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INDIRECT TAXES

Growth engine for developed India charged up for an uncertain world

The Budget meets industry expectations by simplifying tariff structures, boosting domestic manufacturing through duty corrections, and leveraging AI to automate trade processes for a trust-based, high-growth economy. By **PwC India**

With the global economic conditions being volatile and fragmented, there were high expectations by the taxpayers from the Union Budget 2026 to navigate through the path of uncertainties, and continue driving towards sustained growth.

In the pre-Budget discussion, the expectations of the industry revolved around multiple agenda items, out of which it appears that the following have been touched upon:

1. A boost to domestic manufacturing with a focus on reducing production costs, and increasing global competitiveness
2. Automation of compliances/processes to reduce human intervention
3. Provide certainty on trade practices and reduce litigation
4. Correct inversions in the duty rate to reduce working capital
5. Promote ease of doing business and develop a trust-based system

The government, via the Union Budget, has announced various reforms in the direction to achieve India's ambition to sustain a 7 per cent growth trajectory. Under indirect tax, the reforms have been focused on simplifying the tariff structure, supporting domestic manufacturing, promoting export competitiveness and correcting inversions in duty. With a special focus on strategic sectors such as renewable energy, critical minerals, defence, nuclear power, textiles and electronics.

Further, continuing the earlier ambition of "Viksit Bharat" and "ease of doing business", reliance is placed on the use of technology to automate Customs processes and have minimal intervention for smoother and faster movement of goods and use AI technology for risk assessment activities.

Overall, the Budget appears to have met many industry expectations, which has been discussed in detail below:

Customs and excise reforms

The Union Budget 2026-27 introduced a series of forward-looking Customs reforms aimed at making trade easier, supporting exporters, and encouraging sustainable practices, all while protecting government revenue.

To start with, there are various measures being announced for ease of living for people at large. From April 1, 2026, all personal imports will attract a single Customs duty rate of 10 per cent, replacing the previous slabs system of 10 per cent and 20 per cent. This change simplifies the process for individuals importing goods for personal use.

For international travellers, the government has notified the new Baggage Rules, 2026, replacing the earlier 2016 rules. These new rules increase duty-free allowances, clarify the process for those returning to India, and ensure uniform standards at all entry points. The focus is on addressing genuine traveller concerns and making the process smoother, not stricter.

To promote green fuels, the excise duty on biogas blended compressed natural gas (CNG) will now apply only to the fossil fuel portion, making green gas blends more affordable and competitive. In parallel, the additional excise duty of ₹2 per litre on unblended diesel has been deferred till March 31, 2028.

Government is moving more towards Trust-Based Systems. Higher-tier Authorised Economic Operators (AEOs) are now permitted to defer payment of import duty monthly, with the duty payment period extended from 15 days to 30 days. This change is designed to ease working capital pressures for trusted importers, allowing them more flexibility in managing cash flow, while Customs oversight and compliance requirements remain robust.

A new class of importers, termed Eligible Manufacturer Importers, has been introduced and permitted to avail the deferred payment of import duty facility up to March 31, 2028. This measure is expected to encourage these

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importers to seek accreditation as full-fledged Tier-III AEOs in due course, further integrating them into the trusted trader program and enhancing the overall security and efficiency of the Customs ecosystem.

The validity of Customs advance rulings is being extended from three to five years, with an option to extend existing rulings, giving businesses more certainty for planning.

The Customs warehousing system is being modernised, allowing warehouse operators to move goods between warehouses under set conditions, reducing delays and paperwork.

Ease of doing business has been brought in the area of Customs clearance. For goods not needing compliance checks, filing a bill of entry and arrival of goods will automatically notify Customs, allowing immediate release. Approvals from various agencies will be processed through a single digital window, making the process faster and more predictable.

A new Customs Integrated System is set to be rolled out in two years which will unify all Customs processes, reducing paperwork.

In addition, the use of non-intrusive scanning technologies, advanced imaging, and artificial intelligence will be expanded with the goal of scanning every container at major ports. This will enhance security, reduce the need for physical inspections, and expedite the movement of goods through ports.

As a one-time measure, eligible special economic zone (SEZ) manufacturing units can sell a limited quantity of goods to the domestic market at concessional duty rates, helping SEZs utilise capacity during global trade disruptions while maintaining fair competition for domestic businesses.

GST framework

The Finance Bill, 2026 proposes important changes to India's goods and services tax (GST) framework.

