event of any dispute with the foreign country tax authority, such PE may have recourse to the Mutual Agreement Procedure restoration as provided in the treaties between India and the other country. With a view to providing forward-looking tax certainty to such PEs, the scope of APA provisions should be widened to also include recourse to bilateral APAs between India and the other country where the PE is located.
  - Enable Single-owner Limited Liability Companies (incorporated under the US laws) to claim the treaty benefits for the purpose of APA/ MAP applications.

## Policy recommendations

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Streamline the Master File requirements required to be filed under Rule 10DA with OECD standards. With the introduction of the BEPS Action Plan 13, countries worldwide adopted the three-tier documentation as a norm. Worldwide, countries have implemented Master File requirements and kept them in line with recommendations made by the OECD. India also adopted the Master File in line with OECD's recommendations, albeit with certain modifications/additional data points. The requirements of the Master File under Rule 10DA should be aligned with OECD standards, which would provide significant relief to MNEs to maintain one consistent global Master File. Further, to ease compliance burden, the requirement to file it in Form 3CEAA should be done away with, as filing the Form is quite complex. As an alternative, taxpayers should be allowed to upload the documents in Word/Excel to show compliance with Master File regulations.

# Global Capability Centres



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## Current environment

- India has emerged as the global hub for Global Capability Centres (GCCs), housing over 1,800<sup>24</sup> centres (more than 50 percent of the world's total) and employing over 2.16 million professionals. These centres have evolved from cost-efficient service hubs to high-value global innovation, analytics and engineering nerve centres.
- The next phase of growth for GCCs is expected to be led by deep technology integration, AI-driven operations, digital R&D and advanced product design capabilities. As global corporations accelerate their digital transformation journeys, India's skilled talent base, cost competitiveness and ecosystem maturity uniquely position it to capture a greater share of this value.
- The government's continued emphasis on technology-led growth, innovation and digital transformation has created a strong foundation for GCCs to expand their global mandates from India. However, sustaining this momentum will require progressive tax and regulatory measures that reduce operational complexity, encourage innovation and enhance India's competitiveness as a global services hub.
- Targeted fiscal measures can reinforce India's position as the preferred destination for high-value digital and technology operations, while also driving job creation and exports of IP-based services.

## Expectations

### Top asks

Ask #1: Introduce a concessional tax regime for GCCs

Specific measures:

- Introduce a concessional corporate tax rate (e.g., 15 percent) or a tax holiday for newly established or expanding GCCs, similar to the benefit previously provided to new manufacturing units under Section 115BAB.
- Define clear eligibility criteria based on incremental employment generation, new investment and export revenue contribution.
- Permit flexibility for GCCs transitioning from cost-plus service models to innovation-led structures to avail this concessional regime.

<sup>24</sup><https://www.cii.in/PressreleasesDetail.aspx?enc=hN7TjupNs0j1B6UsLwucmAK8jW0EnAEGguJXn5ygi8=#:~:text=Key%20achievements%20include%20India's%20commanding,up%20every%20two%20weeks.>

**Outcome:**

- Attract the next wave of global investments in high-value GCC activities such as R&D, AI, product engineering and global business process management.
- Enhance India's share in the global GCC market from the current 50 percent.
- Boost employment creation and encourage repatriation of global IP development to India.

**Rationale:**

- A concessional regime signals a strong policy intent to position India as a delivery destination and as an innovation and decision-making hub.
- It aligns with global tax competitiveness, especially vis-à-vis emerging digital service destinations such as the Philippines and Vietnam.
- The manufacturing sector's experience under Section 115BAB shows that targeted tax relief can catalyse large-scale investment and job creation. This approach remains highly relevant for a fast-growing economy.

**Ask #2: Tax incentives****2.1. Incentivise innovation through weighted deductions****Specific measures:**

- Introduce weighted deductions of 150–200 percent on eligible R&D, innovation and technology spend incurred by GCCs in India.
- Allow accelerated depreciation on digital infrastructure and R&D assets such as high-performance computing equipment, AI platforms and design labs.
- Include digital transformation initiatives, IP creation and global product engineering under the ambit of eligible activities.

**Outcome:**

- Encourage GCCs to expand innovation and R&D mandates, driving development of global products and digital solutions.
- Increase R&D investment-to-revenue ratio in GCCs, boosting India's overall innovation output.
- Strengthen India's position as a preferred global destination for technology-led services and digital exports.

**Rationale:**

- Weighted deduction on innovation spend aligns with India's goal of becoming a high-value, knowledge-driven economy.

- Further encouraging GCCs to move up the value chain enhances the export of IP-based services.
- This measure would complement the government's broader innovation ecosystem push (including Start-up India and India AI Mission) and attract high-end engineering talent to India.

## 2.2. Tax incentives for GCC employees in tier-2 and tier-3 cities

Specific measures:

- Bengaluru and Hyderabad to be considered a metro city for the purpose of 10 (13A).

Outcome: Tax benefits in the form of higher HRA exemptions for employees working with GCCs in these cities.

Rationale:

- Bengaluru and Hyderabad have made rapid strides in being the incubation hubs for the GCCs. However, there has been a marked increase in the cost of living in these cities compared with other cities. To promote these incubation hubs for GCC, the government may consider increasing the deduction available for HRA from 40 percent to 50 percent.

## Ask #3: Provide clarity on taxation of secondment and cost-sharing arrangements

Specific measures:

- Introduce explicit legislative guidance or safe harbour provisions for taxation of employee secondment and cost-sharing arrangements within multinational group structures.
- Clarify that bona fide secondments and cost allocations undertaken on an arm's-length basis will not create a Permanent Establishment (PE) or attract Fee-for-Technical-Services (FTS) recharacterisation.
- Enable advance ruling or certification mechanisms to pre-approve secondment structures.

Outcome:

- Reduce recurring tax disputes and litigation concerning PE and FTS classification for GCCs.
- Enhance predictability and ease of doing business for multinational enterprises operating through GCCs in India.
- Lower compliance costs and promote transparent cross-border talent mobility.

Rationale:

- Secondments are integral to GCC operations, enabling knowledge transfer and global skill alignment.
- Inconsistent assessments and a lack of uniform guidance create uncertainty and deter the expansion of global roles in India.
- Providing safe harbour rules will align with international best practices and significantly strengthen India's position as a preferred destination for GCCs.

