

# India 2026: The Strategic Oasis in a Tipping Point Year

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### **Inside this issue**

- Editor's overview of Feb 2026.
- Comprehensive Tax updates and industry trends.
- February compliance deadlines and current rates snapshot.

### **Special points of interest**

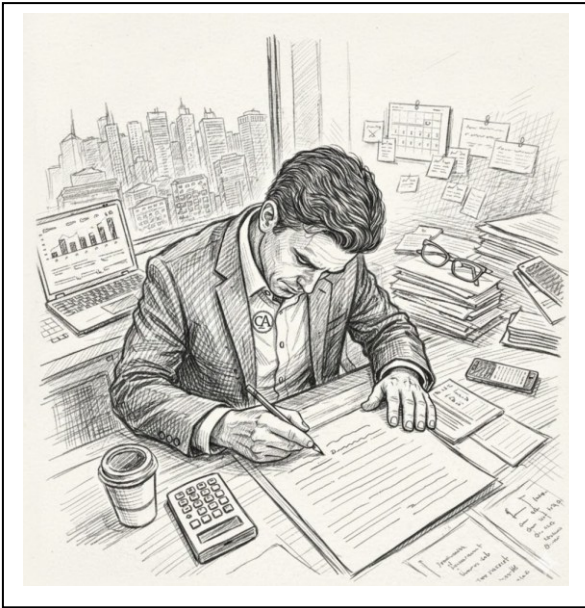
- The 80/20 Lens: Where Your Business Really Makes Money
- Budget 2026 [Finance Bill 2026]: A Strategic Analysis of India's Evolving Tax Landscape
- Navigating the Geopolitical Tipping Point: A 2026 Business Guide

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# From the Editor's Desk – Feb 2026



Dear Readers,

As we present the February 2026 edition of our newsletter, we find ourselves at a historical crossroads. Geopolitical analysts have dubbed 2026 a "tipping point" year—a time when the old global order is not merely shifting but is being fundamentally rewritten. While the international landscape is fraught with what some call a "political revolution" and "hybrid wars," we are proud to share that the Indian economy continues to stand as a "stable oasis" of growth and opportunity.

In this editorial, we reflect on the significant developments of January 2026, the strategic underpinnings of the Union Budget, and the management lens required to turn these macro-level shifts into micro-level successes for your business.

## I. The Global Context: A World in Flux

The global environment enters 2026 under a shadow of unprecedented uncertainty. The **Eurasia Group's Top Risks 2026** report highlights a systemic dismantling of institutional checks in the world's largest economy, leading to a new era of "unpredictable and transactional" diplomacy. From the hollowing out of the political center in Europe to the escalating "Donroe Doctrine" in the Americas, the traditional rules of engagement are being replaced by a more aggressive, state-led interventionism.

Furthermore, we are witnessing a profound technological and energy divergence. While some nations have doubled down on fossil-fuel-first policies, others, led by China, have mastered the "electric stack"—drastically reducing the cost of batteries, solar, and advanced robotics.

**The Message for Our Clients:** In such a world, being a "passive observer" of global news is no longer an option. Mid-sized Indian enterprises must now price in "geopolitical risk" when planning supply chains. Whether it is the disruption of Red Sea maritime routes or the sudden imposition of reciprocal tariffs, the era of predictable global trade has been replaced by a "Zombie trade architecture" where bilateral leverage is the only currency.

## II. The Indian Standout: 7.4% Momentum

While the external world is volatile, the **Economic Survey 2026** (tabled on January 29th) provides a refreshing narrative of resilience. India remains the world's fastest-growing major economy, with an estimated real GDP growth of **7.4% for FY26**.

This growth is not merely a statistical anomaly; it is anchored by **Private Consumption**, which now accounts for over **61% of our GDP**. The "Strategic Swadeshi" approach has allowed India to build a domestic buffer against global shocks. With Forex reserves crossing the **\$700 Billion** mark, our monetary stability is at an all-time high, allowing the Reserve Bank of India to maintain a disciplined inflation-targeting regime.

**The India-EU Milestone:** A crowning achievement of January 2026 was the conclusion of the historic **India-EU Free Trade Agreement**. By unlocking market access for 99% of our exports, this deal provides an immediate alternative to the "Tariff Man" policies currently seen in other Western markets. This is a massive win for our clients in the textiles, leather, IT, and pharmaceutical sectors, who now enjoy a competitive edge across 27 European nations.

## III. Union Budget 2026: Fiscal Discipline Meets Strategic Support

The **Union Budget 2026-27** (Finance Bill 2026) is a testament to "Strategic Prudence." The government has successfully steered the fiscal deficit toward the **4.5% target**, signaling to global markets that India is committed to long-term financial health.

For the business community, the Budget offers a "carrot and stick" approach:

1. **Manufacturing Incentives:** The expansion of the **Electronics Components Manufacturing Scheme** and **Semiconductor Mission 2.0** offers unprecedented subsidies for those willing to move up the value chain.
2. **Tax Reforms:** While there has been a tightening of compliance and a rationalization of capital gains to curb speculative bubbles, the focus remains on "Ease of Doing Business" through digital-first interfaces and reduced scrutiny for compliant mid-sized firms.
3. **Infrastructure Push:** The massive capital expenditure on dedicated freight corridors and railway infrastructure is designed to reduce your logistics cost—which remains one of the highest in the world—down to single digits.

**Our Advisory:** We urge you to review your tax planning in light of the new Finance Bill. The shift from "incentive-based" growth to "efficiency-based" growth means that businesses with clean balance sheets and robust compliance will be the ones that attract cheaper capital.

#### IV. The Management Lens: The 80/20 Reality

Amidst these macro shifts, we must not lose sight of internal business excellence. In this edition, we introduce the **80/20 Lens (The Pareto Principle)**. In our experience, especially in the Indian mid-market segment, we often find that 80% of management stress is caused by the bottom 20% of customers, products, or decisions.

As we move into a more competitive 2026, we invite you to ask a sharper question: *"Which 20% of my customers and products genuinely create 80% of my profit after considering service costs, credit risk, and returns?"*

The "80/20 Lens" is about **doing less, but doing it better**. It is about protecting your "Scale Winners," repairing your "Middle Segment," and having the courage to exit "Loss Makers." In an era of high activity but diluted margins, profitability is a choice, not just a result of turnover.

#### V. Moving Forward with Confidence

The year 2026 is America's "Late Gorbachev era"—a time of careening toward a new reality. For India, it is an "Execution Decade."

As your Chartered Accountants and Strategic Partners, our role is to act as your "Statistical Truth." With government data sources undergoing transformations and global information fraying, we remain committed to providing you with the clarity needed to navigate this flux.

We encourage you to use the insights in this newsletter—from the **Compliance Buzz** to the **Industry Outlook**—to recalibrate your business models. Do not let the "noisy many" distract you from the "vital few" opportunities that 2026 presents.

Let us build this "execution decade" together with discipline, foresight, and a focus on sustainable growth.

Warm regards,

**SPP & Co**  
[Editors Desk]

# Contemporary Business Environment Feb-2026

As we enter February 2026, the Indian economy presents a striking contrast to the global narrative. While advanced economies are grappling with "political revolutions," trade wars, and hollowing out of their political centers, India has emerged as the world's fourth-largest economy and its fastest-growing major power.

For the mid-sized business owner, the developments of January 2026 are not just macroeconomic data points—they are the signals of a new "Strategic Resiliency" that will define the next decade of Indian commerce.

## 1. The 7.4% Momentum

The **Economic Survey 2025-26** (tabled on January 29, 2026) confirmed that India is the world's fastest-growing major economy for the fourth consecutive year.

- **The Data:** Real GDP growth is estimated at **7.4% for FY26**, with a healthy projection of **6.8–7.2% for FY27**.
- **Sectoral Drivers:** The services sector remains the engine, growing at **9.1%**, while manufacturing and construction have found a steady rhythm at **7%**.
- **Why this matters for you:** Unlike the volatile global markets, India's growth is anchored by **domestic demand**. Private consumption now accounts for **61.5% of GDP**—the highest share since 2012—supported by record-low inflation and stable employment.