GST relief for post-sale discount (i.e. discount given after the sale) has been granted. GST is charged on the supplies made, but if post supply a discount is given, typically it would lead to excess tax paid on the said transaction. Normally, the supplier would issue a credit note to the buyer and thereby reduce its GST liability. But there was a need to have a pre-agreed discount in writing and supported by robust documentation. In the proposed Finance Bill, the said requirement has been done away as long as a credit note is issued by the supplier and input tax credit has been reversed by the buyer.

Many industry players such as textiles, pharma, fast-moving consumer goods (FMCG) are facing working capital blockage, where GST paid on purchases is more than the GST paid on sales — a situation known as inverted duty structure. Although the GST law allows taxpayers to claim refunds of accumulated differential, the refund process often takes considerable time and effort. To fast track such refunds and reduce working capital blockage, it has been proposed to grant 90 per cent of the refund amount as provisional refund.

The global concept in international trade is not to export taxes. Meaning, exports should be tax free. So typically, for an Indian exporter of services, GST would not have been levied on their supplies to overseas customers. However, an exception was carved out in case the Indian entity qualified as an "intermediary", which was defined to mean a person who arranges or facilitates supply of goods and services. There have been a large number of disputes on the determination of an "intermediary". The good news is that this Budget proposes to remove the concept of intermediary. This would mean that the general rule of interpretation applies to decide the exporter criteria. Accordingly, if the customer is outside India, the place of supply will be treated as outside India, making it easier to treat such services as exports and claim refunds.

However, one has to be mindful that in case of a reverse situation, i.e., if the customer is in India, then the transaction will qualify as imports and accordingly tax is payable in India.

Unfinished agenda

As previously stated by the Finance Minister, the Budget proposals do include aspects relating to revamping of Customs regime. It also streamlines many challenges faced by tax payers on day-to-day carrying out business. Focus has also been on prioritising growth in strategic manufacturing sectors, taking the 'Make in India' objective further.

However, there could be a few more initiatives which the government could have considered.

The recently announced Economic Survey has recommended that considering India's manufacturing and global value chain potential, there is a need to streamline the cross border operating rules that impact the transaction costs and investor confidence. The two regulations, Customs valuation and transfer pricing (under income tax) for related party transactions should be more coordinated. These regulations have opposite objectives, that is, Customs ensures proper valuation of goods, while transfer pricing tries to ensure that there is no over pricing of imports. Both are based on the arm's length principle. The government must look at moving towards a more collaborative convergence approach. This will ensure greater certainty and predictability of the tax outcomes for businesses while safeguarding the revenue interests.

Alternatively, and as an interim measure, the government could consider introducing a mechanism that allows companies to obtain, in advance, an agreed Customs valuation methodology for related-party transactions, in the lines of the advance pricing agreement (APA) regime under the income tax law. This will bring in tax certainty for businesses.

Extension of validity of Customs advance ruling from three years to five years is a welcoming move. This positive step could be further strengthened by increasing the number of benches, which would help expedite the issuance of rulings, reduce pendency, and improve access for stakeholders across different regions.

On technology, the government should look at introduction of digitisation in Customs adjudication and litigation. Gone are the days where manual filings were the norm. Currently, the process in Customs is completely physical. A roadmap may be devised and implemented to further augment the automation drive in Customs. Reference could be taken from GST law where such processes are all digitised.

Government should also consider maintaining a centralised database for trade notices to make available to importers/exporters. Presently, trade notices are being issued by various Customs Commissionerates to facilitate export and import processes. These trade notices can be viewed through the website of the respective Commissionerate, or at times the tax payer has to personally visit the Customs office to obtain such trade notices. This results in unnecessary procedural hassles and lacks assessment transparency. Maintaining a centralised database will ease doing business for importers and exporters.

Lastly, the introduction of a comprehensive Customs amnesty scheme has been a long-standing demand of industry, which continues to be a pressing need for effectively resolving legacy issues and the substantial volume of ongoing and past litigations in the domain.

The government has, in summary, sustained its emphasis on rationalising and simplifying the Customs tariff structure, advancing the modernisation and automation of Customs processes, bolstering export opportunities, and enhancing the overall ease of doing business.

By Anita Rastogi — Subject matter expert

Easing business

The Budget announced several indirect tax measures to make trade easier and encourage business. Some of them are:

- All personal imports will attract a single customs duty rate of 10%, replacing earlier slabs
- New baggage rules increase duty-free allowances, clarifying the process for people returning to India
- Warehouse operators will be allowed to move goods between facilities under specific conditions, reducing delays and paperwork
- Excise duty on biogas-blended CNG will apply only to fossil fuel portion, making green gas blends more affordable
- Validity of Customs advance rulings extended from three to five years, with an option to extend existing rulings