## Ask #4: Extend targeted tax incentives for data centres

### Specific measures:

- Introduce a concessional corporate tax rate of 15 percent or a 10-year tax holiday for qualifying data centre operations.
- Alternatively, provide weighted deductions (150–200 percent) on capital expenditure incurred for data centre infrastructure, including buildings, cooling, power systems and connectivity equipment.

### Outcome:

- Accelerate investment in India's domestic digital and cloud infrastructure ecosystem, enabling large-scale AI, fintech and digital services.
- Support India's data localisation and digital sovereignty goals under the DPDP framework.
- Create new employment and upskilling opportunities in the technology infrastructure sector, particularly in tier-2 and tier-3 cities.

### Rationale:

- Data centres form the backbone of the digital economy and are critical enablers of AI, GCCs and cloud-based service delivery.
- High capital intensity and long payback periods necessitate targeted fiscal support to attract foreign and domestic investment.
- Extending benefits similar to those under Section 115BAB would strengthen India's competitiveness and align with its broader "Digital India" and "Viksit Bharat 2047" vision.

## Ask #5: Rationalisation measures for GCC employees

### 5.1. Car perquisite valuation rules

#### Specific measures:

- Rationalising car perquisite valuation rules for electric vehicles.

### Outcome:

- Bringing clarity in applying concessional perquisite valuation rules for electric vehicles provided by employers.

### Rationale:

- Income-tax rules provide for the valuation of the motor car benefit, where running and maintenance expenses are reimbursed by the employer. The valuation principles consider the cubic capacity of the engine for the purpose of determining the perquisite value and typically apply only to conventional fuel cars; no separate criteria have been established with respect to electric vehicles. Given the impetus by the government for EVs and coupled with the availability of infrastructure facilities such as fast charging stations in public places, such as metro stations, the usage of electric vehicles is rising. Therefore, the FM could look at suitably amending Rule 3 to bring in the valuation mechanism for hybrid and electric vehicle maintenance (recharging batteries in lieu of fuel) and criteria based on battery capacity (besides the engine capacity). Such a change in valuation mechanism would bring in clarity and promote the use of electric vehicles for a greener future.

## 5.2. Employee stock options

Specific measures:

- Codification of proportionate taxation rules for stock options of mobile employees to prevent double taxation.

Outcome:

- Certainty to globally mobile employees regarding taxation of their stock rewards.

Rationale:

- Currently, stock options are taxed at the time of exercise (except in the case of specified securities allotted by eligible start-ups), with the taxable value being the difference between the fair market value of the shares and the exercise price. However, the law is silent on the proportionate taxation of stock options for mobile employees. This results in different positions adopted by employers, often resulting in double taxation for the employee. It is recommended that the tax laws provide clarity on this matter to avoid double taxation for the employees and reduce litigation for the employer.

## 5.3. Tax sops for GCC employees

Specific measures:

- Tax sops for individuals employed with GCCs in tier-2 and tier-3 cities

Outcome:

- Ease the talent hiring and provide equitable regional growth.

Rationale:

- To promote economic development in tier-2 and tier-3 cities and support the expansion of GCCs in these regions, it is recommended that the government introduce a tax deduction for employees of GCCs in these cities. This measure will incentivise talent migration and help build the necessary skilled workforce to sustain GCC operations outside major metropolitan areas.

## Ask # 6- Transfer pricing

Specific measures:

- Safe harbour margins should be rationalised and eligibility thresholds broadened to better reflect actual business margins, taking into account realistically available comparables.
- Increased transaction thresholds from the current limits of INR300 crore.
- Continued adoption of cost-plus markup/assured return approaches, especially for high-value-added services such as R&D, advanced analytics and design engineering in the context of risk-insulated entities.
- Establishment of a fast-track APA (Advance Pricing Agreement) and MAP (Mutual Agreement Procedure) route for certified GCCs.
- Clear guidelines on block assessment of intra-group transactions to ensure constructive closure and reduced compliance burden.

- Support for India's participation in the International Compliance Assurance Programme (ICAP) to promote multilateral tax certainty for large GCCs operating in multiple jurisdictions.

Outcome:

- Wider adoption of safe harbour across classes of GCCs with a high turnover threshold (such as INR1,000 crore, against INR300 crore currently).
- Enabling new GCCs to enter and conclude APAs in a span of 12 months, to secure certainty in their filing positions from the first return filing under a fast-track mechanism.

Rationale:

Transfer pricing has been bringing GCCs to the crossroads of tax certainty. There is low propensity to opt for safe harbour due to low transaction thresholds (up to INR300 crore), higher rates in case of services such as R&D in software development (at 24 percent) and absence of practicality in the classifications of services (such as between software development and R&D in software development and IT-enabled services and Knowledge Process Outsourcing). At the same time, the APA programme has been facing a backlog of applications and pendency that are causing bottlenecks in the closure of relatively straightforward cases involving GCCs. Simultaneously, audits are high-pitched and information-intensive with very short turnaround times due to the time-barrier nature of assessments.

To streamline transfer pricing for GCCs, which are typically remunerated on a cost-plus basis, there is a need to rationalise safe harbour provisions and introduce a fast-track APA mechanism tailored specifically for GCCs.

Separately, participation in the ICAP programme will enable wider adoption of risk-based concurrent audits across jurisdictions.



# Identified themes

# Artificial Intelligence



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## Current environment

- India is making significant progress in the area of AI, which is driven mainly by the support of the government's strategic vision to build an inclusive and globally competitive AI ecosystem.
- The global AI adoption across sectors is projected to add US\$17–26 trillion<sup>25</sup> to the global economy over the next decade. India is strategically positioned to capture 10–15 percent of this global AI value, with its increasing focus on AI advancements.
- A major boost to India's AI capability has come with the government's approval of "India AI Mission" in March 2024, allocating a budget of INR10,371.92 crore<sup>26</sup> for the next five years. The India AI mission mainly aims to foster local AI development by improving access to Graphic Processing Units (GPUs), creating AI-ready data sets and supporting AI application development.
- There has also been a push to enable citizens to access digital services in their local languages, by introducing initiatives such as "Digital India Bhashini", which currently supports 22 Indian languages<sup>27</sup> providing speech-to-speech machine translation service.
- Taxation is one key area where the government has started using AI to identify non-compliant taxpayers, draft notices more efficiently and analyse compliance data to support policy decisions.
- While the government has taken significant steps in building an inclusive and globally competitive AI ecosystem, sustaining this momentum would require greater participation and commitment from the private sector players as well. For instance, the rising demand for GPUs is increasingly difficult to manage due to limited private sector contribution and investment. In taxation, the officers are also

<sup>25</sup><https://niti.gov.in/sites/default/files/2025-09/AI-for-Viksit-Bharat-the-opportunity-for-accelerated-economic-growth.pdf>

<sup>26</sup><https://www.pib.gov.in/PressReleasePage.aspx?PRID=2012355>

<sup>27</sup>speech-to-speech machine translation

still using traditional methods to identify non-compliant taxpayers and draft notices by using traditional means.

