



KING STUBB & KASIVA
ADVOCATES AND ATTORNEYS

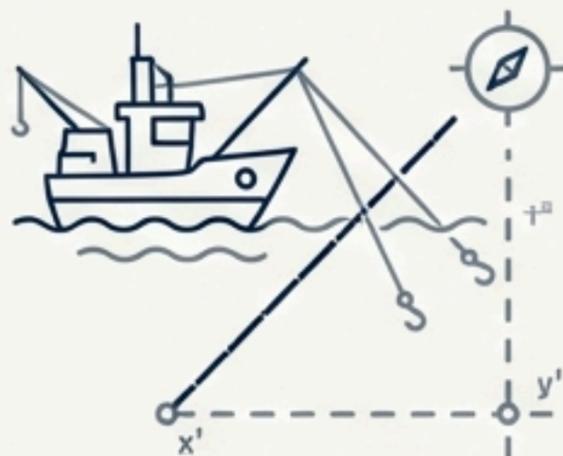
Union Budget 2026: Indirect Tax Proposals

Analysis of Customs, Central Excise, Service Tax,
and GST Amendments

Detailed Overview & Impact Analysis

Customs Act – Jurisdiction & Definitions

Jurisdiction Extension (Sec 1(2) & 56A)



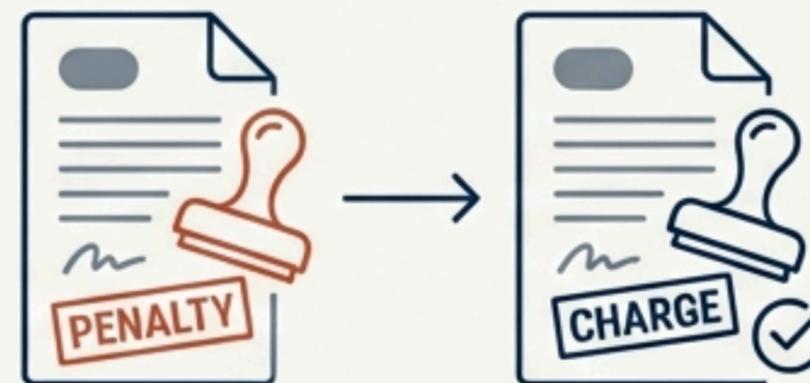
- Act extended beyond territorial waters for fishing/fishing-related activities.
- New Sec 2(28A): 'Indian-flagged fishing vessel' defined.
- New Sec 56A: Duty-free import of high-sea catch; catch landed at foreign ports treated as export.

Insight Box

KSK Comment

Clarifies ambiguity regarding deep-sea fishing by Indian vessels.

Penalty vs. Charge (Sec 28(6))



- 15% penalty under Sec 28(5) is legally deemed a 'charge' upon voluntary payment.

Insight Box

KSK Comment

Removes the 'penalty' label to avoid adverse accounting/audit consequences and stigma, incentivizing voluntary compliance.

Customs Act – Facilitation & Procedures (Part 1)

Advance Rulings (Sec 28J(2))



- Validity fixed at 5 years (or until law/fact change).
- Existing rulings extendable for 5 years.

KSK Comment

Replaces the previous '3-year understanding' with statutory certainty.

Warehouse Transfers (Sec 67)



- Action: Requirement of prior approval from proper officer dispensed with.

KSK Comment

Impact: Removes procedural bottleneck; aligns with modern self-assessment regime.

Customs Act – Facilitation & Procedures (Part 2)



Deferred Payment

- Period increased from 15 to 30 days for AEO T2/T3 (Effective March 1, 2026).
- New Category: “Eligible Manufacturer Importers” added (transitional facility till 2028).
- **Impact:** Improves cash flow; deepens AEO value.

KSK Comment

Enhances liquidity for compliant businesses; encourages AEO adoption and modernizes payment terms.



Provisional Assessments (Sec 18)

- Prescribes definitive time limit for finalization of assessments.

KSK Comment

Brings certainty and efficiency to the assessment process, reducing prolonged disputes.



Post-Clearance Revision

- New provisions permitting revision of declarations after clearance.

KSK Comment

Allows for correction of errors and voluntary compliance without immediate penal implications.



