Treelife

Union Budget 2026

Synopsis for Founders, Investors & Startups

February 2026

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Founder’s Message

"*Budget 2026 reflects a maturing ecosystem. The government is providing what startups need most: macroeconomic stability and regulatory predictability. For technology led businesses aligned with India's strategic priorities, this creates a robust foundation for long term growth.*"

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Foreword

Union Budget 2026 represents a pivotal moment in India's economic journey - one that prioritizes long-term structural strength over short-term fiscal relief. After years of establishing the startup ecosystem through tax incentives and regulatory support, the government has shifted its focus toward building the infrastructure, institutional frameworks, and sectoral capabilities that will sustain growth through the next decade.

This is a budget of measured confidence. While headline tax rates remain unchanged and broad-based startup subsidies are absent, Budget 2026 introduces targeted interventions across semiconductors, data centers, climate tech, and financial sector deepening, sectors critical to India's ambition of becoming the world's third-largest economy between 2026 and 2031.

For founders, investors, and ecosystem builders, this budget offers an important signal: India's next growth phase will reward businesses that create genuine productivity advantages, whether through manufacturing excellence, export competitiveness, capital efficiency, or innovative solutions to real problems.

We have put together this document to provide a focused lens on Budget 2026 from the perspective of technology led businesses. Rather than attempting comprehensive coverage of all budget provisions, we've identified the policies, incentives, and regulatory changes most relevant to startups, investors, and the broader innovation ecosystem. Happy reading!

1. Budget Overview & Future Outlook

1.1 Vision & Strategic Priorities

The Union Budget 2026 is anchored around three core ‘Kartavya’, which, as outlined hereafter, define the Government’s priorities for accelerating growth, fulfilling people’s aspirations and ensuring inclusive access.

Three Kartavyas	Vision
First Kartavya	Accelerate and sustain economic growth by sustaining structural reforms
Second Kartavya	Fulfil aspirations of our People by building a robust financial sector
Third Kartavya	Vision of Sabka Sath, Sabka Vikas by leveraging cutting edge technologies

The government positions this budget as balancing **"ambition with inclusion",** pursuing high growth (~7% GDP trajectory) while maintaining moderate inflation, fiscal discipline and social equity.

Key takeaways for Startups:

- Continued policy stability reduces regulatory uncertainty
- Focus on technology as a productivity driver creates tailwinds for SaaS, AI and automation businesses
- Capex spending (₹12.2 lakh crore) sustains demand for construction tech, logistics tech and supply chain solutions

1.2 Macroeconomic Context

- **GDP Growth:** Targeting ~7% sustained growth through productivity gains and manufacturing scale up
- **Inflation:** Moderate and stable, supporting consumer purchasing power
- **Fiscal Deficit:** 4.3% of GDP (Budget Estimates 2026-27), down from 4.4% (Revised Estimates 2025-26) demonstrating fiscal prudence
- **Debt Consolidation:** Targeting ~50% debt-to-GDP by 2030 (currently 55.6%)

Implications:

- Tight fiscal space limits direct startup subsidies or large scale tax holidays
- However, stable macro conditions support fundraising, exits and sustained private investment
- Lower interest rate environment (if inflation stays moderate) benefits working capital and growth financing

2. Budget Performance: Fiscal & Capital Expenditure Trends

Revenue & Expenditure Overview

Category	2025–26 (RE)	2026–27 (BE)	% Change (RE → BE)
Capital Receipts	16.2	18.1	**+11.7%**
Revenue Receipts	33.4	35.3	**+5.7%**
Effective Capital Expenditure	14.0	17.1	**+22.1%**
Revenue Expenditure	38.7	41.3	**+6.7%**

Key Observations:

- **Capex acceleration:** From ₹2 lakh crore (FY15) to ₹12.2 lakh crore (FY27) i.e. 6x increase, indicating infrastructure led growth model
- **Revenue buoyancy:** Strong tax collections (Income Tax: 21%, Corporation Tax: 18% of total receipts) reflect formalization and compliance

