KING STUBB & KASIVA
ADVOCATES AND ATTORNEYS

Union Budget 2026–27: Comprehensive Tax Advisory

Legal, Strategic, and Commercial Implications of the Structural Reset.

Prepared by King Stubb & Kasiva | Direct & Indirect Taxation Practice

A Decisive Shift from Incentives to Certainty

This is not a populist rate-cut budget. It is a structural reform budget aiming for predictability over concessions.

Eliminating Arbitrage

Share Buybacks taxed as capital gains; MAT becoming a final tax.

Reducing Litigation

Consolidated Safe Harbours and automated lower deduction certificates.

Simplifying Compliance

The new Income Tax Act, 2025 and GST rationalisation.

Attracting Long-Term Capital

Tax holiday till 2047 for data centres.

Supporting Digital & Mfg

Customs rationalisation for Li-ion and solar glass.

Global Alignment

Transfer pricing consolidation and STT adjustment.

Fiscal Philosophy: Stability Enables Structural Discipline

"Revenue buoyancy has provided the Centre with the confidence to prioritise long-term predictability over short-term stimulus."

A stable fiscal trajectory allows the Government to **avoid aggressive rate hikes** while focusing on tax design. The question shifts from "tax giveaways" to "tax design."

4.3%

Fiscal Deficit (% of GDP) – Debt-to-GDP trending downward.

₹28.7 Lakh Cr

Net Tax Receipts (Projected 11% growth)

The Income Tax Act, 2025: A Complete Structural Reset

The 1961 Act has been comprehensively reviewed and replaced. Effective 1 April 2026.

Current State

Income Tax Act, 1961 (Obsolete provisions, sector exemptions).

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Transition Year (FY26)

Preparation: ERP Updates, Section Mapping.

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Effective Date: 1 April 2026

Income Tax Act, 2025 (Harmonised drafting, Digital-first compliance).

Strategic Intent

- Removes obsolescence.
- Harmonises drafting to reduce interpretive disputes.
- Designed for digital compliance and automated processing.

Transition Risks & Action

- Risk: ERP Updates required to map old sections to new codes.
- Risk: Legacy rulings may not apply.
- **KS&K Recommendation:** Establish a 'Tax Transition Taskforce' immediately.

Direct Tax: The End of Arbitrage (Share Buyback Reform)

Buybacks are no longer treated as dividends. Taxed as Capital Gains for all shareholders.