Interim Board

- Constituted to dispose of pending settlement applications following the abolition of the Customs Settlement Commission.

KSK Comment

Provides a mechanism for resolving existing cases during the transition, preventing backlog.

Customs Tariff – Strategic Rate Changes

 Rate Increases	 Rate Decreases	 Shift to Tariff
<ul style="list-style-type: none"> • Animals (Zoo): Nil → 30% • Castor oil cake (SEZ to DTA): Nil → 15% • Potassium Hydroxide: Nil → 7.5% • Umbrellas: Specific duty added (20% or ₹60/piece) <div data-bbox="216 1219 1126 1735" style="border-left: 2px solid #c00000; padding-left: 10px; margin-top: 10px;"> <p>KSK Comment</p> <p>These increases reflect a strategic move towards protecting domestic industries and rationalizing duty structures. The specific duty on umbrellas is notable for curbing low-value imports.</p> </div>	<ul style="list-style-type: none"> • Monazite: 2.5% → Nil • Nuclear fuel elements: 7.5% → Nil • Inputs for seafood processing: Limit enhanced (1% to 3% of FOB) <div data-bbox="1216 1219 2125 1735" style="border-left: 2px solid #008000; padding-left: 10px; margin-top: 10px;"> <p>KSK Comment</p> <p>Eliminating duties on critical raw materials like Monazite and nuclear fuel supports strategic sectors. The enhanced limit for seafood inputs aims to boost exports and competitiveness.</p> </div>	<ul style="list-style-type: none"> • Frozen turkey • Berries • Nuts • Seeds • Makhana <div data-bbox="2215 1219 3125 1735" style="border-left: 2px solid #808080; padding-left: 10px; margin-top: 10px;"> <p>KSK Comment</p> <p>Moving these items to a tariff-based regime from previously being under exemptions or concessions signifies a shift towards a more predictable and revenue-focused framework for these agricultural goods.</p> </div>

Notification No. 45/2025-Customs – Validity Extended



- ✓ Meat & edible offal of ducks.
- ✓ Planting materials (seeds/tubers/saplings).
- ✓ Algal oil (aquatic feed).
- ✓ Gold ores & concentrates **sk**
- ✓ Electricity from SEZ to DTA.
- ✓ Mo-99 for radiopharmaceuticals.
- ✓ Specified bunker fuels.

Customs Tariff – Migrations & New Lines

Migrations to Tariff (Exemptions Withdrawn) 	New Tariff Lines Created (Fourth Schedule) 
<p>Agri/Food:</p> <ul style="list-style-type: none"> • Frozen turkey (5%) • Almonds (Specific rates) • Walnuts (100%) • Seeds (15%) <p>Energy/Minerals:</p> <ul style="list-style-type: none"> • Coal/Lignite (2.5%) • Critical Minerals (Lithium/Cobalt - Nil/2.5%) • Petroleum crude <p>Industrial:</p> <ul style="list-style-type: none"> • PVC Polymers (7.5%) • Chemical reactors (7.5%) 	<p>Horticulture:</p> <ul style="list-style-type: none"> • Blueberries/Cranberries (Fresh/Frozen/Dried) • Pecan nuts <p>High-Tech:</p> <ul style="list-style-type: none"> • Battery separators • Refrigerated containers • APIs & Chemical intermediates <p>Other:</p> <ul style="list-style-type: none"> • Rayon grade wood pulp • Wet blue leather

Customs Rules – Baggage Framework

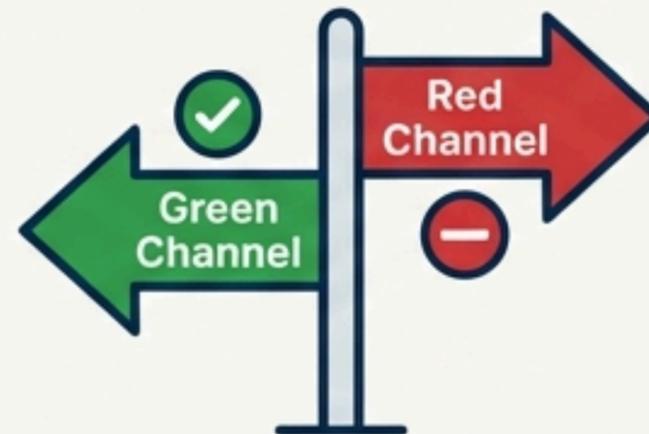
Baggage Rules, 2026 & Customs Baggage Regulations, 2026

Digitization



- Mandatory electronic declaration (ICEGATE / Atithi app).

