Union Budget 2026-27: Key Announcements and What They Mean for the Electronics Industry

The Union Budget 2026-27 gives a meaningful boost to the electronics sector by expanding manufacturing incentives, easing key supply-chain bottlenecks, and strengthening self-reliance across components, semiconductors, and critical materials. This analysis examines the Budget through three lenses relevant to the electronics sector. It first distils the Budget's strategic policy signals, highlighting how government priorities are shifting toward deeper manufacturing, component self-reliance and ecosystem building. It then reviews the customs and tariff measures that support these objectives by reshaping input costs and manufacturing incentives, before analysing the statutory customs and GST amendments notified through the Budget that alter compliance, import behaviour and tax treatment.

I. Strategic Policy Signals for the Electronics Sector

Strong Push Toward Component-Level Self-Reliance

The Budget sharply increases support for electronics components through a ₹40,000 crore outlay under the Electronics Components Manufacturing Scheme (ECMS). The focus is on PCBs, display modules, camera modules, connectors, and MEMS sensors – areas where India still relies heavily on imports. This signals a clear shift from assembly-led growth to component depth. If implemented well, it can reduce import dependence, improve supply-chain resilience, and raise domestic value addition. However, success will depend on speed of rollout, cost competitiveness, and scale achieved by domestic suppliers.

Semiconductor Ecosystem Moves Beyond Fabs

India Semiconductor Mission (ISM) 2.0 is launched with funding for fab equipment, ATMP facilities, compound semiconductors, design IP, and skilling. A separate ₹25,000 crore Design Incentive Fund supports IC design, EDA tools, and verification. The approach is broader and more realistic – strengthening packaging, testing, and design alongside fabrication. This helps India participate in global semiconductor value chains even before large-scale fabs mature. The design focus also supports fabless and system companies.

PLI Evolution: From Volume to Value Addition

PLI schemes continue but with tighter performance-linked disbursals. Electronics PLI 2.0 emphasizes deeper localization, especially for laptops, IT hardware, and wearables. Credit guarantees and working capital support are expanded for component makers. PLI is being refined rather than expanded blindly. The shift rewards firms that invest in real manufacturing depth, not just output volumes. This may slow some players but strengthens long-term competitiveness.

Customs Duty Policy Aligned With Manufacturing Needs

Zero or reduced BCD on capital goods for lithium-ion batteries, semiconductor wires, display inputs, rare earth concentrates, and critical materials. Several exemptions and surcharge waivers are extended, including for electronics parts and toys. Lower input and capex costs improve project viability, especially for new plants. The policy direction is clear: duties are being used as a facilitation tool rather than a blunt protection measure.

Rare Earths and Critical Minerals Become Strategic Priorities

Four Rare Earth Corridors, incentives for beach sand mineral processing, stockpiling mandates under the National Critical Minerals Mission, and viability gap funding for separation plants. This directly supports electronics, EVs, and renewable energy supply chains. Reliable domestic access to rare-earth magnet materials

is critical for long-term electronics and hardware security, though execution and environmental clearances will be key risk factors.

Tax and Compliance Relief to Improve Cash Flows

Safe harbour rules for component suppliers, tax holidays for foreign capital goods suppliers in bonded zones, MAT credit extensions, reduced buy-back taxes, and higher presumptive taxation thresholds. This improves ease of doing business and liquidity, particularly for mid-sized manufacturers and global suppliers working with Indian EMS players. Design and IT-enabled electronics services also benefit.

MSME and Startup Enablement

A ₹10,000 crore SME Growth Fund, a ₹1,000 crore deep-tech startup fund, and restored 200% R&D deduction for in-house electronics R&D till FY30. This helps smaller firms scale, invest in technology upgrades, and move into higher-value activities. It strengthens the bottom of the electronics pyramid, which is essential for a robust ecosystem.

Workforce, Inclusion, and Skilling Focus

₹5,000 crore for electronics and semiconductor skilling, apprenticeship-linked PLI incentives, and additional benefits for factories with higher female workforce participation. Skill shortages remain a bottleneck, especially in PCB assembly, testing, and fab operations. The Budget acknowledges this constraint, though industry participation will determine real outcomes.