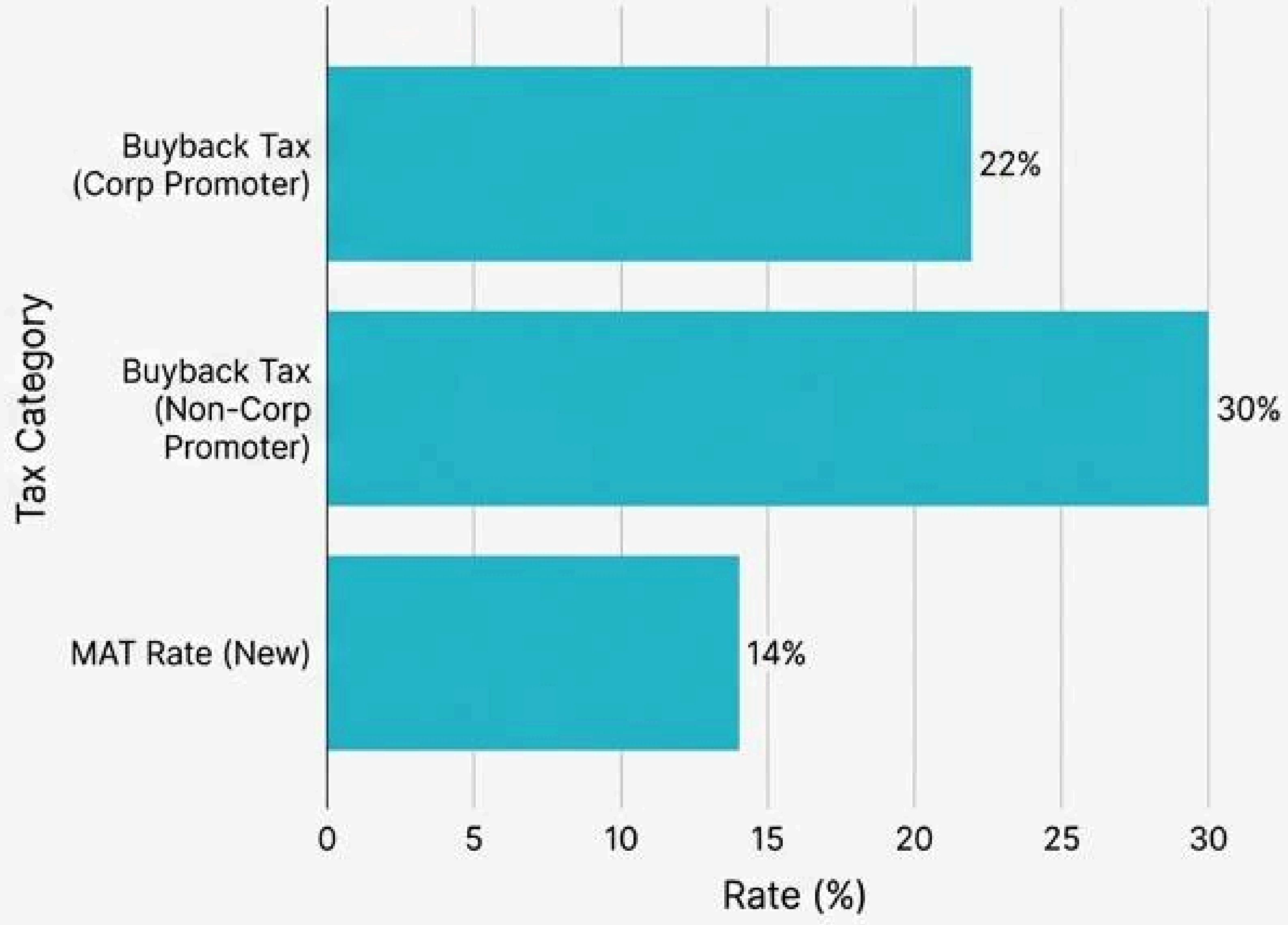
New Reality: Effective Tax Rates

- **Corporate Promoter:** 22% (Up from lower effective rates).
- **Non-Corporate Promoter:** 30%.
- **Non-Promoter:** Standard LTCG rates (12.5% + surcharge).

Commercial Consequences

- **Capital Return Strategy:** Dividends may now be preferable to buybacks.
- **PE Exits:** Valuation models via buyback need repricing (-15% to -25% IRR impact).
- **ESOPs:** Rethink buyback-based liquidity programs.

Key Tax Rate Changes



Minimum Alternate Tax (MAT): Cash Flow vs. Credit Loss

MAT transforms from an interim tax to a final tax at 14%.

The Structural Change:

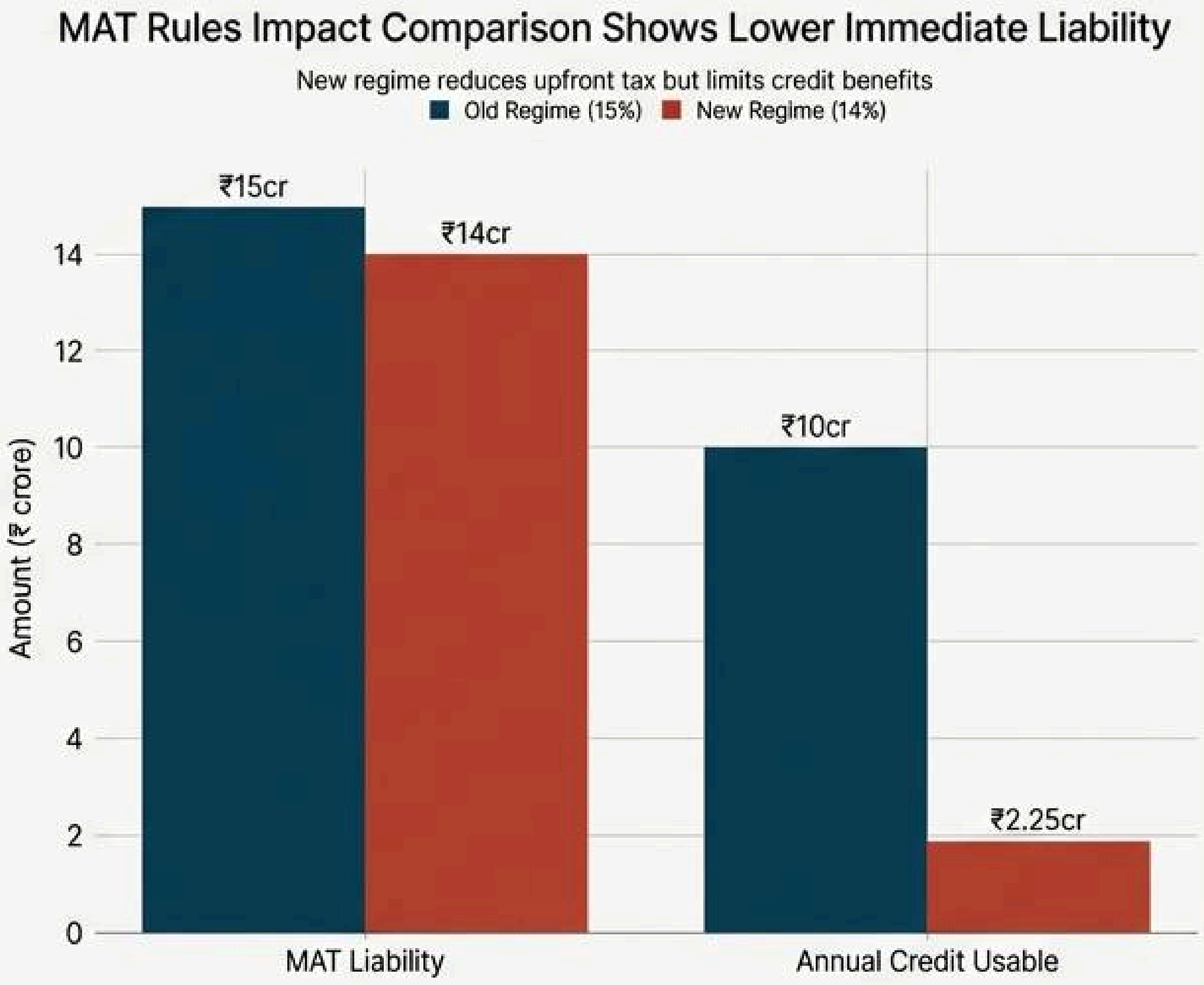
- **New Rate:** Reduced to 14% (from 15%).
- **Credit Utilization:** No new credit accumulation. Existing credits capped at 25% annual set-off.

The Trade-off:

- **Benefit:** Certainty and lower immediate rate.
- **Cost:** Loss of indefinite credit carry-forward.

KS&K Action Item:

- **Revalue Deferred Tax Assets (DTA)**. Potential P&L charge due to lost credits in FY26.



Global Competitiveness: Incentivising Digital & Manufacturing

Targeting the 'China+1' strategy and global digital infrastructure.

Data Centres

- **Incentive:** Tax Holiday till 2047 for foreign companies providing global cloud services via Indian data centres.
- **Condition:** Services to Indian customers must be routed through an Indian reseller entity.

KS&K Advisory:

Structure Indian reseller models carefully to ensure 'Safe Harbour' eligibility.

