

## A Sectoral Take on Union Budget 2026: The Indirect Tax Story

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The Union Budget 2026 emerges as a considered blueprint for economic recalibration, spanning multiple sectors with a clear intent to strengthen India's productive capabilities. Central to this vision is a purposeful focus on developing human capital through targeted skilling initiatives, one of the three "kartavyas" that form the philosophical foundation of this fiscal framework. This is not merely a routine budgetary measure; rather, it signals a conscious acknowledgement that India's sustained economic progress must be anchored in a skilled, resilient, and future-ready workforce.

At a time when India's economy is on a clear upward trajectory, with expanding trade corridors and deepening capital flows, the Budget charts a confident course toward the vision of "Viksit Bharat." Its overarching theme reflects a commitment to balanced and inclusive growth, stronger integration with global markets, and the creation of an environment that fosters sustained investment. Within this broader economic framework, the Government has introduced a comprehensive set of reforms aimed at generating employment, boosting productivity, and driving industrial progress across key sectors such as textiles, leather, footwear, marine products, renewable energy, pharmaceuticals, and defence manufacturing.

### 1) Textiles, Leather & Footwear: Aligning Customs Law with commercial realities

The textiles, leather, and footwear sector has been a key source of employment and export earnings, and the Budget has eased certain customs requirements in recognition of the practical challenges of modern supply chains. The earlier six-month export obligation period for duty-free imported inputs was often difficult to meet due to longer production cycles, seasonal demand, and delays from buyers.

By extending the period to one year, the Government has aligned the law more closely with business realities. This change is not a relaxation but a practical adjustment that reduces the risk of unintentional non-compliance while maintaining the strength of the export promotion framework. It is expected to lower procedural difficulties, improve cash flow

management, and provide greater certainty to exporters operating in uncertain global markets.

The increased allowance for duty-free import of specified inputs for shoe-upper manufacturing aims to reduce production costs in a sector facing strong competition from Southeast Asia. This measure is expected to sharpen India's pricing competitiveness, stimulate higher-value manufacturing, and reduce dependency on inferior domestic substitutes.

Complementing these fiscal measures, the proposed Mega Textile Parks, to be set up through a competitive model, indicate a move toward large, organised industrial clusters. At the same time, increased support for khadi and rural artisans shows continued commitment to grassroots economic participation. The focus on technical textiles reflects the aim to shift from traditional, low-margin products to more advanced and innovation-based manufacturing. Together, these steps are intended to move the sector from mainly volume-based exports to higher value-added global integration.

## **2) Pharmaceuticals & Healthcare: Strengthening Innovation, Access, and Regulation**

India with the rising burden of non-communicable diseases such as cancer, diabetes, and auto-immune disorders, which has increased the demand for advanced and affordable medical treatments. Recognising this shift, the Government has launched the "Biopharma SHAKTI" initiative, committing ₹10,000 crore over five years to strengthen India's position as a global hub for biologics and biosimilars.

This initiative aims to reduce dependence on expensive imported medicines and promote domestic research and manufacturing of advanced therapies. Measures such as upgrading pharmaceutical research institutions, expanding clinical trial infrastructure, and strengthening the drug regulatory authority are expected to improve the overall quality, speed, and reliability of drug development and approvals in India.

At the same time, the Government is also supporting traditional medicine by investing in new Ayurveda institutes and improving testing facilities, ensuring that traditional healthcare systems are backed by scientific research and quality standards.

To make healthcare more affordable, the Budget has provided customs duty exemptions on 17 cancer drugs and expanded duty-free personal imports of medicines for certain rare diseases. These steps are expected to lower treatment costs, improve access to life-saving medicines, and reduce the financial burden on patients and hospitals. Notably, customs duty exemptions on certain cancer drugs do not automatically extend to IGST relief on imports, thereby preserving potential GST incidence unless separately exempted.

## **3) Renewable Energy & Battery Storage: Laying the Fiscal Foundation for a Low-Carbon Future**

The Budget's customs duty rationalisation for renewable energy and battery storage components represents a strategic recalibration aligned with India's climate commitments and industrial aspirations. The exemption on capital goods used in lithium-ion cell manufacturing for Battery Energy Storage Systems (BESS) is particularly consequential, given that energy storage remains the Achilles' heel of India's renewable transition.

This measure was necessitated by the high capital intensity of domestic battery manufacturing, which had hitherto rendered indigenous production commercially tenuous. By alleviating upfront customs costs, the Government has sought to catalyse investment in

this critical segment, thereby enhancing grid stability and energy security.

Similarly, the duty relief on monazite and sodium antimonate reflects an astute recognition that India's clean energy ambitions are contingent upon secure access to critical minerals. These exemptions are likely to invigorate domestic supply chains for electric vehicles, solar glass, and high-performance magnets.

The extension and expansion of customs exemptions for nuclear power projects until 2035 further underscore a commitment to long-term policy certainty and by lowering project costs and reducing fiscal unpredictability, this reform is poised to accelerate nuclear capacity addition and diversify India's low-carbon energy mix.