- India also leads the world in AI skill penetration, per the Stanford AI Index 2024 score of 2.8, ahead of the US (2.2) and Germany (1.9).<sup>28</sup> However, there remains a shortage of experienced professionals capable of developing and deploying large-scale, real-world AI solutions. This highlights the need for advanced training and applied research initiatives.

## Expectations

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### Top asks

#### Ask #1: Enabling India's data sovereignty/AI data centres infrastructure

Specific measures:

- Allow full GST Input Tax Credit (ITC)/GST refunds on data-centre capital assets (construction, electrical systems) and time-limited GST relief on land/built structures for new parks.<sup>29</sup>
- About a 20-year conditional tax holiday for qualifying data-centre developers with eligibility tied to capacity thresholds, employment and green energy targets.<sup>30</sup>
- Customs duty waivers on critical imported equipment (racks, UPS, chillers, switchgear) for an initial 7-10 year window for projects meeting scale/green criteria.<sup>31</sup>
- Compute-credit scheme for Indian start-ups/universities/research labs with time-limited free/discounted GPU/TPU hours to train models on domestic infrastructure (use to seed local AI product development).<sup>32</sup>
- Central single-window facilitation and a model concession agreement to align centre/state incentives, avoid patchwork rules and speed approvals.<sup>33</sup>

Outcome:

- Make India a trusted, sovereign and energy-efficient AI data infrastructure hub that:
  - Enables Indian companies and global firms to host personal and AI training data within the country under DPDP rules.
  - Lowers cost and time to develop large-scale AI models and applications in India.
  - Creates skilled jobs, regional clusters and upstream manufacturing/services opportunities (power, cooling, glass, semiconductors).
- India can rapidly expand its domestic computing capacity by attracting investments from institutions and hyperscalers to add gigawatts of new infrastructure. This will help reduce dependence on offshore computing for AI model training.
- GST input tax credit, customs waivers and tax holidays help reduce effective capex and lower unit costs, thereby significantly improving the initial Rate of Return (IRR), shortening payback for developers and unlocking private capex.

<sup>28</sup><https://www.pib.gov.in/PressReleasePage.aspx?PRID=2108810>

<sup>29</sup><https://www.outlookbusiness.com/news/india-plans-20-year-tax-incentives-to-boost-data-centre-investments>

<sup>30</sup><https://www.moneycontrol.com/news/business/india-may-grant-20-year-tax-exemption-gst-credit-to-supercharge-data-centres-report-13545403.html>

<sup>31</sup>[https://www.kwm.com/content/dam/kwm/insights/download-publication/global/2025/Data\\_Centre\\_APAC\\_Regulatory\\_Guide\\_2025\\_India.pdf](https://www.kwm.com/content/dam/kwm/insights/download-publication/global/2025/Data_Centre_APAC_Regulatory_Guide_2025_India.pdf)

<sup>32</sup><https://pdf.savills.asia/asia-pacific-research/india-research/data-center-market-watch-year-end-2024-new.pdf>

<sup>33</sup><https://community.nasscom.in/communities/public-policy/analysing-data-centre-policies-india>

- Compute-credit usage and anchor parks increase the share of AI model training in India, supporting DPDP compliance and local data sovereignty. Moreover, clear DPDP operational guidance combined with conditional incentives reduces transition risk for investors and eliminates ambiguity around cross-border flows.<sup>34</sup>

#### Rationale:

- The DPDP Act and its draft operational rules put a premium on predictable, auditable domestic processing options, which raises demand for in-country data and computing facilities. High upfront capital and operating costs are major barriers to market entry. Tax, GST and duty incentives, combined with low-cost financing and co-investment, can make large-scale infrastructure projects more financially viable and attractive to hyperscalers.
- Keeping compute and data onshore enables India to capture value from downstream AI innovation, such as IP creation, start-ups, jobs and AI-integrated products and services, rather than merely supplying raw demand to offshore hyperscalers. Moreover, state policies show demand for coordinated central incentives. As states already offer attractive, varying packages, a central window paired with model agreements reduces fragmentation and prevents bidding wars that erode national goals.

#### Ask #2: Accelerating data centre sustainability: Incentives and outcomes

##### Specific measures:

- Accelerated depreciation and GST input-tax credit only for data centres that commit to and verify Power Usage Effectiveness (PUE)  $\leq 1.4$  (or better) and progressive renewable procurement (50 percent Renewable Energy (RE) within 5 years). Incentives phase out if targets are missed.<sup>35</sup>
- Interest subvention (3–4 percent) via a National Infra Bank for projects that procure  $\geq 50$  percent renewable power and implement waste-heat recovery or low-water cooling pilots.<sup>36</sup>
- Provide a 25–35 percent grant on eligible green capex (heat-recovery, economisers, free-cooling, closed-loop cooling, on-site battery storage, modular UPS) for new tier-III/IV data centres that meet defined PUE and water-use targets. Additionally, a 40 percent CAP. (Community Assistance Programme) grant for pilots of liquid cooling, direct-to-chip cooling, air-side economisers and closed-loop wastewater reuse in data-centre parks.<sup>37</sup>
- Temporary waiver on duty for high-efficiency chillers, in-rack cooling systems and modular power equipment when procured for certified green data centres.<sup>38</sup>
- Launch of central compute-credit that gives discounted domestic compute hours to start-ups/research labs on condition that those hours run on certified low-carbon infrastructure; carbon benefits accounted in government reporting.<sup>39</sup>
- Budget support for interstate renewable links and Battery Energy Storage Systems (BESS) to provide round-the-clock clean energy to data-centre clusters with priority Right-of-Way (ROW) for fibre and renewable transmission.<sup>40</sup>
- Make BEE “Energy Efficiency Guidelines for Data Centres” compliance and public PUE disclosure a condition for incentives; publish quarterly KPI dashboards.

