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Union Budget 2026

INDIRECT TAX PROPOSALS





Proposed Customs legislative changes

Extension of the Customs Act, 1962 to fishing activities in international waters

The application of the Customs Act, 1962 is proposed to be extended to international waters/ high seas for the purposes of fishing and fishing related activities by an Indian-flagged fishing vessel. No customs duties will be levied on such fish harvested by an Indian-flagged fishing vessel. Further, such fish harvested which land at a foreign port will be treated as an export from India.

[Ref: Clauses 129, 130 and 133 of the Bill]

Comments:

The Central Government vide the Sustainable Harnessing of Fisheries in the Exclusive Economic Zone Rules, 2025 notified under the Territorial Waters, Continental Shelf, Exclusive Economic Zone and Other Maritime Zones Act, 1976 has declared fish harvested in the Exclusive Economic Zone as being of Indian origin. Now, by exercising rights under Article 87 of the United Nations Convention on the Law of the Sea, fish harvested by the Indian-flagged fishing vessels on the high seas (i.e., beyond the Exclusive Economic Zone) is proposed to be considered as of Indian origin. The detailed prescriptions and conditions including reporting requirements will be provided by way of rules, to be introduced later.

Extension of binding effect of advance rulings

The period of the binding effect of an advance ruling under the Customs Act, 1962 is proposed to be increased from the current three (3) years to five (5) years.

[Ref: Clauses 132 of the Bill]

Comments:

This measure simplifies trade operations, providing greater predictability for importers and exporters.

Facilitating ease of movement for bonded goods

The existing requirement of prior permission of the proper officer of customs to move goods from one customs bonded warehouse to another is proposed to be removed.

[Ref: Clauses 134 of the Bill]

Comments:

This is also a process simplification measure and aimed at reducing permission bottlenecks and instead, adopt the self-assessment mechanism. In order to operationalise this, the Warehoused Goods (Removal) Regulations, 2016 will be required to be suitably amended/ updated.



Introduction of Baggage Rules, 2026

With effect 2 February 2026, new Baggage Rules has been introduced to rationalise baggage provisions for the international passengers. The notable allowances and changes are as follows:

1. General baggage allowance has been increased from INR 50 Thousand to INR 75 thousand.
 - No baggage allowance for passengers entering India through land route.
 - Tourists will have a duty-free baggage allowance of INR 25 Thousand.
2. In addition, "used personal effects" required for satisfying "daily necessities of life and travel souvenirs", carried on the person or in his *bona fide* baggage would be allowed duty free clearance without any value limit.
3. General baggage allowance and used personal effects exclude firearms, cartridges of firearms exceeding 50 numbers, cigarettes exceeding 100 sticks, cigars exceeding 25 pieces, tobacco exceeding 125gms, alcoholic liquor or wines in excess of two litres, gold or silver in any form other than ornaments and television.
4. All passengers will continue to enjoy duty-free import of one new laptop (including notepad).
5. Indian residents, NRIs and OCIs living abroad for over a year can bring in duty-free jewellery up to 40 grams (female passengers) and 20 grams (others) in *bona fide* baggage.
6. Duty-free reimport of dutiable goods in *bonafide* baggage by the Indian residents, NRIs and OCIs or a foreigner with a non-tourist visa will be allowed on the basis of export declaration made at the time of departure from India. Such declaration can now be made electronically at Atithi App. It also allows tourists to temporarily import articles for their stay subject to them being re-exported. Such passengers may be subjected to a risk-based verification.
7. Duty free allowances under TR have been substantially increased. A dedicated transfer of residence scheme has been introduced for foreigners on non-tourist visas.

[Ref: Notification No. 14/2026-Customs (N.T.) dated 1 February 2026]

Comments:

The most significant amendment in the Baggage Rules, 2026 pertains to the definition of "personal effects". New definition of "personal effects" excludes goods intended for commercial purposes. "Jewellery", which was expressly excluded under the Baggage Rules, 2016, now falls within the scope of "personal effects". However, certain subjective criteria have been introduced for such duty-free clearance through the definition of "personal effects" linked to "reasonably require for his personal use having regard to the "circumstances of the journey".