In totality, these measures signal a decisive shift from import dependency toward domestic capability-building, in consonance with the "Make in India" doctrine.

#### **4) Marine & Fisheries**

The treatment of fish caught in India's Exclusive Economic Zone (EEZ) has long occupied a grey area within customs jurisprudence. The Budget's clarification that such catch shall be duty-free when landed at Indian ports and treated as exports when landed abroad rectifies an enduring legal ambiguity that had impeded operational efficiency and investment in deep-sea fishing.

This reform was imperative to ensure tax neutrality for Indian-flagged vessels and to prevent anomalous customs outcomes that disadvantaged domestic operators vis-à-vis foreign fleets. The anticipated impact is enhanced competitiveness, greater certainty in cross-border transactions, and a more level playing field for Indian fisheries.

The increase in duty-free import entitlement for seafood exporters from 1% to 3% of FOB value reflects a pragmatic response to rising input costs and global supply chain pressures. This expansion is likely to strengthen processing capabilities, improve export margins, and encourage higher value addition within the sector.

Beyond taxation, the proposed development of reservoirs, Amrit Sarovars, and coastal value chains signals a holistic approach to fisheries governance, one that integrates infrastructure, entrepreneurship, and women-led participation. The overarching objective is to transform fisheries from a subsistence-oriented activity into a commercially vibrant and sustainable industry.

While the measure is primarily customs-driven, clearer delineation of export treatment for catches landed abroad would support seamless zero-rating of supplies under GST for Indian-flagged vessels, whereas duty-free landings at Indian ports would continue to feed into taxable domestic supplies, preserving input tax credit flows across the fisheries value chain.

#### **5) Cross-Sector Indirect Tax & Customs Reforms: Towards a Digitised and Taxpayer-Friendly Regime**

The Budget's miscellaneous customs reforms collectively embody a broader philosophy of procedural simplification and digital governance. Revised baggage rules, app-based declarations, and streamlined payment mechanisms respond to the practical frustrations faced by travellers and NRIs, reducing discretionary friction at ports of entry.

The proposed electronic framework for warehouse-to-factory movement of goods represents a paradigm shift in supply chain compliance, one necessitated by the

proliferation of multi-location operations. By minimising physical documentation and enabling real-time traceability, this reform is poised to reduce litigation and administrative bottlenecks.

Equally significant is the proposal to treat voluntary customs payments as non-punitive, a reform that aligns enforcement with fairness and encourages good-faith compliance. The phased rollout of the Customs Integrated System (CIS) further reinforces the move toward a unified, technology-driven border management architecture.

In the energy domain, the exclusion of biogas value from Central Excise computation on blended CNG represents a fiscally enlightened approach to green fuels, likely to stimulate biogas production and rural entrepreneurship.

Finally, the exemption of Basic Customs Duty on raw materials for aircraft MRO activities is a strategic intervention aimed at nurturing domestic aerospace capabilities, reducing foreign dependence, and advancing India's self-reliance in defence and civil aviation maintenance.

## **Our Comments**

The Union Budget 2026 reflects a judicious synthesis of economic pragmatism and developmental priorities, seeking to align fiscal policy with the twin objectives of growth acceleration and long-term structural transformation. By prioritising essential goods, strategically significant sectors, and future-oriented technologies, the Government has attempted to balance revenue considerations with the imperatives of affordability, competitiveness, and self-reliance.

A notable feature of the Budget is its emphasis on rationalising indirect tax structures and customs duties to support domestic manufacturing, enhance supply chain resilience, and encourage value addition within the country. Targeted relief measures, particularly in sectors such as healthcare, pharmaceuticals, and advanced manufacturing, underscore a calibrated approach aimed at reducing input costs, improving access, and fostering innovation without materially compromising fiscal discipline.

Importantly, the proposed reforms go beyond incremental tariff adjustments. They seek to reshape economic incentives, streamline compliance mechanisms, and recalibrate the interface between taxpayers and the administration. The continued focus on simplification, clarity, and dispute reduction reinforces the Government's intent to provide a stable, predictable, and facilitative tax environment conducive to both domestic and foreign investment.

From a broader policy perspective, Budget 2026 signals a gradual but discernible transition from a control-centric indirect tax framework towards one anchored in facilitation, certainty, and greater alignment with global trade and taxation practices. This shift is particularly evident in measures aimed at harmonising customs and GST policies, strengthening regulatory capacity, and promoting transparency in administration.

That said, the effectiveness of these initiatives will depend significantly on timely implementation, issuance of clear subordinate legislation and guidance, and close coordination across tax and regulatory authorities. Sustained policy certainty, administrative capacity building, and consistent stakeholder engagement will be critical to ensure that the intended benefits translate into tangible improvements in ease of doing business, competitiveness, and investor confidence.

Overall, Budget 2026 lays a coherent foundation for fostering inclusive growth,

strengthening industrial capabilities, and positioning India more firmly within global value chains, while maintaining a prudent and forward-looking fiscal stance.