Infrastructure, Energy, and Data Ecosystem Support

Electronics-focused freight corridors, subsidies for green energy use in fabs and plants, and viability gap funding for data centre parks. Lower logistics costs and reliable power are critical for electronics manufacturing. Data centre expansion will also drive demand for servers, networking equipment, and cooling hardware.

Export Competitiveness and Trade Facilitation

Higher Remission of Duties and Taxes on Export Products (RoDTEP) rates for components, rationalized Quality Control Orders, and review of FTAs to improve access to intermediates. These steps reduce friction for exporters and make Indian components more competitive globally. Consistency in QCO implementation will be important to avoid disruptions.

II. Customs and Tariff Measures Relevant to the Electronics Sector

Basic Customs Duty (BCD) reduced on Monazite from 2.5% to Nil, effective 2 February 2026

The clean rate cut removes the remaining customs duty on monazite, a key rare-earth mineral used to produce rare-earth oxides and downstream materials. Lower monazite costs improve the viability of domestic rare-earth separation and processing – critical for magnets, motors, sensors, and other components used across EVs, renewables, defence, industrial drives, HDDs, and select semiconductor equipment. Duty-free imports reduce raw-material costs, support emerging rare-earth corridors and REPM initiatives, and, over time, help lower India's dependence on Chinese intermediates across the critical-materials value chain.

All inorganic and organic compounds of rare earth metals made duty-free

Rare-earth compounds – such as oxides, chlorides, and fluorides – are essential inputs for permanent magnets, phosphors, specialty ceramics, and catalysts used in motors, sensors, hard-disk drives, displays, and other advanced electronic components. Cutting basic customs duty to Nil lowers input costs for domestic rare-earth

processing and magnet/phosphor manufacturing, directly supporting the “rare-earth corridors” and Rare Earth Permanent Magnet (REPM) schemes targeting EV motors, wind turbines, and industrial automation. Over time, this can enable localisation of magnet assemblies, high-efficiency motors, and precision actuators, reducing dependence on imported rare-earth intermediates across EVs, industrial electronics, and select semiconductor-equipment subsystems.

Critical minerals tariffisation: Tellurium, silicon, selenium and rare-earths

Concessional basic customs duty rates on tellurium, silicon, silicon dioxide, selenium, rare-earth metals, and other critical minerals have been incorporated directly into the Customs Tariff from 1 May 2026, with earlier exemption entries withdrawn but no change in effective duty. This “tariffisation” reduces dependence on frequently amended exemptions and provides greater policy certainty for investments in critical-mineral refining and downstream manufacturing. For the electronics and semiconductor ecosystem, these minerals underpin photovoltaic manufacturing, compound semiconductors, infrared optics, and power-electronics materials, helping de-risk long-cycle investments in wafers, advanced materials, and related chemical processes.

Unwrought, waste/scrap and powder forms of gallium, germanium, indium, niobium and vanadium made fully duty-free

These five minerals are core inputs for advanced electronics and semiconductors. Gallium and indium are critical for compound semiconductors and optoelectronics; germanium is used in high-speed photonics and infrared optics; while niobium and vanadium support high-strength, high-temperature alloys and specialised coatings for power electronics and aerospace applications. Reducing basic customs duty to Nil lowers input costs for Indian refiners and downstream processors, supporting domestic ecosystems in compound semiconductors, RF and power devices, advanced packaging, and high-reliability components – strengthening supply security and cost competitiveness for local fabs, OSAT/ATMP units, and high-end electronics manufacturing.

Budget extends Nil duty on key chemicals used to make EVA/PoE encapsulant and backsheet films for solar PV modules till 31 March 2028

By reducing raw-material costs for Indian producers of encapsulant and backsheet films – critical layers that protect photovoltaic cells and determine long-term module reliability – the measure improves the cost competitiveness of domestically manufactured solar modules. A cheaper and more reliable local module supply strengthens the energy base for fabs, EMS plants, and data centres, while creating upstream demand for specialty polymers, adhesives, and film-coating equipment. Alongside other Budget measures on solar glass and critical minerals, this supports a more integrated domestic clean-energy and electronics manufacturing ecosystem.