Implications for Startups

- **Public capex crowds in private investment:** Infrastructure projects create demand for construction tech, project management SaaS, IoT for smart infrastructure
- **Stable revenue base:** Reduces risk of sudden tax hikes or rollback of incentives mid cycle

3. Startup & Technology Focused Policy Announcements

- **₹10,000 crore SME Growth Fund** announced to provide equity capital to high growth MSMEs, improving access to patient capital
- BharatVISTAAR initiative launched to integrate **AgriStack portals with AI systems** under the ICAR framework, enabling data driven decision making and productivity gains in agriculture.
- **₹2,000 crore top up to the Self-Reliant India Fund** to further support MSME expansion and innovation through equity and quasi-equity investments.
- **Corporate Mitras Programme** to enable professional institutions such as ICAI and ICSI to support MSMEs in Tier II and Tier III cities with affordable compliance services
- **India Semiconductor Mission (ISM) to continue** with enhanced focus on fab capacity, ATMP infrastructure and strengthening the domestic semiconductor design ecosystem.
- Electronics Components Manufacturing Scheme introduced to **deepen domestic manufacturing of PCBAs, sensors and connectors**, reducing import dependence and supporting electronics hardware startups.
- **Scheme for Rare Earth Permanent Magnets** covering research, mining, processing and manufacturing to secure critical supply chains for EVs, advanced electronics and climate-tech applications.
- Hi-Tech Tool Rooms in CPSEs to **upgrade manufacturing precision and tooling capabilities**, supporting industrial automation and robotics led manufacturing startups.
- **Battery Energy Storage Systems** (BESS) to benefit from extended **BCD exemption on lithium-ion cell capital goods** beyond EV usage, lowering project costs and boosting grid scale storage deployment.
- Shift to the **new Income Tax Act, 2025** with effect from 01 April. 2026
- Comprehensive review of the FEMA (Non-debt Instruments) Rules, 2019 proposed
- **FPI/PROI investment limit** in listed equities raised from 5% to 10%

4. Structural Reforms for Startups and GIFT IFSC

4.1 TReDS Integration for MSME Payments

- **Mandate:** All CPSEs (Central Public Sector Enterprises) must use TReDS (Trade Receivables Discounting System) for MSME transactions
- **Credit Guarantee:** CGTMSE backed invoice discounting on TReDS
- **GeM-TReDS Linkage:** Enables faster, cheaper financing for government suppliers
- **Secondary Market:** TReDS receivables to be securitized as asset-backed securities

How will this help Startups:

- **Cash flow crisis mitigation:** MSMEs (including B2B SaaS, manufacturing tech) face 90+ day payment cycles from corporates/govt
- **Fintech opportunity:** Invoice discounting, supply chain finance platforms benefit from mandated infrastructure
- **Benchmark for private sector:** CPSEs' TReDS adoption may pressure large corporates to follow suit

4.2 Transfer Pricing Proposals for tech startups with global structure

- All IT services clubbed under single category with **15.5% safe harbor margin**
- Threshold raised from ₹300 crore to **₹2,000 crore**
- Automated rule driven approval process
- Continuation for **5 years** at company's choice

How will this help Startups:

- **Tax certainty:** Reduces transfer pricing disputes for IT/ITeS exporters
- **Compliance cost reduction:** Automated safe harbor eliminates need for detailed benchmarking studies
- **Expansion friendly:** 5 year safe harbor lock-in supports multiyear client contracts and geographic scaling

4.3 Data Centers: Tax holiday for global companies setting up data centres in India

- Foreign companies providing cloud services to global customers through India based data centers to get a tax holiday until 2047 subject to:

  - Data center must be notified under approved scheme (Ministry of Electronics & IT) and be owned and operated by Indian company
  - Services to India users must route through Indian reseller entity (15% safe harbor on cost provided to related parties)

4.4 Tax Holiday for GIFT IFSC units extended to 20 years

- Units in IFSC and OBUs (Offshore Banking Units) can now claim 100% tax holiday for **20 consecutive years out of 25** (previously 10 out of 15)
- Post tax holiday period, income taxed at **15%**