<sup>34</sup><https://www.mca.gov.in/data-protection-framework>

<sup>35</sup>[https://eitbt.karnataka.gov.in/it/public/uploads/media\\_to\\_upload1727071046.pdf](https://eitbt.karnataka.gov.in/it/public/uploads/media_to_upload1727071046.pdf)

<sup>36</sup><https://www.datacenterdynamics.com/en/opinions/evolving-strategies-to-reduce-data-center-carbon-emissions-in-india/>

<sup>37</sup>[https://www.itu.int/en/ITU-D/Environment/Documents/Publications/2025/ITU-World%20Bank%20Green%20data%20centers\\_2023.pdf](https://www.itu.int/en/ITU-D/Environment/Documents/Publications/2025/ITU-World%20Bank%20Green%20data%20centers_2023.pdf)

<sup>38</sup><https://assets.cushmanwakefield.com/-/media/cw/apac/india/insights/data-centre-policies-in-india-a-statewise-comparison.pdf>

<sup>39</sup><https://www.eco-business.com/press-releases/indias-data-centre-boom-greener-smarter-and-poised-to-lead-the-world/>

<sup>40</sup><https://timesofindia.indiatimes.com/city/ahmedabad/power-shift-gujarat-edges-past-rajasthan-to-become-indias-no-1-state-in-installed-renewable-energy-capacity/articleshow/121219952.cms>

Outcome:

- Lowered carbon intensity with target average PUE  $\leq 1.4$  for newly incentivised parks, reducing energy per compute unit and cutting CO<sub>2</sub> per MW.
- Significantly higher take-rates for liquid cooling, heat recovery and closed-loop systems through capital grants and pilot funding.
- Increased direct procurement of RE (Renewable Energy) and use of BESS to achieve near-24x7 low-carbon supply options for clusters (linked to state RE build-out).
- Capex relief and access to low-cost financing improve the Internal Rate of Return (IRR) for modern, energy-efficient infrastructure, helping avoid long-term dependence on outdated, inefficient facilities.
- Grants and demand create markets for Indian vendors (jobs) in cooling, heat recovery, battery and energy-management software.

Rationale:

- India's data-centre capacity is expanding exponentially. Multiple industry estimates indicate that the sector will double its capacity in the near term (projects multi-gigawatt growth by 2030), which will require an upfront sustainability strategy to avoid carbon lock-in. Global hyperscalers and large enterprise customers require a low-carbon, certified supply. Thus, fiscal incentives must reward efficient builds to keep India competitive for high-value tenancy. States are also rapidly expanding RE and BESS capacity. Hence, budget support to link data-centre parks with interstate renewables and storage will unlock a reliable, low-carbon supply. Furthermore, linking incentives to verifiable efficiency and applying a unified model concession prevents subsidy competition among states, ensuring that public money drives a measurable sustainability impact.

**Ask #3: Promote project-based learning to foster AI knowledge for everyone**

Specific measures:

- Develop a curriculum where students can learn and understand AI by building real-world use cases. This can be achieved by introducing project-based AI learning modules starting from schools (grades 1-12) to universities and research institutions. This will ensure continuity from foundational AI literacy to advanced applications development.

Outcome:

- Students, researchers and practitioners will gain knowledge of the necessary tools for the responsible development and deployment of AI technologies.
- Primary students will explore and become familiar with basic AI concepts through hands-on experiences; high school students will begin understanding and applying AI concepts, and higher secondary students can focus on AI design and innovation.
- It would aid students from diverse backgrounds in gaining equal access to digital knowledge, preparing them for opportunities in the global digital economy.

**Rationale:**

- The Government of India (GoI) is emphasizing 'AI for All' to democratise the use of technology. This initiative aims to ensure that AI benefits each sector of society, driving innovation and growth. Despite being regarded as the skills capital in technology and AI, India still lags in producing skilled AI professionals at a faster pace. For instance, a report indicates that, for every 10 GenAI open positions in India, only one qualified engineer is available.<sup>41</sup> Therefore, to achieve this, the government may think of implementing a comprehensive project-based AI learning approach.

**Ask #4: Encourage domestic companies to build India-based LLMs****Specific measures:**

- Incentivise domestic players, mainly the start-ups, to procure the hardware and develop the local indigenous AI models for India.

**Outcome:**

- It will enable the development of culturally intelligent AI systems that reflect India's diverse local contexts and effectively serve users across different backgrounds. For instance, Bhashini is one such example that supports regional Indian languages.
- It can also lead to the emergence of many new start-ups that can step forward to bridge this gap, fostering innovation and simultaneously creating significant employment opportunities.
- Reduce dependency on foreign entities and build completely indigenous AI models for India.

**Rationale:**

In India, a significant portion of the hardware required for training and development of AI models continues to rely on foreign suppliers. The development of India-based LLMs presents an opportunity to advance AI use cases tailored to the country's unique needs by using local data sets. Each region in India possesses distinct dialects, cultural contexts and knowledge systems that have evolved over centuries. However, traditional AI models, broadly trained on English, often fail to capture the regional nuances. Therefore, the government should support start-ups in the indigenous AI development to reduce dependency on foreign entities.

**Ask #5: Extensive use of AI in tax administration and policymaking, to enhance Ease of Doing Business**

**Specific measures:** Integrating AI into tax administration and policymaking can enhance the ease of doing business. Examples include:

- An AI-based and data-enabled tax assessment to expedite the assessment process, with an objective outcome
- An AI-based tax refund processing will help to bring in efficiency in the refund claims sanctioning and the refund-related document review
- An AI-based taxpayer compliance ranking would help the tax officers as well as the trade and industry to assess if they should conduct business with a party or not
- An AI-based policymaking will help to identify and remove tax bottlenecks in trade

<sup>41</sup><https://business.teamleasedit.com/digital-skills-and-salary-primer-fy2025-26/>

#### Outcome:

Quicker and efficient adoption of AI in taxation will help tax administrators better administer taxpayers and bring efficiency in tax collection, thereby enhancing ROI. This will also help the taxpayers by way of ease of doing business.

#### Rationale:

With the government having near real-time availability of the taxpayer data, it is crucial that the government makes use of the data to make the tax administration process more efficient and also support taxpayers in their compliance, as well as day-to-day business, by remediating the impediments in carrying out the business activities.