## 2. The Rise of the "Retail Investor"

A structural shift has occurred in our capital markets. As of September 2025, unique investors in India crossed the **12-crore mark**, with nearly 25% being women.

- **Impact:** This massive pool of domestic capital provides a "liquidity cushion," protecting Indian businesses from the sudden outflows often seen when the U.S. Federal Reserve shifts its stance.

## 3. The "Mother of All Deals": India-EU FTA

On **January 27, 2026**, India concluded a historic Free Trade Agreement (FTA) with the European Union. This is the most significant trade development in two decades.

- **Immediate Benefits:** The deal unlocks market access for **99% of India's exports** by trade value.
- **Sector Highlights:** Labor-intensive sectors like **textiles, leather, footwear, and gems & jewellery** will see immediate duty elimination.
- **Professional Mobility:** In a major win, Indian professionals in IT, R&D, and accounting gain fast-tracked work rights and mutual recognition of qualifications across the 27 EU member states.

## 4. Navigating the "Trump Tariff" Shock

## India 2026: Navigating Growth in a Fragmented World

While global markets face 'political revolutions' and trade wars, India has emerged as the world's 4th largest economy, highlighting its domestic strengths and strategic trade shifts for resilient growth heading into 2027.



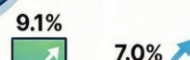
### Economic Momentum & Domestic Strength

A powerful, self-sustaining internal engine

**Domestic Demand Anchors Growth**  
for private consumption, highest share since 2012



**12 Crore Unique Investors**  
A massive domestic capital pool provides a liquidity cushion against global outflows.



Services Sector  
Manufacturing & Construction

### Strategic Business Pivots

Navigation through fragmented global paths, breaking barriers and opening new gateways

**India-EU FTA Breakthrough**  
The 2026 deal unlocks market access for 99% of India's exports by value.

**99%**  
of India's exports by value unlocked for market access

**Shift from U.S. to European Markets**  
Pivot to the EU to bypass 50% 'Trump Tariffs' on specific Indian goods.

**\$701.4 Billion FX Reserves**

Robust reserves provide 11 months of import cover for energy and trade stability.

While the U.S. remains our largest trading partner, President Donald Trump's "reciprocal tariffs"—reaching as high as **50%** on some Indian goods in August 2025—have forced a strategic pivot.

- **The Strategy:** The Union Budget 2026-27 (tabled February 1, 2026) responds by emphasizing "**Strategic Swadeshi**". This isn't isolationism; it's a calibrated three-tiered strategy to reduce input costs and strengthen advanced manufacturing.
- **Relief Measures:** The Budget has extended the export period for duty-free inputs and increased support for seafood, textile, and leather exporters to cushion the blow of U.S. protectionism.

## 5. Energy Stability in a Volatile World

As global energy markets face uncertainty due to the "Donroe Doctrine" in the Americas and shifting OPEC+ stances, India is building its own energy "stack."

- **The Data:** India's foreign exchange reserves have crossed **\$701.4 Billion** (as of January 16, 2026), providing cover for 11 months of imports.
- **Future Demand:** OPEC projects that India alone will add **8.2 million barrels per day** of demand by 2050. This confirms your business's role in the world's most stable contributor to energy growth.

## The Bottom Line

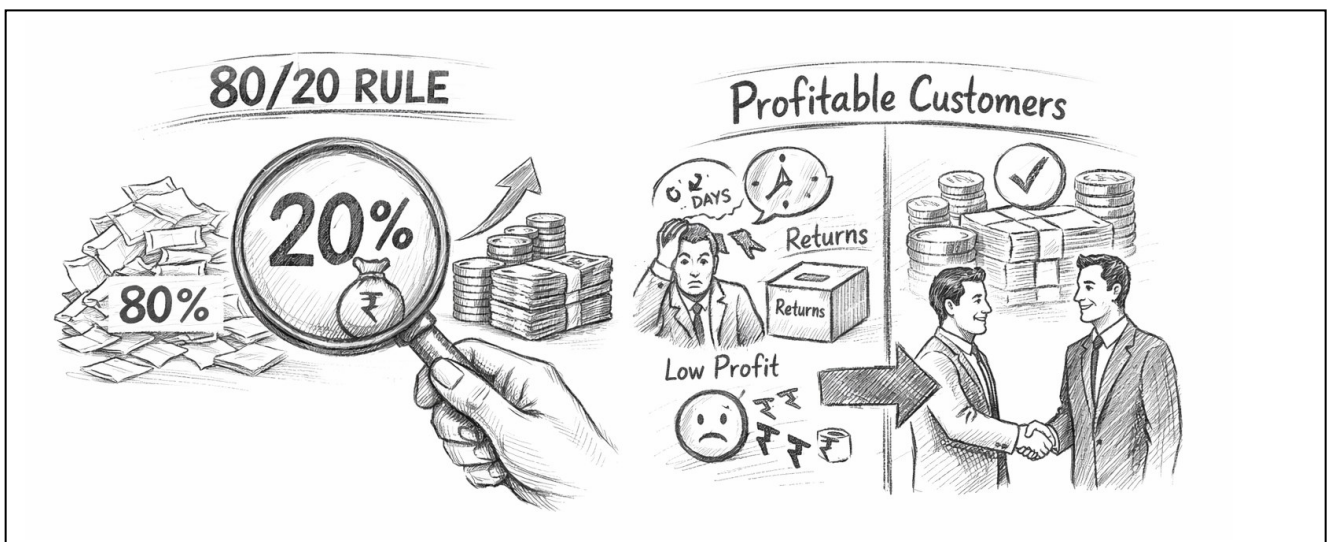
2026 is a year for "Strategic Confidence." India is no longer just a "market to sell to"; it is a global "hub to produce from." While the external world remains unpredictable, our internal fundamentals are stronger than they have been in a generation.

*Disclaimer: This summary is based on the Economic Survey 2025-26 and current market developments in January 2026. Please consult our office for specific impacts on your industry-specific tax and regulatory filing*

## 6. Actions for our Clients

Given the volatile global backdrop and the robust domestic outlook, we recommend the following strategic shifts for your business:

1. **Pivot to Europe:** If you have been heavily reliant on U.S. exports, now is the time to utilize the **India-EU FTA**. The removal of 12–17% tariffs puts you on par with competitors like Vietnam and Bangladesh.
2. **Manufacturing Resilience:** Leverage the **Electronics Components Manufacturing Scheme** (outlay increased to ₹40,000 crore) and the **India Semiconductor Mission 2.0**. There are massive subsidies available for those moving up the value chain.
3. **Logistics Arbitrage:** With 3,500 KM of railway added in FY26 and new dedicated freight corridors, revisit your supply chain costs. The shift from road to rail can now offer significant margin improvements.
4. **Tax Rationalization:** Take advantage of the broad-based demand momentum. The Survey notes that urban consumption has been aided by recent tax rationalization—ensure your pricing models reflect the increased real purchasing power of the Indian consumer.



# The 80/20 Lens: Where Your Business Really Makes Money

In the bustling world of Indian SMEs and mid-market enterprises, there is a pervasive myth: that more activity equals more profit. We see business owners chasing every lead, stocking every possible SKU, and extending credit to every customer in the hopes of growth. Yet, often, the result is "profitless prosperity"—high turnover, exhausted teams, and thin margins.

As we move into the 2026 fiscal planning cycle, it is time to apply a sharper diagnostic tool: the **Pareto Principle**, or the 80/20 Rule. This isn't just a textbook theory; it is a management reality that suggests roughly 80% of your results come from 20% of your efforts.

## 1. The Myth of "More Effort"

In many Indian businesses, incremental revenue is frequently pursued through excessive SKUs, low-value customers, and high-return channels. This leads to "operational firefighting." The result is a high volume of activity that actually dilutes your margin. True profitability improves when effort is reallocated from the "noisy many" to the "vital few."