4.5. Non-Residents: Exemption for Notified Schemes

- **5 year exemption** on global income (other than income from India) for non-resident individuals coming to India to render services under notified Central Government schemes subject to being NR for 5 consecutive years before India visit
- India's answer to **globally popular 'Nomad visa'** thereby attracting global talent for special projects (space, defense, strategic sectors)

5. Tax & Regulatory Changes

5.1 Direct Tax Changes (Startup & Founder Relevant)

A. Personal Income Tax Rates (Unchanged)

- New regime remains default (₹4L exemption, 5-30% slabs)
- Old regime available on opt in (₹2.5L basic exemption)

B. Corporate Tax Rates (Unchanged)

- Domestic companies:
  - 25% (turnover ≤ ₹400 crore)
  - 30% (turnover > ₹400 crore)
  - 22% (Section 115BAA opt in, no incentives)
- Foreign companies: 35%

C. MAT (Minimum Alternate Tax) Rationalization

- No new MAT credit will be allowed to be accumulated henceforth i.e. MAT now becomes final tax

- Previously accumulated MAT credit can be used only after shifting to the new regime, capped at 25% of that year's tax liability, with a 15 year carryforward.

Implications of the proposed change:

- Transition from old to new regime incentivized (via MAT credit utilization)
- Startups under tax holiday may see lower MAT outgo but delayed cash benefit, as credits remain locked until migration to the new regime.

D. Buyback Taxation: Shifted to Capital Gains

- Tax on share buybacks move back to capital gains from dividend income on gross basis, with promoters facing higher rates of 22% (domestic companies) and 30% (others).
- For listed companies, promoter status follows SEBI Buyback Regulations; for unlisted companies, it includes promoters under the Companies Act, 2013 and any person holding more than 10% shareholding (directly or indirectly).

Type of Income	% tax rate for non-promoter investors	Additional tax rate for Promoter category investors over and above those applicable for non-promoter investors		Effective rate for Promoter category investors	
		Domestic company	Other than a domestic company	Domestic company	Other than a domestic company
STCG	20%	2%	10%	22%	30%
LTCG	12.50%	9.50%	17.50%	22%	30%

Note: excluding surcharge and cess

Impact:

- Discourages promoter-led buybacks
- ESOP holders, angel investors (non-promoters) benefit from capital gains treatment in case of buybacks

E. Unexplained Income: Rationalized Tax Treatment

- Tax rate on unexplained income (Section 115BBE) reduced from 60% to 30%, while retaining the 25% surcharge. The additional 10% penalty on such additions has been removed.

F. Deduction Restrictions: Interest and Capital Gains

- Interest expense for earning dividend income or income from mutual fund units is no longer tax deductible.
- Capital gains exemption under Section 47(viic) will not apply to Sovereign Gold Bonds (SGB) acquired through secondary market purchases, only to bonds held until maturity when originally subscribed from RBI.

5.2 Compliance & Procedural Easing

A. Return Filing: Extended Deadlines

Category	Old Deadline	New Deadline
ITR 1 & ITR 2 (salaried, simple cases)	31st July	31st July (unchanged)
Non audit business cases & trusts	**31st July**	**31st August**
Tax Audit cases (44AB)	31st October	31st October (unchanged)
Transfer Pricing cases (92E)	30th November	30th November (Unchanged)

B. Revised Return Window: 9 → 12 Months

- Revised returns can now be filed up to **31st March** (vs. 31st December earlier)
- The amendment allows revision up to 31 March, with an additional fee of ₹1,000 where total income does not exceed ₹5 lakh and ₹5,000 where total income exceeds ₹5 lakh.

C. Decriminalization: Prosecution Thresholds Raised

- Offenses involving tax evasion **≤ ₹10 lakh:** Only **fine** (no imprisonment)
- Tax evasion ₹10-50 lakh: Imprisonment **up to 6 months** or fine or both
- Tax evasion > ₹50 lakh: Imprisonment **up to 2 years** (down from 7 years)

- **Nature of punishment:** "Rigorous" changed to "simple" imprisonment

D. Updated Return Provisions Expanded

- Updated returns can now be filed even in cases where it leads to reduction of losses.

