SHARP & TANNAN

UNION BUDGET 2026-27

EXECUTIVE SUMMARY

Sharp & Tannan View – Executive Context

The Union Budget 2026–27 is best understood as a **continuity budget with quantified execution signals**, rather than a rate or incentive driven reset. From a boardroom standpoint, three messages are unmistakable: **(i) macro stability with fiscal consolidation, (ii) sustained public capital expenditure as the principal growth lever, and (iii) structural tax reform through simplification rather than rate changes**.

For promoters, boards, CXOs and senior finance leaders, the Budget provides confidence on predictability while simultaneously demanding sharper governance, cleaner tax positions and tighter compliance systems. The absence of headline corporate tax rate changes is deliberate; the real impact lies in **numbers, trajectories and transition timelines**.

Macro Economic Framework: Numbers that Matter

Growth and Size of the Economy

- Real GDP growth (FY 2025–26): ~7.4% (official estimate).
- Nominal GDP growth (FY 2026–27): ~10%, underpinning revenue buoyancy.
- India continues to be positioned among the fastest-growing large economies globally.

Fiscal Deficit and Consolidation Path

- Fiscal deficit (FY 2026–27 BE): ~4.3% of GDP.
- FY 2025–26 RE: ~4.4% of GDP.
- Clear commitment to glide-path consolidation without curtailing growth expenditure.

Government Borrowings and Debt

- Gross market borrowings (FY 2026–27): ~INR 17.2 lakh crore.
- Net market borrowings: ~INR 11.7 lakh crore.
- Central government debt-to-GDP: ~55–56%, on a marginally declining trajectory.

Revenue and Expenditure Snapshot

- Net tax receipts (FY 2026–27 BE): ~INR 28.7 lakh crore.
- Gross tax revenue: ~INR 44 lakh crore (~8% YoY growth).
- Total expenditure: ~INR 53.5 lakh crore.
- Non-debt capital receipts (including monetisation/ disinvestment): ~INR 80,000 crore target.

Board takeaway: Macro numbers reflect discipline without austerity—supportive for long-term capital allocation decisions.

Public Capital Expenditure: The Primary Growth Engine

- Central Government capex (FY 2026–27): ~INR12.2 lakh crore.
- Increase over FY 2025–26 RE: ~11–12%.
- Capex at ~4.4% of GDP, among the highest in recent years.

Implications:

- Strong multi-year visibility for infrastructure, EPC, construction and core manufacturing.
- Continued crowding-in of private investment.
- Improved project bankability through monetisation and de-risking mechanisms.

Direct Taxes: Quantified Stability with Structural Change

New Income-Tax Law (Effective 1 April 2026)

- Comprehensive re-codification of the Income-tax law.
- No change in headline tax rates.
- Objective: simplification, reduced litigation, improved certainty.

Board-level impact:

- FY 2025–26 becomes a transition year.
- Early review of tax positions, legacy disputes, and system readiness critical.
- Potential impact on drafting, definitions, and procedural compliance.

Corporate Taxation

- Corporate tax rates unchanged (22% regime continues for most corporates).
- No expansion of sector-specific tax holidays or exemptions.

Key updates:

- **Minimum Alternate Tax (MAT) rationalised:**
  - MAT to be considered as final tax liability from 1 April 1 2026 under old regime.
  - MAT rate reduced from 15% to 14%.
  - MAT credit utilisation restricted to companies under the new tax regime.
  - Set-off of MAT credit for domestic companies capped at 25% of tax liability. For foreign companies, set-off of MAT credit is to be allowed to the extent of difference between tax on total income and tax as per MAT.
  - Exemption from MAT to non-residents opting for presumptive taxation.
  - Only MAT credit accumulated up to 31 March 2026 eligible for carry forward.
- **Deductibility of an employee's contribution to specified funds:**
  - Currently, employees' contribution to specified funds such as provident fund and Employees' State Insurance are allowed as a deduction only if deposited within the statutory due date prescribed under the respective laws.
  - However, it is now proposed to allow deduction of an employee's contribution if such contribution is deposited on or before the due date for filing the return of income, even where payment is not made within the statutory due date.
- **Buy-back of shares taxed as capital gains** instead of dividend income.
- **Interest deduction disallowed** against dividend income and income from mutual funds from FY 2026-27.