## Policy recommendations

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**Recommendation #1: Set policy guidelines and link incentives to help private players procure and install GPUs in a timely manner.**

#### Details:

- The government can consider setting specific policy guidelines defining time-bound procurement milestones for companies pledging to acquire GPUs on a phased schedule. Fiscal incentives, such as import duty benefits on these phased approaches, should be provided to encourage these companies to procure GPUs on committed time and deploy.
- A tracking mechanism should also be in place for the accurate disbursement of incentives to the right companies. For instance, the incentives may be given if they procure 25 percent within 3 months, 50 percent within 6 months and full procurement within 9–12 months of approval.
- Also, the government may consider a few measures to relax the mandate of procuring a minimum of 1000 GPUs per bidder,<sup>42</sup> to encourage smaller players, such as start-ups and MSMEs, to buy GPUs easily.

#### Expected impact:

- It will accelerate AI innovation and compute readiness, enabling Indian enterprises, start-ups and academia to compete globally.
- This initiative aligns with the “Make in India” and “Aatmanirbhar Bharat” initiatives, which will strengthen the domestic AI hardware ecosystem and reduce dependency on external markets.
- Democratising GPU access to start-ups and researchers at an affordable cost, which is crucial in developing indigenous foundational models and AI solutions tailored to the Indian context.

#### Rationale:

The demand for India’s AI infrastructure is set for a major expansion, with GPU capacity expected to grow substantially in the next 12–18 months. While the government is making significant efforts to procure GPUs under the India AI Mission, active participation from private companies will be critical to meet the overall demand. The government can play a pivotal role in enabling private players with the necessary support to ensure the timely expansion of AI infrastructure capacity.

<sup>42</sup><https://www.moneycontrol.com/technology/indiaai-mission-industry-seeks-clarity-on-restrictive-gpu-tender-govt-to-extend-deadline-for-submitting-bids-article-12810401.html>

## Recommendation #2: Emphasize responsible AI governance for ethical AI development

### Details:

- Develop a comprehensive regulatory framework by setting ethical standards, accountability mechanisms and compliance requirements for AI development and deployment.

### Expected impact:

- It will boost transparency in data access while model training and build public confidence in AI systems, driving greater adoption across government, industry and society.
- India can lead the global movement on responsible AI innovation,<sup>43</sup> setting benchmarks for inclusive, accountable and human-centric AI practices, especially relevant for emerging economies.
- Reduce algorithmic bias, ensure fairness and promote equitable access to AI benefits across diverse communities and regions.

### Rationale:

As India rapidly expands AI adoption across sectors, responsible AI governance becomes essential to ensure technological progress aligns with national values, ethical standards and public trust. The India AI Mission also emphasizes this through its Safe and Trusted AI pillar, highlighting accountability, safety and ethical AI practices. By prioritising ethics alongside innovation, India can ascend as a global AI leader, distinguishing its approach from that of other countries.

<sup>42</sup> <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2175954>

# Cyber



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## Current environment

- As businesses move online, embrace digital transformation and adopt cloud and AI technologies, cybersecurity becomes more crucial than ever, providing the foundation for building trust within organisations, governments and their stakeholder ecosystems.
- Regulators such as RBI, IRDAI and SEBI; government bodies including CERT-IN and NCIIPC; and industry organisations such as DSCI have recognised the importance of cybersecurity. They have established regulations and guidelines to enhance resilience against cyberattacks and foster trust in both business and government processes.
- The Government of India (GoI) has created the National Cyber Security Coordinator (NCSC) under the National Security Council Secretariat (NSCS) to ensure coordination among different agencies.

## Expectations

### Top tasks

Ask #1:

Specific measures:

- National command for cybersecurity

Outcome:

- Standard guidelines with incremental protection to reduce confusion of guidelines by multiple regulators and bodies.
- Sovereign capabilities for independence from supply chain restrictions.
- Definition and validation of trusted and safe technology/ecosystem (CERT-IN currently publishes vulnerabilities, but does not necessarily have a rating system).
- Threat coordination and dissemination across sectors (not limited to national critical infrastructure).
- Readily available resources, upskilling and support for the protection of individuals, businesses, national critical infrastructure and government.

**Rationale:**

- India has multiple regulators and government organisations, each operating according to its own mission. This fragmented approach often leads to both gaps and overlaps in the overall cybersecurity strategy. A centralised command, building on the framework of the National Security Council Secretariat, with a cybersecurity focus, can streamline efforts and deliver measurable outcomes. Attackers contribute well via their tool kits, whereas the defenders keep fighting individual battles.

**Ask #2:****Specific measures:**

- Secure Cloud for the Indian central government

**Outcome:**

- Secure Platform as a Service (PaaS) by NIC for the Government of India that can be provisioned within timelines comparable to AWS, GCP and Azure. If the initiative is successful, it can be rolled out to state governments as well.

**Rationale:**

- NIC, as the Indian Government's IT Arm, hosts the applications, infrastructure and communication for the different ministries of the Government of India. Different data centres of NIC are at different levels of maturity and have different subsets of toolsets depending on the time at which they were built.
- As the government and its ministries work to improve citizens' lives and position India as a preferred business destination, young citizens increasingly compare the speed of innovation and digital rollout with global benchmarks. To meet these expectations, a secure cloud infrastructure is crucial for accelerating the launch of new initiatives. The cloud should be easy and quick to configure, thereby shortening the time from policy announcement to an application that caters to the same.

**Ask #3:****Specific measures:**

- Sectoral CERT and SOC for different sectors

**Outcome:**

- Sectoral CERT with expertise for driving the security lifecycle, from standards, strategy, architecture, incident response, etc., with a deep focus on cybersecurity for the sector.

**Rationale:**

- India has developed CERT-IN as an organisation under the Ministry of IT for emergency response for cybersecurity. Different industries, based on their maturity in their security journey, use a different set of tools, have a different environment, etc., and it is necessary that an industry-specific CERT is created to help as well as create an industry-specific response. For example, a cybersecurity incident in an OT/IOT environment can lead to loss of life, whereas a cybersecurity incident in a bank is typically aimed at ransomware or financial fraud.

## Policy recommendations

### Recommendation #1:

Details:

- Security certification by India for India

Expected impact:

- India has an approximate shortfall of 500 thousand cybersecurity professionals, and even for the professionals that it has, they have varying degrees of skills and certifications from different certification bodies. India should develop its own list of security certifications and use them as a policy requirement for job applications, thereby standardising the understanding of cybersecurity and its skills. This can be developed under Skill India Digital or another initiative, and funds should be allocated for the institutionalisation of the same.