Toll Manufacturing

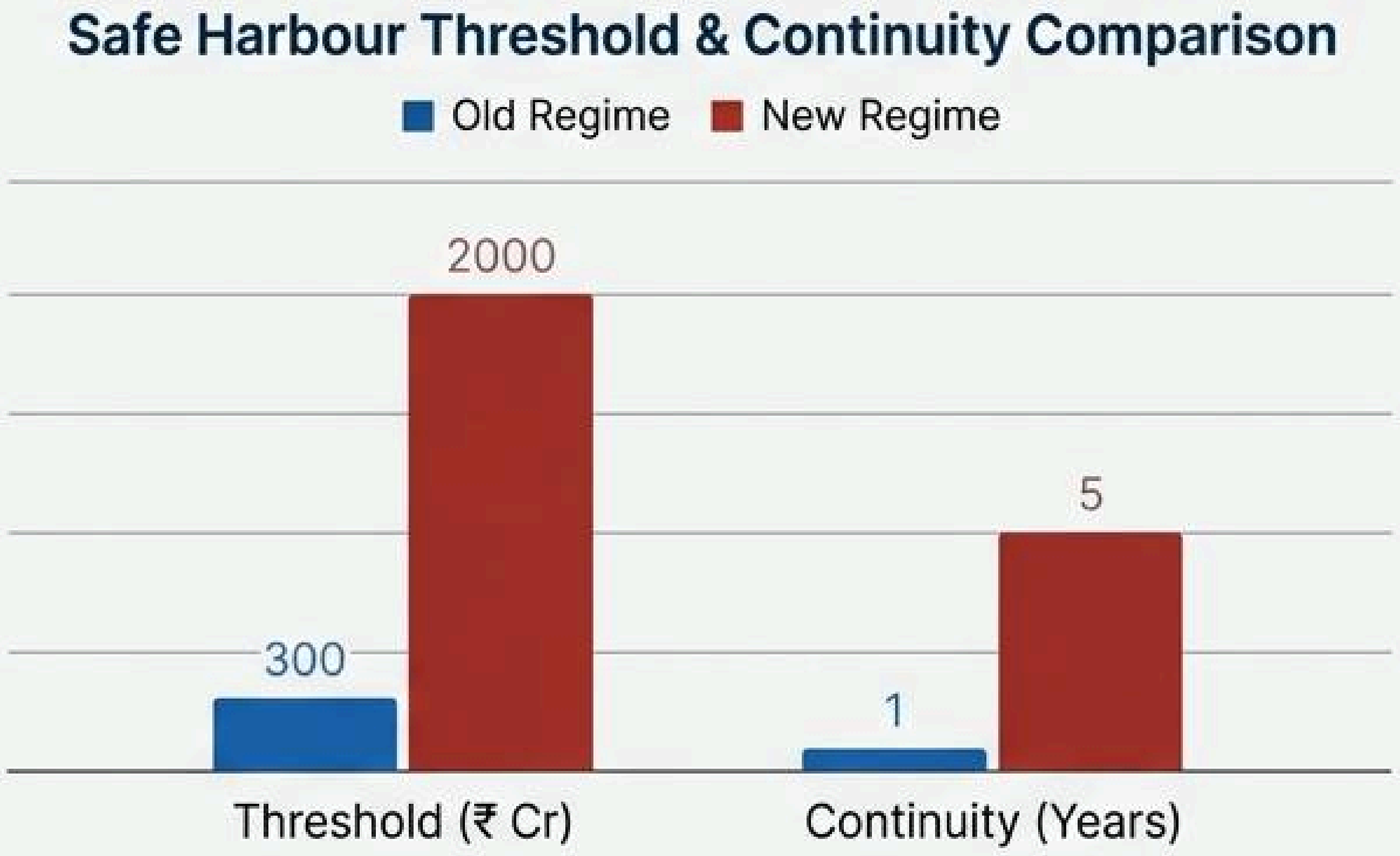
- **Incentive:** 5-year income tax exemption for foreign suppliers of capital goods/tooling.
- **Strategy:** Supports electronics and semiconductor ecosystems.