- **Stay of demand**

Presently, a taxpayer can obtain a stay of demand on an order which is in appeal by paying 20% of the amount payable under the Act (including the amount of tax, interest, fee, penalty, or any other sum). The stay can now be availed by paying only 10% of the amount of tax.

- **Extended tax holidays**
  - Data centre service providers (foreign companies providing data centre services outside India).
  - A safe harbour of 15% to the resident entity providing data centre services to a related foreign company.
  - On certain incomes by international financial services centre ('IFSC') units and offshore banking units ('OBU'), the period of deduction under section 147 is increased to 20 consecutive years.
  - Income tax exemption (5 years) to foreign companies providing capital goods/equipments for electronics good manufacturing in a bonded zone in India.

- **Transfer Pricing reforms:**
  - Fast-track of unilateral APA process (target timeline: 2 years, extendable to 6 more months).
  - Rationalisation of safe harbour provisions.
  - Modified return filing now available to associated entities (allowed for APA-covered years).

- **FAST-DS-2026 disclosure scheme** introduced for voluntary disclosure of undisclosed foreign income/assets, with specified tax and penalty framework.
- As part of the budget speech, the Finance Minister has announced that Income Computation and Disclosure Standards (ICDS) will be repealed with effect from 1 April 2027 and a joint committee consisting of the Ministry of Corporate Affairs and the Central Board of Direct Taxes (CBDT) will be formed to integrate ICDS and the Indian Accounting Standards.

Implications:

- Predictability for long-term investments and M&A.
- Higher reliance on tax governance, documentation, and substance.
- Listed entities expected to maintain conservative and defensible tax positions.
- Board-level actions: reassess contingent liabilities, review cross-border structures, and prepare for new law transition.

Capital Gains and Capital Market Taxes

- Securities Transaction Tax ('STT') increased on derivatives.
- No change in long-term capital gains framework for equities.

Impact assessment:

- Marginal increase in transaction costs for high-frequency and derivative traders.
- Limited impact on long-term investors, promoters, and strategic divestments.
- Treasury and hedging strategies may require recalibration.

International Taxation and Cross-Border Matters

- Alignment with global transparency standards continues.
- Relaxation in reporting thresholds for small overseas assets.
- No material change in transfer pricing principles.

Key actions:

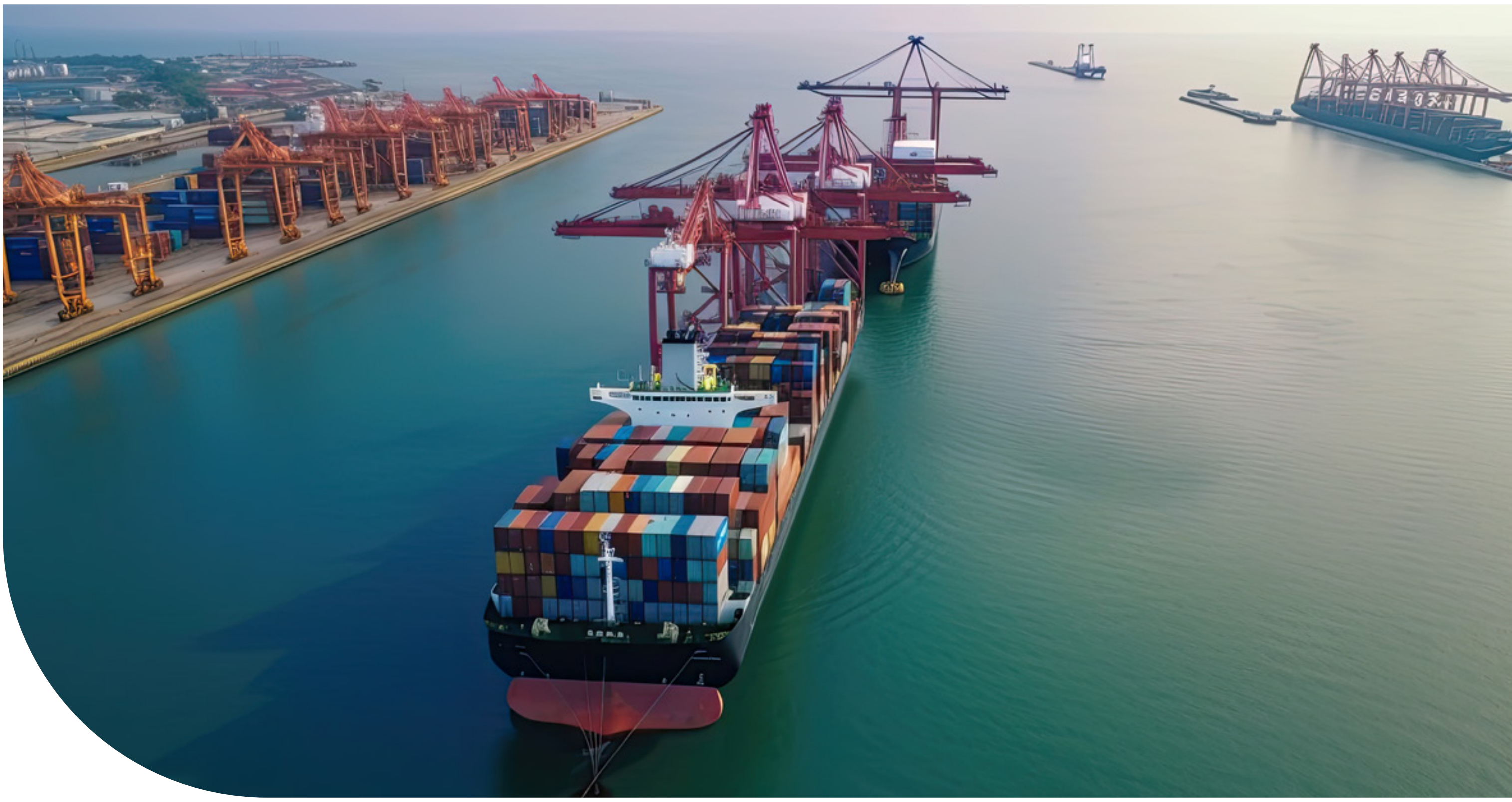
- Review cross-border holding structures and APA timelines.
- Strengthen transfer pricing documentation and inter-company pricing governance.
- Monitor CBDT rules, clarifications, and subordinate legislation.

Compliance, Litigation and Risk

- Policy thrust on dispute reduction and faster resolution.
- Encouragement of trust-based compliance.

Governance relevance:

- Potential reassessment of contingent liabilities.
- Improved certainty in provisioning and audit reporting.
- Greater audit committee oversight on tax risk.
- Board level readiness ensures smooth transition to new Income-tax law and minimises litigation exposure.



Indirect Taxes: GST & Customs (Data-Driven Focus)

GST

- No major rate changes announced.
- Continued emphasis on analytics-led enforcement and tighter GST-income-tax-customs reconciliation.

Key updates:

- Place-of-supply rules revised for intermediary services to reduce disputes.
- Post-supply discount rules simplified, allowing credit notes with proportionate ITC reversal.
- Provisions of 90% provisional refund are extended to refunds arising out of inverted duty structure.

Business impact:

- Compliance quality directly impacts cash flows and working capital.
- Classification, valuation, and credit discipline remain critical.

Customs Duty

- Customs aligned with performance linked incentives ('PLI') and Make-in-India objectives.
- Targeted duty rationalisation to support domestic manufacturing.
- Protection for strategic sectors: electronics, chemicals, auto components.
- Customs duty exemptions on select capital goods and inputs (including Li-ion cells, aircraft parts) to support domestic manufacturing.
- Customs warehousing reforms moving towards operator-centric compliance and electronic tracking.