## 2. The Customer Pareto: Profits vs. Revenue

In the Indian context, not all revenue is created equal. A customer who contributes ₹1 Crore in sales but demands 120-day credit, frequent returns, and constant management intervention may actually be less profitable than a ₹50 Lakh customer who pays on time and orders standard products.

## Why Concentration Happens in India

- **Credit Behavior:** Customers who pay within terms drastically reduce your finance costs and bad-debt risk.
- **Service Complexity:** Some clients consume disproportionate "relationship cost"—constant special requests and management time.
- **The "Return" Culture:** In sectors like e-commerce and retail, a small segment of customers often accounts for the bulk of debit notes and disputes.

## Action Plan: Ranking Your Portfolio

Don't just rank customers by sales. Use **Contribution Margin**:

1. **Protect & Grow (Top 20%):** Give them priority service, stable pricing, and dedicated account management.
2. **Repair (Middle 60%):** Tighten credit terms and rationalize discounts.
3. **Re-price or Exit (Bottom 20%):** Introduce Minimum Order Quantities (MOQ), delivery fees, or move them to prepaid terms.

*Disclaimer: The Pareto Principle is a diagnostic heuristic and should be applied within the framework of documented company policies and statutory requirements. Individual results may vary based on data validation.*

## 3. Product & SKU Rationalization

Whether in manufacturing or trading, the "long tail" of inventory often eats the profits made by the "head."

- **Scale Winners:** Identify the 20% of products that drive 80% of margins. Ensure these never go out of stock.
- **Fix Neutrals:** Correct the pricing or bundle them with winners.
- **Exit Losers:** Many businesses hold "dead stock" out of sentiment. If an SKU has high carrying costs and low margin, it's time to discontinue it or move it to an "on-order only" model.

## 4. The Decision Pareto: Fixing the Leakage

Repeated profit leakage in Indian SMEs usually arises from a very narrow set of recurring bad decisions. By fixing the "vital few" causes, you can eliminate the majority of your headaches.

## Where "Bad Decisions" Cluster:

- **Uncontrolled Credit:** Ad-hoc extensions without a formal approval matrix.
- **Scope Creep:** Underquoting on projects and then doing "free" extra work.
- **Weak Vendor Selection:** Choosing the cheapest vendor without considering the cost of late deliveries or poor quality.

## 5. Implementation Blueprint (The 90-Day Plan)

Timeline	Focus Area	Key Deliverable
Days 1-30	Data Readiness	Clean master data for customers and SKUs; define profit logic.
Days 31-60	Diagnostics	Run Pareto charts on Profit, Overdues, and Loss-events.
Days 61-90	Policy Action	Implement new discount matrices and SKU rationalization.

## The "30-Second" Summary

Most businesses know their revenue. Very few know their **profit concentration**. The 80/20 lens asks: *Which 20% of my customers and products are genuinely paying for my lifestyle and growth?* Once you know the answer, you can stop firefighting and start flourishing.

# Budget 2026 [*Finance Bill 2026*]: A Strategic Analysis of India's Evolving Tax Landscape

## 1. Strategic Overview of the 2026 Fiscal Proposals

The Finance Bill 2026 marks a watershed moment in India's fiscal policy, acting as the definitive legislative bridge between the legacy Income-tax Act, 1961, and the newly minted Income-tax Act, 2025. This transition is not merely a renumbering of sections but a strategic pivot toward an "Ease of Living" philosophy. The Bill signals a move away from the high-friction, punitive era toward a trust-based, data-driven environment. For practitioners, the 2026 landscape is defined by a dual-track compliance reality: managing the finality of AY 2026-27 under the 1961 Act while proactively planning for the inaugural Tax Year (TY) 2026-27 under the 2025 Act.

The following **Core Strategic Pillars** will dominate the CA practice in the coming year:

- **Rationalisation:** Achieving statutory parity between the 1961 and 2025 Acts to minimize interpretational disputes.
- **Decriminalisation:** A systemic shift from "Rigorous" to "Simple" imprisonment and the replacement of penalties with mandatory graded fees for technical defaults.
- **Digitisation:** The institutionalization of electronic verification for withholding certificates and voluntary disclosures.

This memorandum provides a partner-level analysis of these shifts, beginning with the direct tax rate structures that provide the necessary stability for this transition.

## 2. Direct Tax Rates: Continuity and Transition (AY 2026-27 & TY 2026-27)

To facilitate a seamless migration between the 1961 and 2025 Acts, the government has prioritized rate stability. This "strategic anchor" allows individuals and corporates to maintain long-term financial plans without the volatility of shifting tax brackets during a year of high administrative change.

**Table 1: Default Tax Rates (The Bridge Regime)**  
*Applicable under Sec 115BAC(1A) (1961 Act) and Sec 202 (2025 Act)*

Income Slab	Tax Rate
Up to ₹4,00,000	Nil
₹4,00,001 to ₹8,00,000	5%
₹8,00,001 to ₹12,00,000	10%
₹12,00,001 to ₹16,00,000	15%
₹16,00,001 to ₹20,00,000	20%
₹20,00,001 to ₹24,00,000	25%

Above ₹24,00,000	30%
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**Table 2: Surcharge Rates for Individuals/HUFs/AOPs**

Total Income Range	Surcharge Rate
Exceeding ₹50 Lakh up to ₹1 Crore	10%
Exceeding ₹1 Crore up to ₹2 Crore	15%
Exceeding ₹2 Crore (Excluding Dividends/Capital Gains)	25%
Dividend & Capital Gains Income (Sec 111A, 112, 112A / Sec 196-198)	Capped at 15%

**Strategic Insight: The "So What?" for High-Net-Worth Individuals** Crucially, for assesseees under the default regimes of **Sec 115BAC(1A)** and **Sec 202**, the legacy 37% surcharge rate for income exceeding ₹5 crore is explicitly made **not applicable**. The surcharge is now strictly capped at 25%. This permanent reduction in the maximum marginal rate, coupled with the 15% cap on investment income, simplifies tax calculations and effectively lowers the tax burden for the highest earners, incentivizing domestic capital retention.

## 3. Ease of Living: Rationalising Compliance and Withholding

The Bill moves from rigid enforcement to taxpayer convenience, significantly reducing "compliance friction" for both clients and CA offices.

- **Employee Welfare (Effective April 1, 2026):** Aligning the due date for crediting employee contributions (PF/ESI) to the return filing date (Sec 29/Sec 263(1)) is a major strategic win. This **overrules decades of judicial precedents** which held the "due date" under the PF Act was the only valid date for deduction.
- **Immovable Property (Non-Residents) (Effective Oct 1, 2026):** In a massive procedural relief, resident individuals/HUFs are now exempt from obtaining a **TAN** when purchasing property

from non-residents (Sec 397). This eliminates a significant hurdle for one-off residential transactions.

- **Electronic Certificates (Effective April 1, 2026):** Payees can now apply for nil/lower TDS certificates (Sec 395) electronically, with the department mandated to issue digital certificates, removing manual bottlenecks.
- **Motor Accident Claims (Effective April 1, 2026):** Full tax exemption and removal of TDS on interest from compensation awarded by Tribunals (Sec 11/Schedule III).

**Evaluation:** These amendments transform the CA's role from procedural firefighting (managing TAN applications or PF timelines) to high-value strategic planning.

#### 4. Reimagining Returns: Timelines and Updated Submissions

The 2026 architecture provides taxpayers with expanded "breathing room" to ensure accuracy and promote voluntary disclosure.

**Table 3: New Due Date Architecture For non-audit cases and trusts (Sec 263 / Sec 139)**

Assessee Category	Current Due Date	New Due Date
Non-audit business/profession cases	July 31st	August 31st
Partner of a non-audit firm (and spouse)	July 31st	August 31st
Trusts and other non-audit entities	July 31st	August 31st

#### Expansion of Updated Returns (Sec 263/139)

1. **Reduction of Losses:** Previously barred, updated returns can now be filed even if they result in a reduction of previously claimed losses.
2. **Post-Reassessment Filing:** Taxpayers can now file an updated return *after* a reassessment notice (Sec 280/148) is issued, subject to an **additional 10% tax** on the aggregate of tax and interest. This is a strategic tool to close litigation early.