Transfer Pricing: From Scrutiny to Safe Harbours

Unified 'Information Technology Services' category replaces fragmented margins.

Key Parameters

- **Margin:** 15.5% on cost (Standardised).
- **Threshold:** Raised to ₹2,000 crore (Covering major MNCs).
- **Continuity:** 5-year approved status.
- **Impact:** Moves from Manual Scrutiny to Automated Approval.



Indirect Taxation: Customs & Export Promotion

Shift toward tariff clarity; supporting the energy transition.

Energy Transition

Duty cuts to Nil on Li-ion capital goods and Solar glass inputs.

Export Promotion

Seafood duty-free input limit set at 3%; BCD on frozen fish paste reduced to 5%.

Personal Imports

Duty on goods for personal use reduced from 20% to 10% (Aligning with global tourist norms).

Impact:

Direct cost reduction for EV manufacturing and labour-intensive export sectors.

GST Rationalisation: Unlocking Working Capital

Fixing flows to reduce friction and litigation.

Simplified Post-Sale Discount Workflow

Sale of Goods → Discount Applied Post-Sale → Credit Note Issued (No Pre-agreement needed) → Input Tax Credit Adjustment Allowed

Inverted Duty Refunds

- **Change:** Provisional refunds allowed (90% upfront).
- **Impact:** Massive liquidity unlock for Food Processing and Pharma.

Export Facilitation

- **Change:** Removal of ₹1,000 threshold for export refunds.
- **Impact:** Aids MSME exporters.

Financial Markets: Curbing Speculation via STT

Aligning with global norms to moderate high-frequency trading.

The New Rates

- Futures: 0.05% (Increase of 150%).
- Options Premium: 0.15%.
- Policy Objective: Squeeze high-frequency trading and retail speculation.

Sensitivity Analysis Table

Cost Impact per ₹1 Crore Turnover

Turnover	₹1 Crore
Old Cost (Futures)	₹200
New Cost (Futures)	₹500
Increase	+150%

Projected widening of bid-ask spreads as market makers pass on costs.