Implications for boards and operations:

- Reduced import cost and supply chain predictability for strategic manufacturing.
- Improved capital planning for energy, infrastructure, logistics, and high-tech sectors.
- Enhanced liquidity for exporters and MSME vendors.

Sectoral Impact: Where the Numbers Translate into Business (Top 10 Sectors)

Infrastructure, EPC and Construction

- Central Government capex: ~INR 12.2 lakh crore (≈4.4% of GDP), YoY growth ~11%–12%.
- Asset monetisation target of ~INR 80,000 crore improves funding depth.
- Infrastructure Risk Guarantee framework strengthens PPP and HAM bankability.

Manufacturing and Industrial Goods (Auto, Chemicals, Textiles, Engineering)

- Semiconductor Mission 2.0 (~INR 40,000 crore) and chemical/industrial parks reinforce domestic value chains.
- Auto and auto-ancillary sectors benefit from localisation and scale efficiencies.
- Manufacturing competitiveness driven by PLI-aligned ecosystems, not incremental tax incentives.

Financial Services (Banks, NBFCs, HFCs, AMCs)

- Fiscal deficit moderation (~4.3% of GDP) and predictable borrowing reduce crowding-out risk.
- Stable macro conditions support credit growth, housing finance and infrastructure lending.
- STT increase impacts derivatives trading economics, not long-term capital formation.

Information Technology, ITES and Global Capability Centres

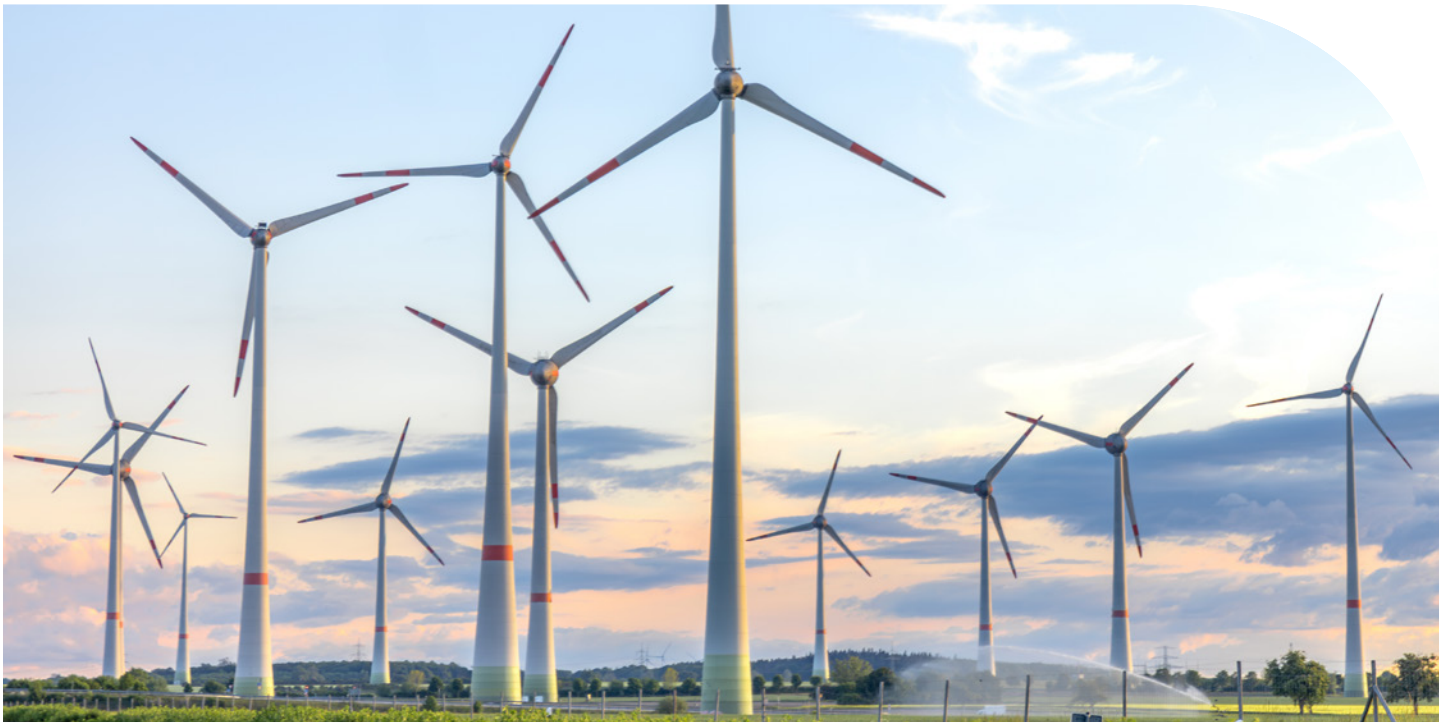
- Policy continuity, digital public infrastructure and skilling initiatives sustain services exports.
- India remains a preferred GCC destination with no adverse tax or regulatory changes.