### Recommendation #2:

Details:

- National Cybersecurity Policy, 2013 and National Cybersecurity Strategy, 2020, to be updated

Expected impact:

- Cybersecurity has evolved significantly over the years, starting with foundational developments around 2013, followed by accelerated digital adoption by 2020, and leading to the complex threat landscape of 2025. A new policy is needed to address today's business requirements and threats. This will strengthen India's cybersecurity, promoting citizens' trust in the government's digital initiatives and enhancing India's reputation as a trusted destination for business.



# Digital Public Infrastructure and Digital Public Goods



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## Current environment

- India's Digital Public Infrastructure (DPI) has become a global benchmark for inclusive, low-cost innovation. These initiatives have deepened financial inclusion, digitised welfare delivery and built trust in digital systems at scale. India's DPI model is now being adopted by partner nations across Africa and Southeast Asia under G20 and Global South collaborations, reinforcing India's position as a global benchmark for open digital infrastructure.
- The next wave of growth will come from connecting these ecosystems into a cohesive national infrastructure, where data, compute and innovation flow seamlessly across sectors and states.
- While flagship initiatives such as Digital India, IndiaAI Mission, Aadhaar, UPI and Gati Shakti have laid the groundwork, India still lacks a unified long-term mission that anchors DPI investments, measures impact and sustains open innovation.
- Key challenges are as follows:
  - Fragmented adoption and uneven digital capacity
  - Short-term funding models for open digital systems
  - Siloed data ecosystems and limited AI-readiness
  - Absence of a unified measurement and governance framework for DPI outcomes

## Expectations

### Top tasks

#### Ask #1: Launch a “National Digital Infrastructure Mission 2030”

Recast Digital India into a long-term, mission-mode programme that unifies digital investments across identity, payments, data exchange, health, skilling and commerce, with a co-funding model for states and a National DPI Observatory to track economic and social outcomes. The mission should adopt the success model of Gati Shakti, integrating ministries, funding streams and performance dashboards under one institutional umbrella.

To ensure accountability and measurable returns, the mission should also introduce a Digital Capital Index (a composite national metric) that tracks DPI adoption, interoperability and its contribution to GDP, productivity and inclusion. This would enable outcome-based budgeting, linking every rupee of public digital investment to quantifiable economic and social value.

**Measurable outcome:**

- All states to integrate at least three core registries and APIs (citizen, enterprise and services) by FY2030.
- A consolidated Digital Capital Account published annually to measure DPI's contribution to GDP, productivity and inclusion.

**Rationale:**

- While Digital India has catalysed adoption, it remains programmatic rather than outcome-linked. A dedicated Digital Infrastructure Mission will give fiscal and institutional permanence to India's digital progress, ensuring coordination across the Centre and states and embedding "DPI-by-default" in every flagship scheme. It positions DPI as public capital formation for the next decade, similar to what roads and power grids were in the 20th century.

**Ask #2: Create a "Public Digital Infrastructure Fund" for innovation and exports**

Establish a sovereign, multi-partner fund to be co-financed by the government, multilateral agencies and private collaborators dedicated to scaling, maintaining and globally deploying open-source Digital Public Goods (DPGs).

**The fund should:**

- Support R&D, cybersecurity and capacity-building for DPI modules (identity, consent, verifiable credentials, open networks) anchored by start-ups and academia
- Create an export finance window to help Indian DPGs deploy in countries under G20/Global South collaborations
- Offer long-term sustainability grants for DPG maintainers and open-standard ecosystems

**Measurable outcome:**

- About INR10,000 crore corpus seeded by FY2026
- Over 100 DPGs funded; 25+ exported through India-led partnerships by FY2030
- Nearly 1 lakh digital economy jobs created in DPI R&D, integration and standards ecosystems

**Rationale:**

- Current innovation funds (IndiaAI, Startup India, BIRAC) support private R&D but not open digital infrastructure. The fund extends this intent of transforming India from a user of digital systems into a global provider of digital infrastructure, strengthening digital diplomacy and new-age exports. It ensures that India's public code is maintained, secure and globally trusted.

### Ask #3: Establish a “National Data and AI Commons”

Build a privacy-preserving Data and AI Commons by federating anonymised datasets from ministries, regulators and states into a unified platform with open APIs, quality standards and AI-readiness layers. Anchored by a National Data and AI Trust, the Commons will also offer compute and data credits for start-up researchers and the Ministry of Small and Medium Enterprises to develop DPI-aligned innovations. Amend policy to allow monetisation of anonymised data as an asset to foster innovation. Using the Data and AI Commons can make every rupee the government spends go further. Ministries can use the data for smarter decisions, test policies digitally, automate processes and measure the resulting efficiency gains. All of this can be quantified as an increase in national productivity.

Measurable outcome:

- Over 500 high-quality datasets published by FY2027 across key domains (health, climate, agriculture, mobility)
- About 10,000 innovators are onboarded annually through compute/data vouchers
- Over 200 AI-enabled public services built using Commons data by FY2030

Rationale:

- Existing platforms such as data.gov.in and NDAP provide valuable datasets but lack interoperability, privacy infrastructure and compute support. A governed Data and AI Commons would convert India's rich administrative data into a productive national capital, fuelling AI innovation, evidence-based policymaking and global research collaborations. It builds directly on the IndiaAI Mission and Digital Personal Data Protection Act, 2023 (DPDP Act), completing the third pillar of India's digital architecture.

## Policy recommendations

### Recommendation #1: Enact a “Digital Infrastructure (governance and sustainability) Framework”

Adopt a cross-cutting framework law or cabinet-approved charter defining:

- Common standards for DPI lifecycle management (design->funding -> audit -> maintenance)
- Outcome-based financing models for collaborations between the Centre and the states
- A statutory National DPI Observatory is empowered to publish annual digital capital accounts. Another approach is to embed this within the Fiscal Responsibility and Budget Management Act or outcome budgeting context by defining “digital capital expenditure” as a recognised budget head, ensuring fiscal traceability and policy continuity.

Expected impact:

- Creates the institutional and fiscal architecture needed for Ask #1, ensuring every rupee invested in digital systems contributes to measurable economic outcomes and inter-state accountability.