Sodium antimonate for solar glass and certain beryllium/rhenium salts fully duty-free, with the solar-glass relief available up to 31 March 2028

This time-bound relief lowers the cost of producing high-clarity photovoltaic glass, reducing module costs and strengthening domestic PV glass and cell/module manufacturing. A more competitive solar hardware ecosystem improves access to clean, reliable power for energy-intensive fabs, EMS clusters, and data centres, while also supporting local production of PV-line equipment, control electronics, and balance-of-system components. Separately, exempting beryllium and rhenium salts supports high-temperature, high-reliability materials used in power electronics, aerospace, and precision instrumentation, enabling domestic manufacture of advanced connectors, thermal-management parts, and sensors while reducing dependence on imported assemblies.

Refined copper wire and rods for photovoltaic ribbons and interconnects kept at Nil duty until 31 March 2028, with a clearer, expanded description of eligible solar uses

The exemption covers refined copper used in PV ribbons, tinned copper interconnects, and related cell and string interconnect components. This time-bound relief lowers the cost of tabbing wires and busbars that are critical to module efficiency and long-term reliability, strengthening the domestic PV metallisation and interconnect ecosystem. More competitive local solar modules support lower power costs and stronger energy security for fabs, EMS plants, and data centres, while also building capabilities in precision rolling, plating, and fine-wire manufacturing that align closely with advanced electronics and connector production.

Silicon inputs for un-diffused wafers and solar cells: Nil-duty benefit lapses

The Nil basic customs duty on silicon used for un-diffused silicon wafers, and on un-diffused wafers for solar cells and modules, will lapse on 31 March 2026. This marks a clear policy shift away from implicitly subsidising imported silicon and wafers toward encouraging domestic processing and wafering. While the change may modestly raise costs for manufacturers still reliant on imports, it strengthens incentives to invest in local wafer manufacturing and upstream materials processing, supporting deeper value addition and longer-term supply-chain resilience across the electronics and solar PV ecosystem.

Be/Re salts and rare-earth compounds: Nil duty consolidated

Basic customs duty on salts of oxometallic and peroxometallic acids of beryllium and rhenium, and on inorganic and organic compounds of rare-earth metals, remains at Nil, with existing exemptions consolidated under a single framework and extended without rate changes. This effectively locks in a zero-duty regime for advanced beryllium, rhenium and rare-earth compounds used in catalysts, high-temperature alloys, phosphors, advanced ceramics and magnet precursors. For electronics and semiconductors, these inputs underpin high-reliability power devices, aerospace and defence electronics, specialty substrates, and magnet- and actuator-based systems, while policy certainty supports long-gestation investments in strategic, materials-intensive manufacturing.

Key parts used in manufacturing microwave ovens made Nil-duty until 31 March 2028, to deepen local value addition in consumer electronics.

The exemption covers key electro-mechanical and heating inputs – such as AC motors, transformers, electric heating resistors and related parts – imported specifically for microwave production. It is intended to encourage manufacturers to move beyond CKD/SKD assembly toward deeper localisation of motors, power supplies, magnetron-related assemblies and heating sub-systems. More predictable input costs support scale, tooling and process investments in motors, transformers and power-electronics-adjacent components that are common across appliances and some industrial electronics. Over time, this can strengthen domestic supply chains for wound components, resistive elements and control assemblies used not only in microwave ovens but across a wider range of consumer and light-industrial electronic products.

Budget renews and consolidates a 5% concessional duty window for key parts, materials and forgings used in wind-turbine manufacture and maintenance, up to 31 March 2028.

Basic customs duty has been retained at 5% on a defined set of wind-turbine components, including special bearings, gearboxes, yaw components and turbine controllers; rotor-blade parts; balsa wood and carbon fibre for blades; and forged steel rings for specialised bearings. Consolidating earlier fragmented entries into a single provision and extending the concession until 31 March 2028 simplifies compliance and provides medium-term policy certainty for wind OEMs and suppliers. More affordable wind components help lower renewable-power costs for data centres, semiconductor fabs and large EMS plants, while sustaining demand for precision bearings, control electronics and advanced composites – areas that overlap with electronics, power-electronics and industrial monitoring supply chains.

Nil customs duty granted on raw materials used by Defence PSUs to make aircraft parts for Maintenance, Repair or Overhaul (MRO) of defence aircraft and their engines, until 31 March 2028.