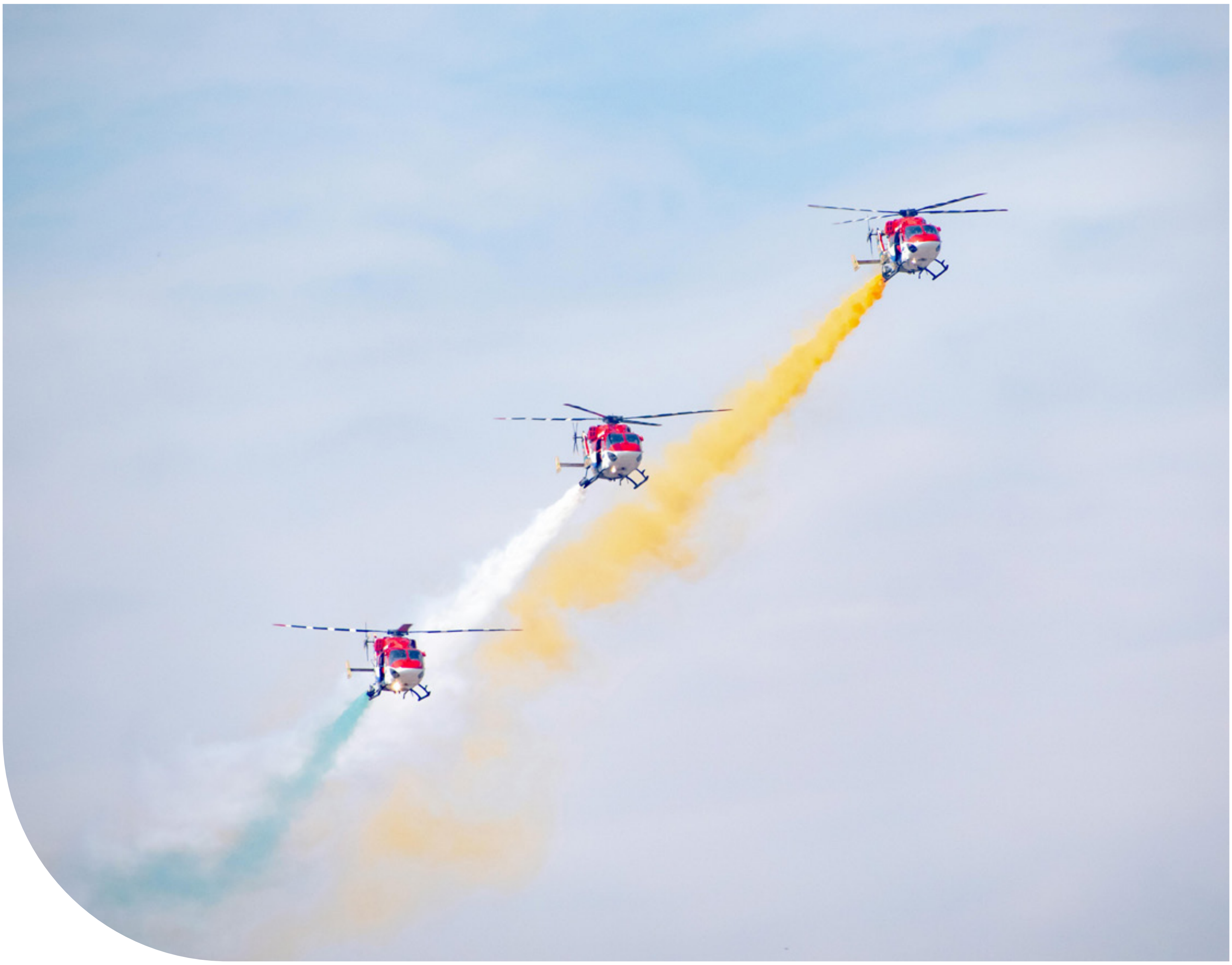
Energy, Power and Renewables

- Continued support for clean energy, rail electrification and grid modernisation.
- Targeted customs duty rationalisation improves viability of energy transition projects.
- Medium-term opportunities in storage, transmission and allied manufacturing.

Pharmaceuticals, Healthcare and Life Sciences

- INR 10,000 crore Biopharma SHAKTI supports biologics, biosimilars and innovation-led pharma.





- Positive spill-over for R&D, clinical research, manufacturing and exports.

Agriculture, Agri-Business and Food Processing

- Allocation of ~INR 1.63 lakh crore for agriculture, allied activities and high-value crops.
- AI-led initiatives such as Bharat Vistar improve productivity and advisory reach.
- Food processing and agri-exports benefit from value-addition focus.

Defence and Aerospace

- Capital outlay growth of ~22% YoY with strong domestic procurement emphasis.
- Expanding opportunities for defence manufacturing, aerospace components and MSME suppliers.

MSMEs and Start-ups

- INR 10,000 crore SME Growth Fund enhances access to growth capital.
- Strengthening of Trade Receivables Discounting System ('TReDS') and Government e-Marketplace ('GeM') improves liquidity and formalization.
- Indirect but material benefits for large corporates dependent on MSME vendors.

Logistics, Transport and Supply Chain

- Integrated push across rail, ports, roads, waterways and container manufacturing.
- Structural reduction in logistics cost as a percentage of GDP over the medium term.

Governance, ESG and Strategic Boardroom Takeaways