**Technical Note: Late Fees** The revised return window is extended from 9 to 12 months. However, practitioners must account for new late fees: **Section 234-I** for the 1961 Act and **Section 428(b)** for the 2025 Act, applicable if filed beyond the 9-month mark.

**Technical Note: DIN Validity (Sec 292B / 26)** The Bill clarifies that assessments are **not invalid** merely because a computer-generated Document Identification Number (DIN) is missing on a specific page or the body of the order, provided the order is referenced by a DIN in accompanying communications. This effectively checks "specious" litigation grounds.

#### 5. Decriminalization and the Penalty-to-Fee Transition

The government's intent is to distinguish technical procedural defaults from substantive tax evasion. For corporate directors, this reduces **reputational risk** significantly.

#### The Decriminalization Exercise (Sec 473 to 485):

1. **Nature of Punishment:** Shift from "Rigorous" to "**Simple**" imprisonment for most offenses.
2. **Sentence Reductions:** Maximum sentences are slashed from 7 years to **2 or 3 years**.
3. **Full Decriminalization:** Failure to produce books or documents under **Sec 481** is now fully decriminalized, removing the threat of prosecution for administrative delays.

**Penalty-to-Fee Transition (Sec 427/428):** Technical delays (e.g., failure to get accounts audited) are now converted into mandatory **Graded Fees** (₹75,000 to ₹1,50,000). This provides immediate certainty and eliminates the "penalty show-cause" litigation cycle.

#### 6. Corporate and International Tax: MAT, IFSC, and Buybacks

India's competitiveness as a global hub is reinforced through specific overhauls in the corporate regime.

- **MAT Overhaul (Effective April 1, 2026):** The MAT rate falls from 15% to **14%** in the old regime. MAT becomes a "final tax" here (no new credits).
  - ✓ **Strategic Set-off:** For **domestic companies**, existing MAT credits can be set off against **25%** of tax liability in the new regime.
  - ✓ **International Nuance:** For **foreign companies**, the set-off is limited to the **difference** between normal tax and MAT.
- **IFSC & OBUs:** The 100% deduction period is doubled from 10 to **20 years** for both Units in IFSC and **Offshore Banking Units (OBUs)**. Post-deduction, business income is taxed at a preferential **15%**.
- **Share Buybacks:** Re-classified from "Dividends" to "**Capital Gains.**" Critically, for **promoters**, the effective tax rate is set at **30%**, reflecting their

control over these corporate actions (22% for promoter companies).

## 7. The Foreign Assets of Small Taxpayers Disclosure Scheme (FAST-DS 2026)

This one-time window addresses "legacy non-compliance" (ESOPs, RSUs, dormant student accounts) that often triggers harsh Black Money Act proceedings.

- 1. Mechanism of Immunity:** Voluntary disclosure grants immunity from penalty and prosecution under the Black Money Act.
- 2. The ₹20 Lakh Safety Net:** The Black Money Act (Sec 49/50) is amended to provide that prosecution shall not apply to foreign assets where the aggregate value does not exceed **₹20 lakh**.
- 3. Critical Exclusion:** This threshold and immunity apply to **non-immovable assets only**. Inherited or undisclosed foreign real estate remains subject to full prosecution regardless of value.

## 8. Indirect Taxes: GST Refinements and Customs Rationalization

- GST (Sec 15, 34, 54):** The Bill removes the requirement to link post-sale discounts to a specific agreement, simplifying credit notes. Provisional refunds are extended to "Inverted Duty Structure" cases, aiding MSME liquidity.

- Customs Tariff Migration:** Effective rates for critical minerals and MSME products are moved directly into the Tariff Schedule. Note the new **Floor Rates**: Umbrellas (**₹60 per piece**) and parts (**₹25 per kg**).
- Maritime Strategy (Sec 56A):** The Customs Act jurisdiction is extended beyond territorial waters. Fish harvested by Indian-flagged vessels in these waters can now be brought in **duty-free**, a strategic anchor for the "Blue Economy."

## 9. Conclusion:

The Finance Bill 2026 signals a definitive move toward a "trust-based" yet "data-driven" tax administration. The transition to the 2025 Act requires a proactive shift in advisory.

### Action Checklist for February 2026:

- 1. FAST-DS Eligibility:** Review client portfolios for foreign assets under ₹20 lakh (non-immovable) for one-time immunity.
- 2. Securities Transaction Tax (STT) Revision:** Update trading clients on the rate hike—**Options (0.1% to 0.15%)** and **Futures (0.02% to 0.05%)**.
- 3. MAT Transition:** Calculate the 25% set-off benefit for domestic corporate clients migrating to the new regime.
- 4. System Sync:** Update compliance calendars for the **August 31st** non-audit deadline and the **12-month** revised return window.

Be prepared to navigate this dual-track legislative transition, ensuring all businesses capitalize on these strategic simplifications while mitigating the risks of this historic shift.

## INDIA FINANCE BILL 2026: KEY HIGHLIGHTS AND TAX REFORMS

### DIRECT TAX & COMPLIANCE REFORMS

#### New Default Tax Regime Slabs



#### EASE OF LIVING: EXTENDED TIMELINES



### DECriminalISATION & LEGAL RATIONALISATION



#### Shift to Simple Imprisonment



Tax offences changed from rigorous to simple imprisonment



#### Technical Penalties Converted to Fees

Audit delays and technical faults now attract mandatory fees to reduce litigation



#### FAST-DS 2026 Disclosure Scheme

A new time-bound scheme for declaring legacy foreign assets and sourcing income.

**FOCUS ON STABILITY & EASE OF LIVING:** Maintaining stable tax rates while simplifying procedures and shifting towards proportionate penalties for technical non-compliance.

# Navigating the Geopolitical Tipping Point: A 2026 Business Guide

As we move into 2026, the global landscape is no longer shifting—it is being rebuilt. The latest report from the Eurasia Group, led by Ian Bremmer, describes 2026 as a "tipping point" year. For our clients in the mid-market and SME sectors, these global headlines are not just news; they are "bottom-line" factors that will dictate the cost of capital, energy prices, and supply chain reliability.

## 1. The U.S. Political Revolution

The report identifies the **US political revolution** as the #1 risk. President Trump is systematically dismantling institutional checks and balances.

- **The Data:** Eurasia Group's *Governance Tracker* shows that most administration actions—from purging civil servants to law-firm sanctions—have succeeded with little effective check.
- **Impact on You:** The U.S. has become "unpredictable and unreliable." For a mid-sized business, this means the "rules of the game" can change overnight. Contracts that seemed secure may be impacted by sudden policy shifts or "transactional" diplomacy.

## 2. State Capitalism with American Characteristics

The U.S. is adopting a model similar to China's, where the government picks winners and losers.

- **The Data:** The U.S. government now holds a 10% stake in Intel and 15% in MP Materials (Eurasia Group, Risk #6).
- **Impact on You:** Success in business is increasingly becoming about "proximity to the inner circle" rather than just productivity. Mid-sized firms must now price in "political exposure" when making long-term investment decisions.

## 3. "Overpowered": China's Electron vs. America's Molecule

One of the most profound shifts in 2026 is the energy race. China has become the world's first "electrostate," while the U.S. has doubled down on being a "petrostate."

- **The Data:** China dominates **75% of global lithium-ion battery production** and **90% of neodymium magnets** for motors. In 2024, China added 429 GW of power capacity; the U.S. added only 51 GW (Eurasia Group, Risk #2).
- **Impact on You: \* Energy Costs:** While the U.S. focuses on fossil fuels, China is making the

"electric stack" (batteries, EVs, solar) 99% cheaper.

