



Budget 2026-27 announces the launch of India Semiconductor Mission (ISM) 2.0

Budget outlay towards Electronics Components Manufacturing Scheme (ECMS) to be increased to Rs. 40,000 Crores

New safe harbour provisions for IT/ITeS with higher threshold and competitive margin

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Union Finance Minister Smt. Nirmala Sitharaman today presented the Union Budget for the Financial Year (FY) 2026-27. The announcements also included significant measures for accelerating the growth of India's Electronics and Information Technology Sector.

The Finance Minister announced the **launch of India Semiconductor Mission (ISM) 2.0** to produce equipment and materials, design full stack Indian IP, and fortify supply chains. The focus will be on industry led research and training centres to develop technology and skilled workforce. Provision of Rs. 1,000 crores has been made towards this for FY 2026-27. ISM 1.0 has expanded India's semiconductor sector capabilities and ISM 2.0 will build on the same.

The **Electronics Components Manufacturing Scheme (ECMS)**, launched in April 2025 with an outlay of 722,919 crore, already has investment commitments at double the target. It has now been proposed to increase the outlay to **Rs. 40,000 Crores** to capitalize on the momentum.

In order to support the IT sector as India's growth engine and to provide tax certainty, Budget 2026-27 has proposed new safe harbour provisions for IT/ITeS with higher threshold and competitive margin. India is a global leader in software development services, IT enabled services, knowledge process outsourcing services and contract R&D services relating to software development. Acknowledging the inter-connectedness of these business segments, the Budget has proposed to **club all these services under a single category** Information Technology Services **with a common safe harbour margin of 15.5 percent** applicable to all.

- The threshold for availing safe harbour for IT services is also proposed to be enhanced substantially from 300 crore rupees to 2,000 crore rupees.
- Safe harbour for IT services shall be approved by an automated rule-driven process without any need for a tax officer to examine and accept the application.
- Once applied by an IT Services company, the same safe harbour can be continued for a period of 5 years at a stretch at its choice.

Further, for IT services companies who want to conclude Advance Pricing Agreement (APA), it was proposed to fast track the Unilateral APA process for IT services and endeavour to conclude it within a period of 2 years. The period of 2 years can be extended by a further period of 6 months on taxpayer's request. Moreover, it is proposed to extend the facility of modified returns available to the entity entering APA to its associated entities also.

Recognising the need to enable critical infrastructure and boost investment in data centres, Budget 2026-27 has also proposed to provide **tax holiday till 2047 to any foreign company that provides cloud services to customers globally by using data centre services from India**. It will, however, need to provide services to Indian customers through an Indian reseller entity. Further, a safe harbour of 15 percent on cost has also been proposed in case the company providing data centre services from India is a related entity.

A High-Powered 'Education to Employment and Enterprise' Standing Committee has also been proposed to recommend measures that focus on the Services Sector as a core driver of Viksit Bharat. The committee will also assess the impact of emerging technologies, including AI, on jobs and skill requirements and propose measures thereof.

MSZ

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