Standardization



- Statutory recognition of Green/Red Channels.
- Forms CBD-I to V.

Jewellery Reform



- 'Jewellery' explicitly defined and removed from 'personal effects'.
- Reduces litigation based on possession limits.

KSK Comment: Balances revenue protection with convenience; reduces discretion.

Central Excise



Tobacco (NCCD)

- Rates revised for Chewing tobacco, Jarda, etc.
- Effective rate remains 25%.

Insight Box

KSK Comment: Continuation of higher tax policy.



Blended CNG Valuation

- Excise value excludes value of GST-paid Biogas/CBG in the blend.

Insight Box

KSK Comment: Removes cascading tax; policy shift favoring cleaner fuel blending.



Diesel

- Additional excise duty (Rs. 2/litre) on unblended diesel deferred to 31 March 2028.

Service Tax & GST (Discounts)

Service Tax (Retrospective)

- **Exemption:** Reinsurance services for Crop Insurance/Agri Schemes exempted retrospectively.

KSK Comment: Corrects unintended burden; notes potential procedural challenges for refunds.



GST – Section 15(3) (Discounts)

- **The Shift:** Requirement of pre-existing agreement for post-sale discounts is Removed.
- **New Conditions:**
 1. Issuance of Credit Note (Sec 34).
 2. Recipient reverses ITC.

KSK Comment: Simplifies deduction test; relies on objective conditions rather than contracts.

GST – Refunds & Appellate Authority



Provisional Refund (Sec 54(6))

- **Amendment:** Scope extended to include 'Inverted Duty Structure' refunds.

Insight Box

KSK Comment: Significant improvement in cash flow for manufacturers/exporters.



Appellate Authority

- **Amendment:** Central Govt empowered to notify an existing Authority/Tribunal to hear appeals pending constitution of the National Appellate Authority.
- **Effect:** Interim mechanism to clear backlog.

GST – Intermediary Services (The Structural Correction)



The Amendment:

Section 13(8)(b) of IGST Act Omitted.

The Result: Place of supply defaults to Section 13(2) → Location of Recipient.

KSK Analysis:

- **Impact:** Restores “Export of Services” status for intermediaries serving foreign clients.
- **Policy:** Aligns with destination-based taxation and judicial trends.
- **Resolution:** Ends systematic denial of zero-rating benefits and prolonged litigation.
- **Note:** Clarity on retrospective application remains pending.

Summary of KSK Comments



Customs

Ambiguity removed on deep-sea fishing; “Penalty” stigma removed to encourage voluntary compliance.

Insight Box

KSK Comment: Promotes voluntary disclosure and removes long-standing interpretation issues.



Trade Facilitation

Digitized baggage rules reduce harassment; Tariff changes balance domestic protection (Agri) with critical input access (Minerals).

Insight Box

KSK Comment: Strategic move enhancing ease of doing business and ensuring supply chain resilience.



Excise

Strong policy push for green fuel blending (Valuation benefit) while maintaining high tobacco taxes.

Insight Box

KSK Comment: Encourages environmental goals with valuation benefits and maintains revenue streams.



GST

Major relief measures—Intermediary export status restored and Post-sale discount conditions simplified.

Insight Box

KSK Comment: Addresses long-pending industry demands, improving liquidity and reducing litigation.

Glossary / Acronyms

- **AEO:** Authorized Economic Operator
- **DTA:** Domestic Tariff Area
- **SEZ:** Special Economic Zone
- **NCCD:** National Calamity Contingent Duty
- **ITC:** Input Tax Credit
- **IGST:** Integrated Goods and Services Tax
- **CBG:** Compressed Biogas
- **FOB:** Free on Board

Insight Box

KSK Comment: This glossary is essential for navigating the specific regulatory and taxation terms used throughout the digest. Understanding these acronyms is critical for interpreting the impact of the recent amendments.

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