- ✓ **The Bind:** If your business relies on 21st-century tech (EVs, AI, robotics), you may find yourself increasingly dependent on Chinese infrastructure, even as political tensions with the West rise.

## 4. AI: "Eating Its Users"

AI is entering a dangerous phase. Companies are under immense pressure to show profit on the \$3 Trillion invested in AI by 2030.

- **The Data:** Only about **10% of US firms** are



currently using AI to produce goods and services, despite the hype (U.S. Census Bureau).

- **Impact on You:** The report warns of "enshittification"—AI platforms becoming more extractive and intrusive to generate revenue. For mid-sized firms, the risk is not just "losing jobs to robots," but rather falling victim to AI-driven manipulation or a "market bubble" that could trigger a shallow recession if investor sentiment sours.

## 5. The "Donroe Doctrine" in the Americas

U.S. primacy is being reasserted in the Western Hemisphere through military and economic pressure.

- **The Data:** This includes the captures of Nicolas Maduro and sanctions on Colombian and Brazilian officials (Eurasia Group, Risk #3).
- **Impact on You:** If you have supply chains or customers in Latin America, expect higher volatility. The "diffusion of insecurity" as criminal networks shift due to U.S. crackdowns could disrupt regional logistics.

## 6. The "Zombie USMCA"

North American trade is in limbo. The USMCA agreement won't be killed, but it won't be renewed either.

- **The Data:** The U.S. receives **75% of Canadian exports** and **80% of Mexican exports**.
- **Impact on You:** "Free and predictable trade is over." While the bulk of goods remains exempt, sectors like **autos, steel, and aluminum** are now subject to "national security" tariffs. Mid-sized manufacturers must prepare for bilateral, high-pressure negotiations to become the new normal.

## 7. Europe Under Siege & Russia's Second Front

The political center in the UK, France, and Germany is hollowing out.

- **The Data:** Russia has moved from trench warfare to "hybrid war," using drones and cyberattacks against NATO infrastructure (Eurasia Group, Risk #5).
- **Impact on You:** Weakened European governments will struggle to drive growth. Expect higher "risk premiums" on European assets and potential supply chain disruptions due to "gray-zone" sabotage (e.g., GPS jamming at airports or subsea cable cuts).

### What This Means for Your Business

*Disclaimer: This article summarizes the 2026 Top Risks report by Eurasia Group for educational purposes. Business owners should consult with their professional advisors before making significant investment changes based on geopolitical forecasts.*

### Interesting & Lesser-Known Geopolitical Facts

#### Undersea Cables Carry More Power Than Armies

Over **95% of global internet traffic and financial data** flows through undersea fibre-optic cables—not satellites. Fewer than **500 cables** carry the world's digital economy, making them a critical yet vulnerable geopolitical pressure point.

#### Energy Grids Are the New Borders

Countries with surplus electricity capacity increasingly wield influence without territory. Control over **battery supply chains, grid technology, and storage systems** now delivers leverage comparable to oil chokepoints like the Strait of Hormuz.

1. **Capital Misallocation:** In a world of "State Capitalism," capital flows to the politically favored. Mid-sized firms without "connections" must focus on extreme efficiency to compete.
2. **Energy Disconnect:** You are caught between a U.S. economy betting on "molecules" (oil/gas) and a global future running on "electrons."
3. **Information Decay:** As media consolidates and AI-driven disinformation grows, "statistical truth" is becoming a private-sector commodity.

### Action Steps: What You Must Do Now

- **Audit Your Supply Chain for "Geopolitical Resilience":** Identify if you are over-indexed on the "Chinese electric stack" or "U.S. politically-sensitive sectors" (Steel, Pharma, Chips).
- **Build a "Buffer" for Uncertainty:** The Eurasia Group notes that 2026 is America's "Late Gorbachev era"—we are careening toward something, but the outcome is indeterminate. Maintain higher-than-usual cash reserves to weather sudden tariff spikes.
- **Verify Your Data:** With government agencies like the Bureau of Labor Statistics seeing staff purges, rely on trusted private-sector auditors and CAs for "statistical truth" in your financial planning.
- **Hedge Against Currency Volatility:** While the report says "Sell America" is a red herring (TINA - There Is No Alternative to the Dollar), the *risk premium* on U.S. assets is rising. Discuss FX hedging with us.

### Closing Thought

The world of 2026 is faster, more chaotic, and more transactional. Success this year will belong to the **agile and the informed**.

# Capital Structuring & Funding Readiness: Building the Foundation for Scalable Growth

In the current economic climate, where India stands as a "strategic oasis" with a 7.4% GDP growth rate, a critical factor for mid-sized businesses is the state of their **funding readiness**.

As global markets navigate the "tipping point" of 2026, capital is increasingly viewed as a strategic tool rather than a mere resource. Whether evaluating expansion into European markets under the India-EU FTA or considering the reshoring of manufacturing to benefit from Union Budget 2026 incentives, a robust capital structure is often the primary determinant of execution speed.

## 1. The Concept of 'Funding Readiness'

It is a common observation that many businesses initiate capital discussions only when an immediate need arises—such as for capacity expansion or a bulk order. However, in the 2026 landscape, a "reactive" approach to funding can be a significant bottleneck.

**Funding Readiness** refers to a state of operational and financial hygiene that allows an organization to access capital markets or credit lines efficiently. Maintaining this state of readiness, regardless of immediate funding requirements, offers several institutional advantages:

- **Strategic Agility:** Businesses with a ready balance sheet are better positioned to act on sudden market openings, such as the current export windows in the EU textile sector.
- **Risk Premium Optimization:** Lenders typically offer more favorable terms to entities that demonstrate financial discipline and a lack of urgency. A transparent balance sheet often commands a lower risk premium.
- **Internal Benchmarking:** Periodic readiness reviews provide an "outsider's perspective" on the business, helping management identify and rectify operational or financial inefficiencies.

### The Readiness Framework:

1. **Compliance Hygiene:** Ensuring all statutory filings, GST reconciliations, and regulatory registrations are current and accurate.
2. **Information Systems (MIS):** Maintaining the capability to produce reliable financial statements and cash flow analysis within the first week of the following month.

3. **Governance Structures:** Establishing a clear separation between personal assets and corporate business operations.

## 2. Debt vs. Equity vs. Hybrid: Navigating the Capital Menu

Choosing the appropriate capital instrument is essential for maintaining financial health. With the RBI Repo rate stable at **5.25%** and the capital markets showing robust activity, the options for growth capital are diverse.

### A. Debt (The Engine of Stability)

- **Application:** Ideal for working capital and projects with predictable, recurring cash flows.
- **Characteristics:** Offers a lower cost of capital due to tax-deductible interest while allowing promoters to retain full control.
- **2026 Context:** With MCLR rates currently between **7.70% and 7.95%**, debt remains a viable tool for scaling stable operations.

### B. Equity (The Fuel for Innovation)

- **Application:** Suited for high-growth expansions, R&D in emerging tech (AI/Semiconductors), and long-gestation projects.
- **Characteristics:** No fixed repayment obligation; however, it involves a permanent dilution of ownership and higher governance standards.
- **2026 Context:** Private equity interest in mid-sized Indian firms has increased as investors seek "safe havens" amidst global geopolitical volatility.

### C. Hybrid Instruments (The Flexible Middle)

- **Instruments:** Compulsorily Convertible Debentures (CCDs) or Mezzanine Debt.
- **Characteristics:** These instruments typically begin as debt (with fixed interest) and convert to equity upon reaching specific performance milestones. This is often preferred by scaling

businesses that wish to defer valuation discussions until reaching higher revenue targets.