## Recommendation #2: Operationalise a “Public Infrastructure Fund Governance Model”

Design governance templates for sovereign-plus-private funds managing public-code ecosystems. Specify eligibility, IP clauses, export financing rules and transparent reporting, similar to infrastructure investment trusts. Allow contributions from multilaterals and domestic Development Financial Institutions (DFIs) under a defined “public digital capital” category.

Expected impact:

- Enables Ask #2 by providing a durable financing mechanism for India’s DPG innovation economy and positioning DPI exports as a recognised asset class.

## Recommendation #3: Introduce a “National Data and AI Trust” under the DPDP framework

Establish an independent trust (or designate the IndiaAI Innovation Centre) to govern access, licensing and privacy compliance for the proposed Data and AI Commons. Mandate participation of public institutions, academia and start-ups, and create a certification layer for AI models trained on Commons datasets.

The Trust could maintain a registry of “certified public AI models” to ensure safe, explainable and verifiable use of AI in governance.

Expected impact: Institutionalises Ask #3, embedding privacy, safety and accountability into India’s data ecosystem while creating a fertile innovation environment for AI start-ups and social impact solutions.

In essence

These asks do not create new bureaucratic silos; they extend and future proof existing efforts:

- Turning Digital India into a mission-mode capital programme
- Turning IndiaAI into a global public infrastructure fund
- Turning data.gov.in into a trusted Data and AI Commons

Together, they lay the foundation for India’s next decade of nation-building, where digital public infrastructure becomes digital public capital.

# Space



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**Shilpy Chaturvedi**  
Partner

## Current environment

- The Indian space sector is evolving from a research-driven domain into a strategic high-technology industry that drives innovation and supports advanced manufacturing and digital infrastructure.
- Advancements in satellite miniaturisation, launch and downstream services are opening new global opportunities while also posing supply chain and human capital challenges.
- The Union Budget 2025–26 raised the space portfolio to INR13,416 crore and removed Customs Duty on goods for launch vehicle and satellite manufacture.
- Despite significant progress, gaps remain in establishing a skilled deeptech workforce, ensuring widespread use of space-based services in the public sector and creating predictable industrial demand for downstream applications.

## Expectations

### Top tasks

Ask #1: Goods and Services Tax (GST) and Customs Duty exemption for ground systems, components of launch vehicles/satellites, specific measures and other enabling services

Specific measure: Ground systems and satellite launch vehicle components form an integral part of India's space ecosystem, which is rapidly transitioning towards greater private sector participation. At present, the levy of Customs Duty and GST on such critical equipment increases the overall project cost and working capital burden for space-tech companies, especially in the early stages of product development and testing. Further, satellite-based service providers such as those offering mapping, imaging, geo-tagging and other data-driven services should also be considered for GST exemption. Such entities are typically unable to fully avail or utilise the Input Tax Credit, which becomes a direct cost and adversely impacts their viability. It is recommended that the government consider granting Customs Duty and GST exemptions on ground systems, components of launch vehicles and satellites and extending similar benefits to satellite-based service providers to further strengthen India's space economy and attract private investment.

Measurable outcome: Grant Customs Duty and GST exemptions on ground systems and components of launch vehicles and satellites to provide benefits, such as:

- Reduced input costs and working capital pressures
- Improved domestic manufacturing and innovation
- Enhanced the global competitiveness of Indian launch and satellite service providers by making Indian offerings more cost-effective in international markets

Rationale: Satellite launch services are currently exempt from GST, and thus, if exemptions are also granted on the procurement of inputs and components used for such services, it would ensure seamless tax treatment across the value chain and avoid accumulation of taxes.

#### Ask #2: Scaling the INR1,000 crore space venture fund

Specific measure: Operationalise the Small Industries Development Bank of India (SIDBI)-managed Venture Capital (VC) fund for the space sector. Introduce flexibility in the current INR10–60 crore investment range by creating micro-finance windows for pre-seed ventures and blended finance instruments, considering the national importance of this sector in terms of defence, agriculture and climate. Define clear stage-wise allocations (seed, early and growth) to crowd-in private Alternative Investment Fund (AIF) participation. This should complement, not duplicate, the existing Fund of Funds for Start-ups (FFS), with a specific focus on space hardware, earth observation analytics, satellite communication and NavIC-based applications.

Measurable outcome: Mobilise a 2.5x private capital multiple alongside public anchor commitments and restore annual venture flows to the sector to exceed 2023 levels within 24 months, countering the 2024 funding dip documented by independent trackers.<sup>43</sup>

Rationale: India's private space ecosystem is entering a critical growth phase where early-stage capital must bridge the gap between prototype development and commercial scale-up. Despite rising investor interest since liberalisation in 2020, deeptech ventures remain constrained by high hardware burn rates, long gestation timelines and limited private risk appetite.

A government-anchored venture vehicle managed through a professional fund-of-funds structure (such as SIDBI's) can de-risk technology development, attract private investors, build domestic intellectual property and supply-chain resilience. This approach aligns with global best practices where space venture funds in the US, EU and Japan are catalysing private inflows into spacetech innovation.

<sup>43</sup><https://www.reuters.com/technology/space/space-industry-funding-india-falls-55-2024-data-show-2025-01-06/>

### Ask #3: Establishing a National Geospatial Mission with strong adoption targets

Specific measure: Constitute a National Geospatial Mission to implement the National Geospatial Policy (2022) with an explicit mandate to:

- Standardise procurement and use of satellite-derived data/services across ministries
- Finance state-level adoption through outcome-based grants
- Embed NavIC and EO data into flagship programmes, building on platforms such as PM Gati Shakti and proven models such as SVAMITVA's drone-based mapping

Measurable outcome: Achieve 100 percent onboarding of centrally-sponsored infrastructure projects onto PM Gati Shakti within 24 months, including mandatory satellite imagery layers. At least 500 districts should publish standardised Earth observation (EO)-based monitoring dashboards for land, water and transport assets. About 100 percent of new eligible government smartphones/vehicle trackers should be NavIC-enabled as policy timelines firm up.

Rationale: The National Geospatial Policy establishes the framework and targets for integrated geospatial infrastructure and open access to publicly-funded datasets. PM Gati Shakti already uses Indian Space Research Organisation (ISRO) imagery and Survey of India basemaps. Codifying a mission with adoption targets and funding channels ensures that space-based services shift from pilots to default tools across sectors and improve project delivery and public service outcomes.