Under the erstwhile Baggage Rules of 2016, the Hon'ble Supreme Court of India restricted dutiability of jewellery brought by the passengers as baggage to only to newly acquired jewellery.¹ Thus, import/re-import of jewellery as personal effects will remain bone of contention even under the new Baggage Rules.

Further, the introduction of a dedicated transfer of residence scheme for foreigners on non-tourist visas acknowledges the needs of the expatriate community in India.

Benefits of Deferred Duty

The Benefit of Deferred Duty Payment is extended to "**Eligible Manufacturer Importer**". Further, the period of deferment of duty is being extended from the current fifteen (15) days to thirty (30) days.

[Ref: Notification No. 12/2026-Customs (NT) dated 1 February 2026 read with Circular No. 03/2026-Cus dated 1 February 2026]

Comments:

Benefit of deferred duty payment which is available to Authorised Economic Operators has been extended to Importer Manufacturers. This is measure towards greater ease of doing business, will reduce working capital requirements and increase liquidity.

Enhancing trade facilitation by reducing cargo dwell time

To reduce dwell time for import and export cargo, there are proposals to (i) introduce an automated entry and clearance of import and export goods and (ii) integrate regulatory requirements in a single window clearance.

[Ref: Circular No. 05/2026-Cus and 06/2026-Cus, both dated 1 February 2026]

Comments:

These measures streamline trade processes by expediting 'out of charge' and 'let export' orders. By replacing the manual physical examinations with a digitized, paperless framework, the new system significantly reduces processing times for both imports and exports. As of date, these relaxations are available for authorised economic operators and eligible manufacturer importers. The details of the digital environment and roles/ responsibilities of various stakeholders is yet to be released.

Digital oversight for import cargo inspections

It is now mandatory for customs officers to use body worn cameras for examination of import cargo with such recording to be preserved for a period of two years or conclusion of litigation, whichever is later. Further, examination will be scheduled through an electronic system (as an additional module to ICEGATE 2.0).

[Ref: Circular No. 07/2026-Cus dated 1 February 2026]

¹ Union of India v Saba Simram [(2025) 32 Centax 132 (S.C.)]



Comments:

Video recording of examination of cargo by customs officers by body-worn cameras will bring transparency, accountability and significantly improve trust.

Proposed rate changes under Customs

The tariff changes proposed in the Bill, 2026 are designed to support and promote domestic manufacturing. This is being achieved by systematically reviewing and withdrawing longstanding customs exemptions, thereby encouraging a shift towards domestic sourcing and supply chains.

The proposals also aim to rationalise the customs duty structure by reducing the number of tariff slabs and cesses. Notably, the duty on the import of personal goods is set to be reduced from 20% to 10%.

For Specific tariff rate movements, please refer to the below:

- [Annexure A](#)
- [Annexure B](#)
- [Annexure C](#)

Proposed rate changes under SWS and AIDC

SWS changes:

Specified goods are exempted from SWS vide notification No. 11/2018-Customs the effective duty incidence is unchanged and the following goods continue to remain exempted from levy of SWS. The changes are technical in nature.

Parts of electronic toys for manufacture of electronic toys are being exempted from SWS with effect from 02.02.2026. All goods under heading 9503 will be exempt from the levy of SWS Natural graphite (heading 2504), quartz and quartzite (heading 2506), silicon dioxide (tariff item 2811 22 00), and artificial graphite (heading 3801). This change will come into effect from 01.05.2026. Tariff item 2106 90 51 covering compound alcoholic preparations and goods under subheading 2106 90 will be exempted from SWS. This change will come into effect from 01.05.2026. Spent catalyst and ash containing precious metals falling under heading 7112 is exempt from SWS modified with effect from 01.04.2026. SWS will be levied on all goods falling under heading 9804 (all dutiable goods imported for personal use) with effect from 01.04.2026.

[Ref Notification No. 03/2026-Customs dated 1 February 2026].

AIDC changes:

The AIDC rate will continue unchanged at 0.5% for New pneumatic tyres, of rubber of a kind used on aircraft (other than those attracting NIL BCD) **with effect from 2 February 2026**.