- Reinforce sustainability and responsible growth, integrating ESG with capital allocation, risk, and long-term value creation.
- Boards to align fiscal, tax, sustainability, and operational strategies for cohesive decision making.
- Prepare for the new Income-tax law transition; strengthen tax governance, compliance, and dispute management.
- Capex and growth strategies should leverage infrastructure-led opportunities and policy-backed manufacturing ecosystems.
- Incorporate ESG-aligned investments across energy, logistics, manufacturing, and social infrastructure.
- Leverage macro-stability and fiscal predictability for long-term strategic planning, M&A, and treasury decisions.
- Monitor implementation timelines and subordinate legislation.

Other Key Takeaways and Cross-Sector Themes

Infrastructure De-Risking and Private Capital Participation

- Infrastructure Risk Guarantee framework to crowd-in private capital for large, long-gestation projects.
- Enhances bankability of PPP, EPC and hybrid annuity structures.

Logistics, Connectivity and Trade Enablement

- Seven new high-speed rail corridors and expansion of freight corridors and national waterways.
- Improves logistics efficiency and export competitiveness.

Manufacturing Value Chains and Strategic Materials

- Focus on rare-earths, container manufacturing and electronics components.
- Long-term policy support for capital-intensive manufacturing ecosystems.

Services Exports and Employment Linkages

- Education-to-Employment & Enterprises (E2E) Committee to align skilling with services exports.
- Relevant for IT/ITES, consulting, financial services and GCCs.