E. Small Taxpayers Scheme for Foreign Asset Non-Disclosure

- A new Small Taxpayers Scheme introduced for cases involving non-disclosure of foreign assets, allowing eligible taxpayers to avoid prosecution upon payment of the prescribed tax or fee.

F. Automated Lower/Nil Withholding Certificates

- Issuance of lower or nil tax withholding certificates is being moved to a fully automated, rule-based system for small taxpayers, with approval or rejection decided through electronic checks.

G. Employee Contribution Deduction Timeline Rationalized

- Deductions for employee contributions (PF, ESI, NPS) deposited by employers are now allowed if paid before due date for filing of original return

5.3 GST Amendments (Effective Post Notification)

Intermediary services provided by an Indian intermediary to a foreign recipient will qualify as export of services (subject to conditions), with no IGST payable, unlike earlier under Section 13(8)(b).

Scenario	Erstwhile provisions	Proposed amendment
IGST on intermediary export services	Payable	Not payable (zero rated)
Export qualification for intermediary services	Denied	Allowed
Export benefits (ITC refunds etc.)	Limited	Available

6. What's Not in the Budget (Gaps & Missed Opportunities)

6.1 Startup Specific Tax Relief

- **No expansion** of Section 80-IAC benefits (only DPIIT recognized startups eligible, 10 year age limit)
- **No ESOP tax reforms** (deferral still limited to eligible startups, valuation issues persist)

6.2 Deep Tech & R&D

- **No weighted deduction** increase for R&D (remains 100% for inhouse, 150% for external scientific research)
- **No patent box regime** (concessional tax on IP income similar to Ireland, Singapore)
- **No specific AI infrastructure fund** (beyond implicit support via data centers, AVGC)

6.3 Ease of Doing Business

- **No labor law further simplification** (4 codes notified but not implemented)
- **No reduction** in compliance burden for small companies (still 50+ annual filings across income tax, GST, MCA, SEBI)

Conclusion

Budget 2026 marks a strategic shift in India's startup policy, from incentive dependent growth to capability driven competitiveness. The absence of headline tax relief or large scale subsidies is not an oversight; it reflects a maturing ecosystem expected to thrive on structural advantages: digital infrastructure, skilled talent, export competitiveness and manufacturing depth.

Who Wins in Budget 2026:

- IT/ITeS exporters leveraging safe harbor and transfer pricing certainty
- Deep tech, semiconductor and electronics manufacturers benefiting from PLI continuity and BCD exemptions
- Climate tech companies aligned with BESS, biogas and CCUS incentives
- MSMEs with government contracts gaining TReDS liquidity access
- GIFT IFSC operators capitalizing on 20 year tax holidays

Three Actions for Founders & Investors:

1. **Position for productivity:** Align product roadmaps with high growth sectors (AI, semiconductors, climate tech, IFSC). Prioritize export readiness and manufacturing depth over domestic consumption plays.\
2. **Optimize for compliance**: Leverage extended filing windows, safe harbor provisions and MAT transition planning to reduce tax friction and preserve cash.
3. **Manage expectations**: Fiscal space is tight through 2030. Future policy support will favor capital efficiency, global competitiveness and job creation, not growth at all costs subsidies.

The Bottom Line

Budget 2026 offers predictability, not preferential treatment. For technology led businesses, this creates opportunity: stable macroeconomic conditions, sustained infrastructure investment and incremental reforms provide a foundation for long term planning. Success will be determined by operational discipline, strategic sector positioning and the ability to scale profitably, not by waiting for the next round of tax holidays.

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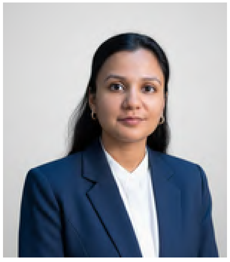

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