The measure covers a broad set of raw inputs – across metals, composites, fasteners and specialised materials – used in aircraft parts, components and engine sub-assemblies for defence aviation MRO. By fully exempting basic customs duty, it lowers lifecycle maintenance costs and encourages localisation of critical spares and repair sub-systems within India's defence aviation supply chains. For the electronics ecosystem, a stronger domestic MRO base sustains demand for avionics, sensors, power-electronics modules, embedded systems and test equipment – capabilities that closely overlap with high-reliability civilian electronics – reinforcing the broader push to deepen aerospace and defence manufacturing as electronics and software intensity per platform continues to rise.

Components and parts (including engines) used to manufacture aircraft, and aircraft parts, fully duty-free until 31 March 2028.

Nil basic customs duty has been extended to components and parts, including engines, imported for aircraft and aircraft-parts manufacturing in India, subject to end-use conditions. Removing duties of 2.5-10% lowers setup and input costs for aircraft assembly and aerostructures, improving India's attractiveness for OEMs and tier-1/2 suppliers. The measure also boosts demand for avionics, sensors, power-electronics modules, wiring harnesses and test equipment, creating opportunities for Indian electronics and EMS firms while strengthening high-reliability, safety-critical electronics capabilities with spillovers into defence, automotive and industrial markets.

Customs duty cut to Nil on key nuclear reactor fuel elements and absorber rods used for nuclear power generation.

Both capital and operating costs get lowered for India's expanding nuclear power fleet by making fully duty-free non-irradiated fuel elements and cartridges, along with control, protection and burnable absorber rods. Nuclear power is being positioned as a stable, low-carbon baseload source. In the long run cheaper nuclear equipment can accelerate capacity additions, improving long-term power availability and price stability for fabs, ATMP units, display fabs and large EMS campuses that require highly reliable, round-the-clock electricity.

Deferred payment of customs duty broadened and simplified for manufacturers

The deferred-duty framework now allows eligible manufacturer-importers to clear goods immediately and pay accumulated customs duty on specified deferred dates, easing cash-flow pressure and administrative burden for high-frequency importers. The scheme has also been simplified with standardised payment timelines: duties are payable by the 1st of the following month for all months except March, with March dues settled by 31 March.

For electronics and semiconductor players – fabs, OSAT/ATMP units, EMS plants and large component manufacturers that import wafers, chemicals, gases and equipment – this reform expands access, improves payment predictability, reduces working-capital lock-up and streamlines customs operations.

III. Statutory Customs and GST Amendments for the Electronics & Telecom Sector

Tariff Rate Changes – Notification Nos. 01/2026-Customs and 02/2026-Customs

The Union Budget 2026 has brought about material tariff rationalisation impacting the Electronics and Telecommunication sector, primarily through Notification No. 01/2026-Customs (amending the First Schedule

to the Customs Tariff Act, 1975) and Notification No. 02/2026-Customs dated 1 February 2026 (amending exemption Notification No. 45/2025-Customs).

A key policy shift evident from these notifications is the systematic withdrawal and sunset-based lapse of long-standing customs exemptions under Chapter 85, replacing a notification-driven concessional regime with standard tariff rates prescribed in the First Schedule. Several exemptions that earlier provided Nil or reduced Basic Customs Duty (BCD) to electronics and telecom equipment or parts have either been omitted with immediate effect (02-02-2026)or allowed to lapse on 31-03-2026, with duty reverting to the applicable First Schedule rates from 01-04-2026.

Notably, parts of radio trunking terminals (HS 8529 90 90), which were earlier subject to BCD at 5% under Sl. No. 285 of Notification 45/2025-Customs, have seen the exemption entry omitted by Notification No. 02/2026-Customs, resulting in an immediate increase of BCD to 15% with effect from 02-02-2026. Similarly, recorded media including educational CD-ROMs (HS 8523), earlier exempt under Sl. No. 287, are now liable to BCD at 10% upon omission of the entry.

Further, multiple exemptions relating to camera equipment, digital still/video camera parts, CCTV systems, DVR/NVR equipment, and testing or evaluation imports, all of which are of high relevance to the electronics and telecom ecosystem, have been explicitly allowed to lapse on 31-03-2026, without extension. From 01-04-2026, such goods will attract the standard BCD rates as per the amended First Schedule, significantly increasing import costs for OEMs, EMS players, and telecom infrastructure providers.