[Ref Notification No. 03/2026-Customs dated 1 February 2026]



Proposed Goods and Services Tax legislative changes

The changes proposed to GST laws are pursuant to recommendations of the GST Council, which have been explained below:

Place of Supply of Intermediary Services

Section 13(8)(b) of the IGST Act dealing with intermediary services is proposed to be omitted. Accordingly, the place of supply for intermediaries will now be determined as per the default provision (i.e., location of recipient).

[Ref: Clause 141 of the Bill]

Comments:

Intermediary services will qualify for export benefits (as zero-rated supply), subject to other conditions for exports being met.

Previously, challenges to the intermediary provisions were rejected by the Gujarat High Court² and the Bombay High Court³, which upheld the law. In multiple cases, including a judgment of the Delhi High Court⁴, it has been observed that substantive services provided to companies abroad are not mere 'facilitation' as intermediary. The proposed amendment removes this distinction.

GST Treatment for Post-Sale Discounts

Section 15(3) of the CGST Act is proposed to be amended to discontinue with the requirement of linking post-sale discounts with underlying agreements and invoices. Such post-sale discounts will be allowed if a credit note has been issued by the supplier and proportionate ITC attributable to such discount has been reversed by the recipient. Corresponding changes have been prescribed under Section 34 of the CGST Act providing for the requirement of reversal of proportionate ITC by the recipient of such discount.

[Ref: Clauses 137 and 138 of the Bill, 2026]

Comments:

Existing requirements to link post-sale discounts to an agreement entered on or before supply had created compliance challenges and practical difficulties in established trade practices. For instance, in many cases discounts based on various performance metrics or volume achievements on sales could not be linked to a pre-existing agreement or an invoice. The amendment aligns GST provisions with commercial reality and reduces litigation on discount-related issues, while ensuring revenue protection through input tax credit reversal mechanism.

The IMS fully automates credit note tracking and ITC adjustments, eliminating the need for certificates and greatly simplifying compliance. This aligns with the withdrawal of Circular 212/6/2024-GST (vide

² Material Recycling Association of India v Union of India [2020 (40) G.S.T.L. 289 (Guj.)]

³ Dharmendra M. Jani v Union of India [2023 (72) G.S.T.L. 448 (Bom.)]

⁴ Commissioner of Delhi Goods and Service Tax DGST Delhi v Global Opportunities Private Limited [(2025) 36 Centax 47 (Del)]



Circular No. 253/10/2025 – GST dated 1 October 2025), which required suppliers to obtain CA/CMA certificates or recipient undertakings for ITC reversal.

Refund Related Reforms

The proposed amendment to Section 54(6) of the CGST Act is intended to extend the benefit of provisional refund of 90% to claims arising under the inverted tax structure. Further, Section 54(14) of the CGST Act is proposed to be amended to do away with the threshold limit for sanction of refund claims for goods exported out of India with payment of tax.

[Ref: Clause 139 of the Bill, 2026]

Comments:

Currently, provisional refund is available only for refunds arising from zero-rated supplies (i.e., exports and supplies to SEZ). The amendment provides reliefs to taxpayers facing inverted duty structure (where ITC exceeds output tax rate) leading to accumulation of credit. The amendment reduces cash flow blockages and improves ease of doing business.

Further, small businesses and MSME exporters will also get refunds with amounts less than INR 1,000 (Indian Rupee One Thousand), with multiple small consignments thereby improving working capital and cash flow.

Appellate Authority for Advance Ruling

Sub-section (1A) is proposed to be inserted in Section 101A of the CGST Act to empower the Central Government, to notify an existing Authority or Tribunal to hear appeals under Section 101B, pending the constitution of the NAA. Explanation to sub-section (1A) clarifies that the expression "existing Authority" includes a Tribunal. This amendment is proposed to be made effective from 1 April 2026. It may be noted that provisions pertaining to composition, appointment, tenure and removal of NAA members of will not apply to existing Authority or Tribunal.

[Ref: Clause 140 of the Bill, 2026]

Comments:

Constitution of NAA was envisaged by Finance (No. 2) Act, 2019. The proposed amendment will allow the Government to notify an existing Authority or Tribunal to hear Section 101B appeals which may arise out of conflicting advance rulings from appellate authorities of two or more States or Union territories until the NAA is operational.