### 3. Enhancing Credit Appraisals for Expansion

Observations of the 2026 credit market indicate that financial institutions are increasingly lending based on "**Systems**" rather than just "Growth Stories." Achieving a stress-free appraisal process typically requires mastery of the **Three C's**:

1. **Cash Flow (DSCR):** Lenders focus heavily on the Debt Service Coverage Ratio. A standard benchmark is the ability to cover repayments at least **1.5 times**. It is prudent for management to stress-test these projections against a 20% revenue drop to demonstrate resilience.
2. **Collateral Efficiency:** Modern banking is shifting toward the valuation of high-quality receivables and escrow arrangements. Utilizing comprehensive "Stock and Receivable Audits" can often unlock higher credit limits compared to fixed-asset-based lending alone.
3. **Character (Digital Credit Identity):** In a digitized financial ecosystem, personal and corporate credit scores (CIBIL/Experian) are assessed instantaneously. Maintaining a flawless credit history is essential to preserving a premium corporate image.

### 4. The Relationship Between Transparency and Borrowing Power

A common misconception in the mid-market segment is that minimizing reported profits for tax purposes is beneficial. In a funding-ready environment, this can be counterproductive to growth.

### Conclusion: The 2026 Roadmap

While capital is currently abundant in the Indian market, it is also becoming more discerning. Whether a business requires funds immediately or in the future, the work of **Capital Structuring** is an ongoing process. A clean, well-capitalized organization remains the most effective tool for navigating an unpredictable global environment and capturing the growth opportunities inherent in the Indian economy.

*Note: This feature is intended for general information and should not be construed as specific financial or legal advice. Businesses should seek professional consultation regarding their specific capital requirements.*

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#### Data Is Now a Strategic Resource—But Privately Owned

Governments increasingly rely on **private corporations for economic, labour, and consumption data**, marking the first time in history where "statistical truth" is largely produced outside the state.

**The Value of Financial Transparency:** Clean and transparent financials serve to **reduce the cost of capital**.

- **Interest Rate Benefits:** A lender may charge significantly lower interest to an entity with transparent, audited financials compared to one with opaque accounting. On a ₹10 Crore loan, a 1.5% difference in rates translates to a substantial saving in interest costs annually.
- **The Audit Seal of Quality:** Financial statements certified under rigorous auditing standards serve as an independent verification of the numbers, significantly easing the due diligence process for lenders.
- **Unsecured Credit Access:** High-quality data enables businesses to access the burgeoning "Digital Lending" ecosystem, where collateral-free loans are often granted based on GST data and verified cash-flow patterns.

### The Role of Professional Financial Architecture

Strategic capital planning involves more than simple compliance; it requires the role of a "Financial Architect." This process includes:

- Identifying the optimal **Debt-to-Equity ratio** relevant to the specific industry.
- Normalizing **inter-company transactions** and director accounts to present a clear picture to potential investors or lenders.
- Structuring **Project Reports** to reflect emerging opportunities, such as the EU-FTA potential or the shifts in global energy demand highlighted in recent economic surveys.

# Statutory updates: Jan-2026 [*Direct & Indirect & Corporate Laws*]

## 1. Executive Overview: The Transition to a New Fiscal Era

The regulatory landscape of January 2026 marks a definitive rupture from the past. The formal announcement of the **Income Tax Act, 2025**, set to replace the venerable 1961 Act on April 1, 2026, signals the end of an era. The outgoing 1961 framework, while foundational, has become arguably bulky and complicated, burdened by six decades of amendments, provisos, and contradictory carve-outs. This new legislative era prioritizes simplification, digital-first oversight, and the alignment of tax procedures with modern global financial practices.

As we navigate this "Transitional Compliance" phase, a cohesive theme emerges across Direct Tax, GST, and FEMA: the aggressive reduction of administrative friction coupled with a mandate for absolute transparency. While the legislative language is being streamlined, the enforcement mechanisms—driven by electronic filing and real-time data verification—are becoming significantly more precise. For our clients, this month represents a strategic window to audit internal structures before the new Act's heightened compliance thresholds take effect. We begin this transition by examining the latest direct tax notifications that facilitate this structural shift.

## 2. Direct Taxation: Exemptions, Research Incentives, and Strategic Jurisprudence

The strategic intent behind recent updates to Section 10 and Section 35 is the deliberate channeling of capital into long-term infrastructure and regional development. By notifying specific pension funds and statutory authorities, the government is providing fiscal stability to entities performing essential public functions. These are not merely administrative exemptions; they are policy incentives designed for scientific preservation and cultural-economic development.

### Direct Tax Notifications (January 1 – January 31, 2026)

Not. No. & Date	Description and Strategic Impact
<b>Nos. 02, 03, 04, 05, 08, 09 &amp; 10/2026</b> (Jan 06 – 19, 2026)	<b>Statutory Development &amp; Regulatory Authorities (S. 10(46A)):</b> Designates various bodies (Electricity Commissions, Development Authorities in Mussoorie, Kota, Gorakhpur, Aligarh, Barnala, and Agra) as exempt from tax on specified income derived from public functions. These apply from <b>AY 2024-25 or AY 2025-26</b> onwards, providing critical retrospective and prospective certainty for regional infrastructure. Link: <a href="https://incometaxindia.gov.in/communications/notification/notification-2-2026.pdf">https://incometaxindia.gov.in/communications/notification/notification-2-2026.pdf</a>
<b>No. 01/2026</b> (05-01-2026)	<b>Inbar Holding RSC Ltd (UAE Pension Fund):</b> Notified as a "specified person" under S.10(23FE) for tax-free investments in India until March 31, 2030. Link: <a href="https://incometaxindia.gov.in/communications/notification/notification-1-2026.pdf">https://incometaxindia.gov.in/communications/notification/notification-1-2026.pdf</a>
<b>No. 06/2026</b> (08-01-2026)	<b>Core Settlement Guarantee Fund:</b> Exempts specified clearing-fund income for AMC Repo Clearing Ltd from <b>AY 2024-25</b> while conditions continue [10(23EE)]. Link: <a href="https://incometaxindia.gov.in/communications/notification/notification-no-06-2026.pdf">https://incometaxindia.gov.in/communications/notification/notification-no-06-2026.pdf</a>
<b>No. 07/2026</b>	<b>WB Construction Workers Welfare Board:</b> Exemption for cess and grants under S.10(46) for <b>AY 2022-23 to 2026-27</b> . Link: <a href="https://incometaxindia.gov.in/communications/notification/notification-no-07-2026.pdf">https://incometaxindia.gov.in/communications/notification/notification-no-07-2026.pdf</a>
<b>No. 11/2026</b>	<b>Karnataka State Rural Livelihood Promotion Society</b>
<b>No. 12/2026</b>	<b>D&amp;NH Building Board:</b> Retrospective exemption for <b>AY 2019-20 to 2023-24</b> .
<b>No. 13/2026</b>	<b>Tamil Nadu e-Governance Agency:</b> Exempts software fees and consultancy to govt bodies for <b>AY 2024-25 to 2028-29</b> .
<b>No. 15/2026</b>	<b>Chandigarh Legal Service Authority:</b> Exemption for grants and court-ordered amounts under S.10(46) for <b>AY 2024-25 to 2028-29</b> .
<b>No. 14/2026</b> (21-01-2026)	<b>Sikshya O Anusandhan:</b> Approval for scientific research deductions under Section 35 as a University for <b>AY 2026-27 to 2030-31 [Sec 35(1)(ii)]</b> .

Link: <https://incometaxindia.gov.in/communications/notification/notification-no-14-2026.pdf>

**Strategic Analysis: Tiger Global Supreme Court Ruling** In a landmark decision, the Supreme Court has **set aside the 2024 Delhi High Court ruling**, holding that Tiger Global is liable for capital gains tax on its 2018 sale of Flipkart shares. The Court ruled that the Mauritius-based structure was an "impermissible arrangement" primarily designed for tax avoidance. **The "So What?":** This reversal signals a zero-tolerance policy toward "treaty shopping." Cross-border tax structures lacking real commercial substance will no longer be protected by lower court pro-taxpayer stances.

### Key ITAT Jurisprudence for Businesses

- **Orbit Resorts:** Confirmed Annual Maintenance Contracts (AMC) are "works contracts" (S. 194C) and not "Fees for Technical Services" (S. 194J), despite the use of technically skilled manpower.
- **Advant IT Park:** Ruled that leasing office space with continuous integrated facilities constitutes **Business Income**, rejecting the AO's attempt to classify it as "House Property."
- **Anshul Speciality:** Reaffirmed that goodwill acquired via a slump sale is a **depreciable intangible asset**, even if it was not present in the transferor's books.