At the same time, Notification No. 02/2026-Customs introduces a targeted manufacturing incentive by inserting Sl. No. 278A, granting Nil BCD on select components (HS 8501, 8504, 8516) when imported for use in the manufacture of microwave ovens, valid till 31-03-2028. This selective concession reinforces the government's policy preference for product-specific domestic manufacturing support, rather than broad-based exemptions.

Sl. No.	HS Code	Description	Pre-Budget BCD	Post-Budget Amendment BCD	Effective Date
1	Ch. 85	TV / film equipment imported by foreign film or TV crews	Nil (Valid upto 31/3/2026)	As per First Schedule	01/04/26
2	Ch. 85	Re-import of photographic, filming, sound & radio equipment		As per First Schedule	
3	8501 10 20	AC synchronous / fan motors	Standard BCD	Nil (subject to compliance with IGCR Rules)	02/02/26
4	8504 31 00	Transformers	Standard BCD		
5	8516 80 00	Electric heating resistors	Standard BCD		
6	8516 90 00	Parts of microwave ovens	Standard BCD		
7	8529 90 90	Parts of Radio Trunking Terminals	5%	15%	
8	8523	Educational CD-ROMs / recorded	Nil	10%	

		media			
9	Ch. 85	Parts & Components of Digital Still Image Video Cameras	Nil (Valid upto 31/3/2026)	As per First Schedule	01/04/26
10	8525 / 8528 / 8529 / 8507	DVR/NVR, CCTV, TV reception parts, Li-ion components	Nil / concessional (Mostly till 31/03/2026)	Mixed (lapse or extension)	To be Notified
11	85437099	Raw Materials or parts for use in manufacture of e-Readers	5% Concessional Rate (Valid upto 31/3/2026)	As per First Schedule	01/04/26
12	8523/3706	Motion Pictures, music, gaming software for use on gaming consoles printed or recorded on media	Concessional Rate (Valid upto 31/3/2026)	As per First Schedule	01/04/26
13	8525 / 8526 or 8527	Battery separators & parts suitable for use solely or principally with the apparatus of Headings 8525, 8526 or 8527'	Exemption (Valid upto 30/4/2026)	As per First Schedule	01/05/26

Procedural and Compliance Changes – Notification Nos. 12/2026-Customs and 13/2026-Customs

In addition to tariff changes, Notification Nos. 12/2026-Customs and 13/2026-Customs introduce procedural and compliance-oriented amendments that have a deep but less visible impact on the Electronics and Telecommunication sector.

These notifications signal a tightening of the end-use exemption framework, with increased emphasis on post-import verification, traceability of use, and strict adherence to exemption conditions. Imports availing concessional or Nil BCD based on end-use – common in electronics manufacturing, R&D, and telecom equipment assembly – are now exposed to heightened scrutiny under Section 111(o) of the Customs Act, 1962, in cases of deviation from declared use.

Further, procedural rationalisation under these notifications reflects a move towards digitised and granular declarations, with reduced tolerance for generic product descriptions in Bills of Entry. This is particularly significant for multi-functional telecom and electronic equipment (such as integrated routers, switches, and wireless modules), where classification disputes and mis-declaration risks are inherently higher.

Temporary imports for testing, trials, or R&D purposes, frequently used by telecom operators, electronics start-ups, and equipment vendors, are no longer treated liberally. Time limits and procedural conditions are to be strictly enforced, requiring importers to plan duty exposure and compliance upfront rather than relying on post-facto regularisation.

Baggage Rules – Notification Nos. 05/2026-Customs and 14/2026-Customs

A particularly significant development for the IT, electronics, and telecom ecosystem arises from Notification Nos. 05/2026-Customs and 14/2026-Customs, which amend the Baggage Rules.

These notifications substantially tighten the scope of duty-free import of IT and consumer electronic equipment through passenger baggage, an area that had historically served as a semi-informal import channel. Enhanced restrictions and valuation discipline have been introduced for laptops, tablets, smartphones, wearables, and high-value consumer electronics, with multiple devices no longer automatically qualifying as "personal effects".

This change has direct implications for corporate travellers, expatriates, consultants, engineers, and telecom professionals who routinely carry multiple electronic devices. The amendments clearly signal an intent to curb grey-channel imports that bypass BCD, IGST, BIS certification, and WPC approvals.