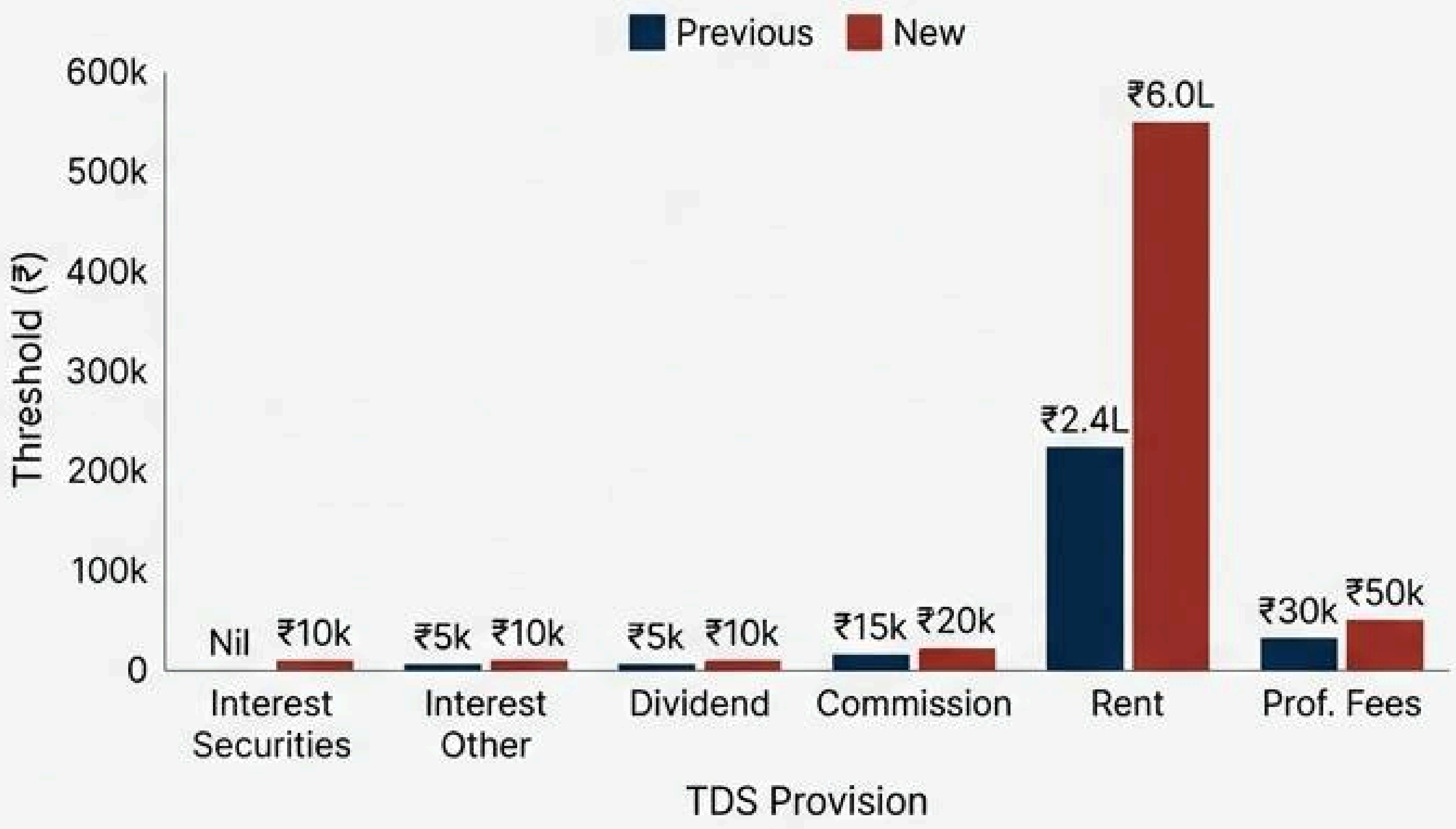
Individual Taxation & Compliance Simplification

Significant 'Ease of Doing Business' improvements despite stable rates.

- **Tax Rates:** No change. Rebate remains at ₹60k (Effective tax-free income ₹12L).
- **Automated Certificates:** Lower/Nil TDS certificates issued via automation.
- **MACT Interest:** Fully exempt from tax.

TDS Threshold Increases (FY 2025-26)

All six provisions see significant increases to reduce compliance burden



Sectoral Winners & Impact Analysis

Clear Beneficiaries

- Data Centres (Tax holiday)
- Electronics/Renewables (Duty exemptions)
- IT/ITeS (Safe harbour)

Operational Relief

- MSME Exporters (Refund thresholds)
- Logistics (GST rationalisation)

Mixed Impact

- Financial Services (Clarity vs High STT)

Challenging

- High-Leverage Firms (MAT credit loss)
- Speculative Traders (STT costs)

The 12-Month Action Roadmap

Phased adaptation to the new structural regime.

Immediate (0–3 Months)

- Conduct MAT credit modelling.
- Review Buyback strategy before new tax.
- Assess Safe Harbour eligibility.

Medium-Term (3–6 Months)

- ERP Updates: Map codes for IT Act 2025.
- GST Workflow: Redesign for post-sale discounts.

Execution (6–12 Months)

- Recalibrate Capital Return Policy (Dividends vs Buybacks).
- Consider APAs (Advance Pricing Agreements).

The Maturation of India's Tax System

"The strategic question has shifted from 'How do we reduce taxes?' to 'How do we structure for predictability?'"

KS&K Perspective: Businesses that align with digital infrastructure, manufacturing, and compliance-driven governance will outcompete those waiting for rate cuts. Those who adapt early to the 'Structural Reset' will gain a durable advantage.

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