### 3. Indirect Taxation: GST Refinements and Customs Benchmarks

The January 2026 GST updates represent a significant fiscal tightening in the tobacco and pan masala sectors. Through Notification 19/2025, the government has transitioned to a **Retail Sale Price (RSP)** valuation model to curb undervaluation. Crucially, CGST rates have been drastically adjusted: **Biris are set at 9%**, while **Pan Masala and Cigarettes are now 20%**, with the 28% schedule effectively deleted to accommodate these special valuation norms.

#### GST and Customs Regulatory Updates

Not.No. & Date	Description and Key Impacts
<b>GST 19/2025 &amp; 20/2025</b> (Eff. Feb 2026)	<b>Tobacco Valuation Overhaul:</b> Shifts GST base to RSP; restricts ITC set-off under Rule 86B to mandate minimum cash payments. CGST rates: 9% (Biris) and 20% (Pan Masala). Link: <a href="https://taxinformation.cbic.gov.in/">https://taxinformation.cbic.gov.in/</a>
<b>Customs (NT) 02/2026</b> (15-01-2026)	<b>New Logistics Hub:</b> Designates <b>Bhogapuram in Andhra Pradesh</b> as a new Customs handling point for loading/unloading cargo.
<b>Customs &amp; 02/2026 (ADD) 01/2026</b>	<b>Anti-Dumping:</b> Extends duties on Flexible Slabstock Polyol (Saudi/UAE) to June 2026 and Normal Butanol (EU/USA/Malaysia) to July 2026.
<b>Customs - 07/2026 (NT) 03/2026</b>	<b>Postal Export Parity:</b> Extends Duty Drawback, RoDTEP, and RoSCTL to postal exports; introduces new <b>PBE-III and PBE-IV</b> forms for MSMEs.
<b>Customs - 11/2026 (NT) 08/2026</b>	<b>Bullion Volatility:</b> Rapid adjustments to Gold (1709/10g) and Silver (3545/kg) benchmarks to match late-January market surges.

**Judicial Impact: "So What?" for the Taxpayer** The **N.S. Super Mart (Delhi HC)** ruling is a victory for procedural fairness; the Court held that uploading a notice solely under "Additional Notices" is not valid service. Furthermore, **Paradeep Phosphates (Orissa HC)** established that when a tax levy (e.g., Ocean Freight IGST) is held unconstitutional, the State must return the money with **6% interest**, increasing to **9%** if not paid within 8 weeks.

**Anti-Profiteering Compliance** The **Bhavya Construction** GSTAT ruling emphasizes that state regulations or local price approvals do not exempt a business from Section 171. The tribunal confirmed a profiteering amount of **₹11.88 lakh** for failing to pass on GST rate cuts to cinema-goers.

#### 4. SEBI, FEMA, and RBI: The New Regulatory Frameworks of 2026

SEBI and FEMA have undergone a massive modernization this month. The new **Stock Brokers Regulations 2026** and **Mutual Funds Regulations 2026** replace frameworks dating back to the 1990s, focusing on cybersecurity, net-worth adequacy, and unified registration.

##### Financial Regulatory Updates Table

Regulation/Notn. & Date	Summary of Update
<b>SEBI/2026/291 &amp; 294</b> (Jan 2026)	<b>Framework Overhaul:</b> Repeals 1992 rules for Stock Brokers and unifies all Mutual Fund governance into a single 2026 framework.
<b>SEBI/2026/293</b> (13-01-2026)	<b>CRA Flexibility:</b> Credit Rating Agencies (CRAs) are now authorized to rate financial instruments regulated by other bodies like <b>RBI and IRDAI</b> .
<b>SEBI/2026/295</b> (20-01-2026)	<b>LODR Revision:</b> Threshold for High Value Debt Listed Entities (HVDLE) raised from <b>₹1,000 crore to ₹5,000 crore</b> .
<b>SEBI/2026/296</b> (20-01-2026)	<b>RII Definition:</b> A "Retail Individual Investor" is now formally defined as an investor whose investment in an issue does not exceed <b>₹2 lakh</b> .
<b>FEMA 8(R)/2026-RB</b> (06-01-2026)	<b>Guarantees:</b> Replaces 2000 rules; mandates <b>Form GRN</b> filing for all cross-border guarantees with mandatory quarterly reporting.
<b>FEMA 23(R)/2026-RB</b> (13-01-2026)	<b>Export-Import:</b> Consolidated framework for fund repatriation monitoring via AD banks.

**Strategic Analysis: FEMA Export and Import Regulations 2026** The "So What?" for our international clients is the effective date of **October 1, 2026**, for the new digital migration. All transactions will eventually shift to the **PRAVAAH system**, and the **Export Declaration Form (EDF)** is now mandatory for all goods and services. This transition timeline is critical for managing digital compliance and ensuring proceeds are realized within strictly monitored timelines.

#### 5. Corporate Law & Insolvency: MCA Adjudications and IBBI Mandates

The MCA has moved to a "zero-tolerance" digital enforcement model. The recent **Directors' DIN-KYC Amendment Rules, 2025**, mandate **triennial filings** exclusively through **DIR-3 KYC Web**.

##### ROC Adjudication Lessons: The Cost of Clerical Negligence

- **NEU Science:** A director faced a total penalty of **₹25.81 lakh** (₹50k base + ₹25.31L continuing penalty) for operating with a deactivated DIN due to KYC non-compliance.
- **Arcatron Mobility:** Penalized **₹1,00,000 (Company)** and **₹25,000 (Director)** for omissions in MGT-14 attachments, despite the default being unintentional.
- **Sub Zero Insulation:** A simple clerical error (leaving a mandatory field blank in AOC-4) resulted in a **₹10,000 penalty** for the signing director.

**Insolvency & Bankruptcy** The **IBBI (Liquidation Process) Amendment Regulations 2026** now mandate that liquidators file all forms and enclosures **electronically** on the IBBI portal. This shift eliminates paper-based delays and ensures that the liquidation timeline is digitally verifiable.

#### 6. Closing Thoughts & Disclaimer

The regulatory updates of January 2026 underscore a definitive shift toward institutional discipline. As we prepare for the **Income Tax Act, 2025**, the focus must remain on ensuring that every digital filing is backed by genuine "commercial substance." Clerical precision is no longer optional; it is a statutory prerequisite.

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# Industry Outlook (Feb–Mar 2026) [IN / TN / CBE]

The business environment in January 2026 is defined by a "Goldilocks" scenario for the Indian economy—characterized by high growth momentum and unusually low financial stress. While the global landscape is fractured by geo-economic confrontation and a resurgence of protectionism, India has maintained a robust domestic trajectory, supported by the finalization of the Income Tax Act 2025 and a strategic pivot toward European trade.

This report integrates national macroeconomic data with a focused industrial analysis of Tamil Nadu and the Coimbatore region, highlighting the transition from traditional manufacturing to a multi-sector engine of AI, EVs, and advanced aerospace.

## 1. Macroeconomic Environment: Growth with Disinflation

India enters February 2026 with exceptionally supportive macro fundamentals. The Economic Survey 2026, tabled on January 29, estimates a real GDP growth of 7.4% for the current fiscal year.

### Key Performance Indicators (January 2026)

- **Industrial Output:** IIP growth surged to 7.8% YoY in December 2025, a two-year high driven by manufacturing and consumption.
- **Private Sector Growth:** The composite PMI rebounded to an 11-month high of 59.5 in January, with strong demand in both manufacturing and services.
- **Inflation:** Headline CPI inflation stood at a multi-year low of 1.33% in December 2025, with food inflation remaining in the negative zone for seven consecutive months.
- **Monetary Policy:** The RBI repo rate remains at 5.25% following cumulative cuts of 125 bps in 2025, significantly lowering working capital costs for MSMEs.
- **Fiscal Prudence:** The government has pegged the fiscal deficit at 4.4% for FY26 and 4.3% for FY27.