## Direct Tax recommendations

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### 1. Extension of the tax holiday period provided under Section 80IAC of the Income-Tax Act

Ask: Currently, according to Section 80IAC of the Income-tax Act, an eligible start-up company is provided a tax holiday for 3 out of 10 consecutive years starting from the year of incorporation of the company. The said period of three years should be extended to five years for certain start-up companies engaged in the manufacturing, R&D and satellite distribution capacity.

Outcome: Extension of the tax holiday period for start-ups to 5 out of 10 years from the year of incorporation will significantly reduce the tax burden for early-stage start-up companies entering the space sector. The sector is inherently capital-intensive and characterised by long gestation periods. A substantial tax holiday period will enhance liquidity, ease working capital pressures and improve the overall financial viability of investments in this strategic and emerging sector.

Rationale: With the government's policy push and growing private participation, several companies, especially start-ups, are venturing into satellite and rocket development, propulsion systems development and space analytics. Their goal is to create innovative, cross-sector applications. The space sector has immense potential to attract new investments, generate high-skilled employment and contribute to the "Make in India" initiative. To create a strong and competitive space ecosystem, it is imperative that targeted fiscal support and tax incentives be provided to the companies entering or operating in this sector.

## 2. Extension of International Financial Service Centre (IFSC) benefits to companies operating in the space sector

Ask: Currently, entities operating from the Gujarat International Finance Tec-City (GIFT City) IFSC have a 10-year tax holiday. The said benefit should be extended to companies engaged in the satellite distribution capacity to boost innovation and attract Foreign Direct Investment (FDI) in this sector.

Outcome: A 10-year tax holiday to companies operating in the space sector will substantially reduce/eliminate their tax burden during critical growth phases and enable re-investment in technological development.

Rationale: IFSCs, such as GIFT City, are designed to facilitate international financial transactions and attract foreign investors by offering tax incentives and a business-friendly regulatory environment. Extending the tax benefits of IFSC to companies in the space sector will incentivise FDI and collaboration in the sector.

## 3. Weighted deduction for R&D expenses

Ask: A weighted deduction (up to 200 percent) under Section 35 for in-house and collaborative R&D expenses to companies operating in this sector for at least five years should be allowed.

Outcome: Providing a weighted deduction for R&D expenses will help reduce the tax liability of companies operating in this sector and encourage them to allocate more resources for R&D initiatives.

Rationale: R&D is critical to the success of entities operating in the space sector. Extending weighted deduction for this expenditure will encourage sustained investment in innovation and infrastructure, and collaboration between industry and research institutions.

## 4. Extended carry-forward period and set-off of losses

Ask: Entities in the space sector typically face long gestation cycles and incur substantial losses in the initial phases. Considering this, it is recommended that the current eight-year limit for carry-forward period and set-off of business losses under Section 72 of the Income Tax Act be extended to 15–20 years for eligible companies.

**Outcome:** An extended carry-forward period will enable companies to offset losses incurred during the initial development and gestation cycles against profits earned in later years of growth and commercialisation.

**Rationale:** The extended period for carry-forward and set-off of losses will reduce the overall tax burden, reward high-risk capital investments and improve business sustainability during early-stage operations. Given the capital-intensive nature and prolonged development timelines of the space industry, the existing eight-year limit is inadequate.

### **5. Clarity on deduction for licence fees and spectrum usage charges**

**Ask:** At present, Sections 35ABB and 35ABA of the Income-tax Act allow deductions for telecom licence fees and spectrum usage charges applicable to telecommunication service providers. However, these provisions do not explicitly extend to entities operating in the space sector. The scope of these sections should be expanded to cover licence fees and spectrum usage charges incurred by companies engaged in space-based communication and related services.

**Outcome:** Extending these provisions to the space sector will provide much-needed tax clarity and eliminate potential disputes regarding the deductibility of such expenses. This measure will ensure consistency in tax treatment, reduce litigation risk and promote certainty and stability for companies investing in space-based operations.

### **6. Rationalisation of withholding tax on royalty and interest payments**

**Ask:** The current rate of withholding tax on royalty payments (which includes transmission/process) should be reduced from 10 percent to 2 percent to ease pressure on working capital. Further, Section 194LC, which provides for a reduced withholding tax rate on interest payments to non-residents at 5 percent (currently 20 percent), should be reintroduced.

**Outcome:** Rationalising withholding tax rates will ensure smoother working capital management for companies in the space sector by reducing the liquidity strain due to higher or inconsistent tax deductions. This will improve liquidity and enhance operational efficiency across the value chain. Additionally, reinstating a reduced 5 percent withholding tax rate on interest payments to non-residents will encourage foreign lenders to extend greater financial support to companies.

**Rationale:** Improving the ease of doing business is essential to attract continuous investments in the space sector. One of the key enablers of this is ensuring efficient working capital management for industry participants. Rationalising withholding tax rates will ease cash flow constraints and enhance tax certainty and compliance simplicity.

## Policy recommendations

### Recommendation #1: Streamline investment implementation and governance framework

Details: Establish a coordinated implementation mechanism under the Department of Space with representation from the Ministry of Finance, NITI Aayog and IN-SPACe.

This body should:

- Oversee notification of fiscal measures such as GST and Customs Duty relief through a time-bound inter-ministerial process.
- Develop clear investment and governance guidelines for the venture fund, including eligibility, performance monitoring and private-sector participation frameworks.
- Institute annual progress reviews of all space sector budget interventions, linking them to measurable outcomes in manufacturing growth, start-up participation and technology adoption.

Expected impact: The recommendation will ensure that fiscal and financial instruments proposed for the sector are executed uniformly and transparently. It will also reduce inter-agency friction, create accountability for implementation and maintain alignment between policy intent and on-ground impact.

### Recommendation #2: Drive adoption and capability through public sector integration

Details: To translate the benefits of the geospatial and service adoption initiatives into measurable national gains, the government should issue an administrative directive. This directive will require all central ministries and state departments to integrate space-based data and analytics into programme design and monitoring.

This should be accompanied by:

- Dedicated budget provisions in departmental plans for procurement and use of domestic EO and navigation services.
- Training and capacity-building programmes for public officials to interpret and utilise satellite-derived insights.
- Establishing common data-sharing and interoperability standards, managed through IN-SPACe, to avoid duplication of investments across agencies.

Expected impact: The recommendation will create sustained institutional demand for Indian space and geospatial services while improving policy delivery and infrastructure management. It will build capacity within the public system to use satellite data effectively and support the larger economic and developmental objectives of space sector reforms.

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