Proposed changes under Central Excise & NCCD

High Speed Diesel

The Union Budget proposes to extend the sunset period of the existing concessional rate structure for High Speed Diesel (HSD) available under Notification No. 11/2017-Central Excise dated 30.06.2017 for a further period of two years, i.e. up to 1st April 2028.

[Ref: Notification 02/2026-CE dated 1 February 2026]

Compressed Natural Gas (CNG) blended with Biogas / Compressed Biogas (CBG):

The Union Budget proposes to provide a concessional central excise duty rate of 14% on Compressed Natural Gas (CNG) when blended with Biogas or Compressed Biogas (CBG) falling under HS 2711 21 00. It is further clarified that for the purpose of computation of excise duty under this entry, the transaction value of such blended CNG shall exclude (i) the value of Biogas/CBG contained in the blended CNG; and (ii) the amount of Central Tax (i.e. Central Goods & Services Tax Act, 2017), State Tax (i.e. State Goods & Services Tax Act, 2017), Union Territory Tax (i.e. Union Territory Goods & Services Tax Act, 2017) or Integrated Tax (i.e. Integrated Goods & Services Tax Act, 2017) paid on such Biogas/CBG.

[Ref: Notification 02/2026-CE dated 1 February 2026]

Comments:

The amendment ensures that excise duty is levied only on the CNG portion of blended CNG and completely excludes the value of Biogas/CBG component as well as CGST/SGST/UTGST/IGST thereon from excise valuation. This eliminates double taxation on Biogas/CBG, which is already subject to GST.

High Speed Diesel (HSD) intended for retail sale

The Union Budget proposes to extend the date of application of concessional duty rate applicable to HSD intended for retail sale by two years, i.e. from 1 April 2028.

[Ref: Notification 02/2026-CE dated 1 February 2026]

Rescission of Notification No. 05/2023 -Central Excise dated 1st February 2023

The Union Budget proposes to take away exemption of Central Tax, State Tax, Union Territory Tax or Integrated Tax paid on Biogas and CBG contained in blended CNG, by rescinding Notification No. 05/2023 -Central Excise dated 1st February 2023.

[Ref: Notification 03/2026-CE dated 1 February 2026]

Comments:

This amendment has been proposed in light of Entry 9A is inserted in Notification No. 11/2017-Central Excise dated 30.06.2017, providing that for computation of excise duty on blended CNG, the value of Biogas/CBG as well as the GST paid thereon shall be excluded from the transaction value.



Increase in statutory rate of NCCD – with effect from 1 May 2026:

HSN Code	Commodity	Rate	
		From	To
2403 99 10	Chewing tobacco	25%	60%
2403 99 30	Jarda scented tobacco	25%	60%
2403 99 90	Other	25%	60%

Note:
Effective rate remains unchanged vide Notification No. 01/2026-Central Excise dated 1 February 2026 (applicable from 1 May 2026).



List of abbreviations

Abbreviation	Meaning
AIDC	Agriculture Infrastructure and Development Cess
BCD	Basic Customs Duty
Bill	The Finance Bill, 2026 (Bill no. 3 of 2026)
CA	Chartered Accountant
CMA	Certified Management Accountant
CBIC	Central Board of Indirect Taxes and Customs
CGST Act	Central Goods and Services Tax Act, 2017
Central Excise Act	Central Excise Act, 1944
Customs Act	Customs Act, 1962
Customs Tariff Act	Customs Tariff Act, 1975
CTI	Customs Tariff Item
Finance Act	Chapter V of Finance Act, 1994
GST	Goods and Services Tax
GST Council	Goods and Services Tax Council
IMS	Invoice Management System
ITC	Input Tax Credit
IGST Act	Integrated Goods and Services Tax Act, 2017
NCCD	National Calamity Contingent Duty
NAA	National Appellate Authority
NCCD	National Calamity Contingent Duty
SEZ	Special Economic Zone
SGST Act	State Goods and Service Tax Act, 2017
SWS	Social Welfare Surcharge
TR	Transfer of Residence



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