Energy Transition and Sustainability Signals

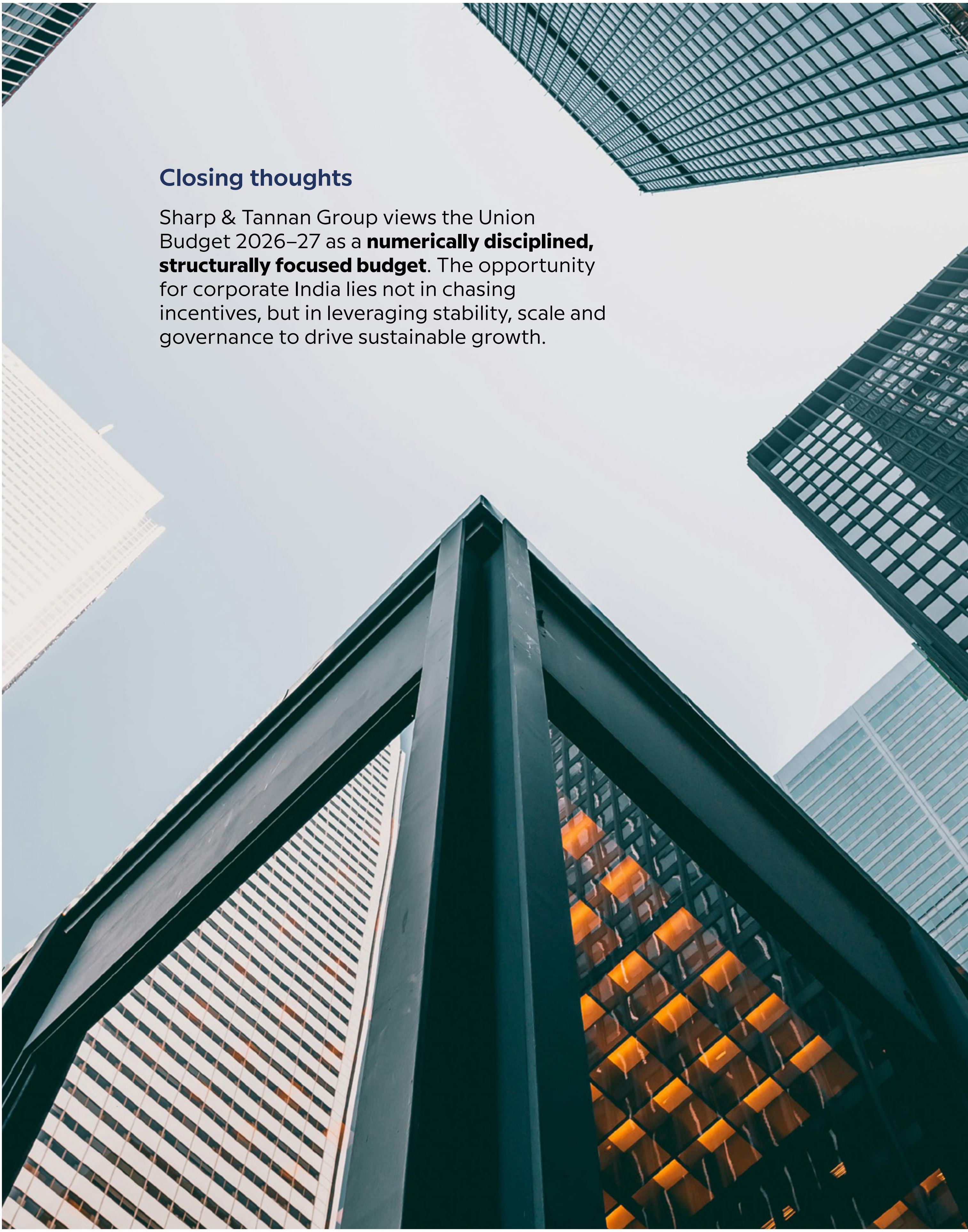
- Policy continuity for clean energy, storage, rail electrification and nuclear power.
- Reinforces ESG-aligned capital allocation.

Capital Markets

- STT increase raises short-term transaction costs but does not alter long-term investment thesis.
- Fiscal consolidation and capex-led growth support long-horizon investors.

Closing thoughts

Sharp & Tannan Group views the Union Budget 2026–27 as a **numerically disciplined, structurally focused budget**. The opportunity for corporate India lies not in chasing incentives, but in leveraging stability, scale and governance to drive sustainable growth.



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