From an industry perspective, while these changes may increase compliance friction for frequent travellers, they also protect domestic manufacturers and authorised importers by eliminating an uneven playing field. Corporates, particularly in the IT and telecom sectors, now face an increased risk of detention, duty demand, penalty, or confiscation of devices brought by employees unless baggage compliance is proactively managed.

Overall Sectoral Impact and Policy Direction

Read together, Notifications 01/2026, 02/2026, 12/2026, 13/2026, 05/2026 and 14/2026 reflect a clear and coordinated policy direction. The Electronics and Telecommunication sector is moving away from broad customs exemptions and informal import channels, towards a regime that prioritises domestic manufacturing, tariff certainty, procedural discipline, and compliance-driven imports.

For industry participants, this translates into higher landed costs for several components and devices, increased compliance obligations, and the need for re-calibration of sourcing, pricing, and employee travel policies. At the same time, selective incentives continue for targeted manufacturing activities, indicating that customs policy is now being used as a precision tool aligned with industrial policy, rather than as a blanket relief mechanism.

IV. GST Amendments Under Union Budget 2026 – Electronics & Technology Sector Impact [To be effective with Finance Act, 2026]

Simplification of GST Valuation and Post-Sale Discounts

One of the most significant proposed amendments in the Finance Bill 2026 relates to the treatment of post-sale discounts under the GST valuation provisions (amending Sections 15 and 34 of the Central Goods and Services Tax Act, 2017). Previously, for a discount offered after supply to be excluded from the value of taxable supply (and thus reduce the tax base), there had to be a pre-agreed contractual link and documentary evidence at the time of supply.

The Budget proposes to broaden this treatment so that discounts determined after the supply (e.g., rebates given by electronics manufacturers or distributors based on sales performance) can be deducted for GST valuation purpose even without prior contractual terms, provided they meet specified conditions. This change, which aligns the GST valuation regime more closely with commercial reality and reduces litigation on discount issues, will positively impact pricing and GST burden for large consumer electronics players, IT hardware distributors, and technology OEMs

Expansion of Refund Framework Including Inverted Duty Structure Cases

The Budget proposes amendments to Section 54 of the CGST Act to rationalise the GST refund regime, especially in the context of inverted duty structure – a situation where input taxes exceed output taxes. The

amendment will allow provisional refunds (typically up to 90 % of the claim) to be granted in cases of unutilised input tax credit arising from an inverted duty structure, much like provisional refunds in export scenarios. This change is aimed at speeding up liquidity for businesses that face credit accumulation, which is often the case in the electronics supply chain where intermediate goods may attract higher GST than finished goods. For sectors such as telecommunications, electronics manufacturing and technology hardware, this improvement in the refund process could help ease working capital constraints

Removal of Minimum Threshold on Export Refund Claims

Another proposed amendment under Section 54 seeks to remove the minimum threshold for claiming GST refunds on exports made with payment of tax. The current threshold requirement has been a compliance hurdle, particularly for smaller exporters or those transacting smaller consignments of electronic components, semiconductors, and parts. By eliminating this threshold, the Budget aims to widen access to export-related refunds and enhance global competitiveness of India's electronics and IT goods exporters.

Place of Supply Rule for Intermediary Services

The Budget also proposes a key change to the IGST law's place of supply rules for "intermediary services" by deleting Clause (b) of Section 13(8) of the IGST Act, 2017. Under the current framework, intermediary services (services that facilitate a transaction without delivering the final service themselves) were deemed to be supplied where the supplier is located, which led to unintended GST liabilities in cross-border scenarios. With the deletion of this clause, the place of supply for intermediary services will now be determined under the default rule (Section 13(2)) – i.e., the location of the recipient, providing clarity and aligning the treatment with general supply principles. For tech intermediaries engaged in cross-border facilitation, outsourcing, platform services, and digital marketplace operations, this change is likely to significantly shape the GST-characterisation of cross-border transactions.

Union Budget 2026-27 moves beyond short-term relief to create a more predictable and investment-friendly framework for electronics, components and semiconductor manufacturing. The real impact will unfold over time, as these aligned measures translate into deeper localisation, stronger supply chains and a more reliable energy and materials base for India's next phase of growth.

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Do you have thoughts, inputs or questions? Feel free to share them with ELCINA at info@elcina.com

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