Economic Indicator	Dec 2025 / Jan 2026 Status	Comparison/Context
Real GDP Growth (FY26)	7.4%	Highest among major economies
Composite PMI (Jan)	59.5	11-month high
CPI Inflation (Dec)	1.33%	Multi-year low
IIP Growth (Dec)	7.8%	Fastest in two years
10-Year Bond Yield	6.7%	11-month high on borrowing fears

## 2. The New Trade Architecture: Countering Global Protectionism

The Defining event of the month was the signing of the India-EU Free Trade Agreement on January 27, 2026. This "mother of all deals" serves as a strategic buffer against the 50% tariffs imposed on Indian goods by the United States, which had severely impacted labor-intensive sectors like apparel and leather.

### Strategic Relief and Market Access

- **Tariff Elimination:** The EU will eliminate or reduce tariffs on 99.5% of imports from India over seven years.
- **Indian Textiles:** The removal of EU duties (previously 12%-17%) places Indian exporters on par with competitors from Bangladesh and Vietnam.
- **Seafood Exports:** The 26% EU tariff on Indian marine products will be zeroed out, a move expected to "turbo-charge" exports from coastal states.
- **EU Gains:** India will gradually reduce import duties on European cars from 110% to 40%, allowing for an annual quota of 250,000 vehicles.

## 3. Tamil Nadu and the Coimbatore Industrial Resurgence

Tamil Nadu continues to outperform as one of India's most diversified states, contributing nearly 10% to the national GDP.

### Regional Strategic Breakthroughs

- **Sovereign AI Park:** On January 13, Tamil Nadu signed a ₹10,000 crore MoU with Sarvam AI to establish India's first Sovereign AI Park in Chennai, focusing on research and data-centric industries.
- **Coimbatore Advanced Manufacturing:** The region has secured several "first-of-its-kind" projects, including Sakthi Aircraft Industry's ₹500 crore manufacturing unit for 2-seater trainer aircraft and Caliber Interconnects' ₹3,000 crore semiconductor facility.
- **EV Transition:** Propel Industries (Coimbatore) unveiled India's first 90-tonne electric dump truck and is investing ₹350 crore to expand production capacity to three EV trucks per day. A new ₹51 crore EV powertrain plant was also approved for Kannampalayam.

### Sector-Specific Developments (Jan 2026)

- **Textiles:** At the International Textile Summit 360 in Coimbatore (Jan 29-30), the state released its "New Integrated Textile Policy 2025-26," offering a 20%

capital subsidy for modernizing weaving and knitting units.

- **IT and GCCs:** Coimbatore's TIDEL IT Park now hosts over 250 startups. EY recently expanded its Global Delivery Services (GDS) with a new 22,000 sq ft office in the city, focusing on AI and cybersecurity.
- **MSME Credit:** Coimbatore-based MSME associations have appealed for the implementation of MSME credit cards and a reduction in GST on job works from 18% to 5%.

#### 4. Union Budget 2026: Policy Clarity and Future Thrust

The Union Budget, presented on February 1 following the January Economic Survey, emphasized stability, technology-led growth, and a reduction in compliance friction.

##### Direct Tax Overhaul: Income Tax Act 2025

- **Simplification:** The new Act replaces the 1961 law effective April 1, 2026, reducing the number of sections from 819 to 536 and introducing 39 new tables for clarity.
- **ITR Correction:** The correction window for returns has been extended to March 31.
- **TCS/TDS Ease:** TCS on overseas tour packages has been reduced to a uniform 2%. Remittances for education and medical purposes were also cut from 5% to 2%.
- **IT Safe Harbor:** The revenue threshold for safe harbor for IT services companies was increased from ₹300 crore to ₹2,000 crore, simplifying transfer pricing for mid-sized firms.

##### Strategic Allocations

- **Semiconductor Mission 2.0:** A new ₹40,000 crore outlay for electronics manufacturing and chip fabrication.
- **Infrastructure:** Capital expenditure was hiked to a record ₹12.2 lakh crore, including plans for seven new high-speed rail corridors.
- **Carbon Capture:** A ₹20,000 crore plan was announced to scale carbon capture technology for heavy industry.

#### 5. Technology: The AI Inflection Point

##### Strategic Takeaways for Businesses

1. **Market Diversification:** Capitalize on the India-EU FTA to offset US tariff pressures, particularly for textiles, leather, and seafood.
  2. **Tax Readiness:** Transition internal systems to the New Income Tax Act 2025 ahead of the April 1 rollout.
  3. **Coimbatore-Specific Capex:** Leverage the region's emerging aerospace and semiconductor clusters for high-value engineering partnerships.
  4. **AI Integration:** Explore world-model technologies like Project Genie for training, simulation, or rapid prototyping in manufacturing.
- .....

The corporate world is navigating the "AI inflection point," with technology moving from a support function to a core revenue driver.

- **Google Project Genie:** Launched in late January, this experimental tool allows users to build infinite, interactive virtual worlds in real-time from text prompts. The announcement caused Unity Software shares to nosedive by 21.6% as investors feared a disruption in traditional game engine models.
- **TCS Performance:** Reported annualized AI services revenue of 1.8 billion in Q3 FY26, highlighting the scale of AI adoption among global enterprises.
- **SaaS Evolution:** Amagi became India's first cloud-native SaaS company to list on Indian exchanges, signaling the maturity of the software product ecosystem.

#### 6. Geopolitics and Risk Architecture

- **Red Sea and Shipping:** Traffic through the Suez Canal remains down by 75% due to structural vulnerabilities and Houthi disruptions. This rerouting around the Cape of Good Hope adds roughly 1 million per round trip in fuel costs.
- **Russia-Ukraine Conflict:** Approximately 140 million barrels of Russian oil were stranded on tankers in late January as enforcement of G7 price caps intensified and Indian refiners pulled back imports to a three-year low (1.12 million barrels per day).
- **Middle East Peace Plan:** The Trump administration advanced its 20-point Gaza plan to "Phase 2" (demilitarization and governance), overseen by the newly established "Board of Peace."

#### 7. Maharashtra Political Tragedy

On January 28, 2026, Maharashtra Deputy Chief Minister **Ajit Pawar** was killed in an aircraft crash near Baramati airport. The accident involving a 16-year-old Learjet 45 has left a significant political void in the state and triggered a national investigation by the Aircraft Accident Investigation Bureau (AAIB) into aviation safety standards for non-scheduled VIP travel.

## Compliance Corner: Feb-2026 Due Dates

Event Date	As per Act	Applicable Form	Obligation
07-02-2026	Income Tax	Challan No. ITNS-281	Payment of TDS/TCS of January. In case of government offices where TDS/TCS is paid by book entry, same shall be paid on the same day on which tax is deducted or collected.
		Form 27C	Seller to upload declarations received in January, from buyers for non-deduction of TCS.
	FEMA	ECB-2	Return of External Commercial Borrowings for January.
10-02-2026	GST	GSTR-7	Monthly Return by Tax Deductors for January.
		GSTR-8	Monthly Return by e-commerce operators for January.
11-02-2026	GST	GSTR-1	Monthly Return of Outward Supplies for January.
13-02-2026	GST	GSTR-6	Monthly Return of Input Service Distributor for January.
		GSTR-5	Monthly Return by Non-resident taxable person for January.
14-02-2026	Income Tax	Form 16B	Issue of TDS Certificate u/s 194-IA for TDS deducted on Purchase of Property in December.
		Form 16C	Issue of TDS Certificate for tax deducted on rent above 50,000 pm by certain individuals/HUF under Section 194-IB where lease has terminated in December.
		Form 16D	Issue of TDS Certificate for tax deducted u/s 194M on certain payments by individual/HUF in December.
		Form 16E	Issue of TDS Certificate for tax deducted u/s 194S on Virtual Digital Assets in December.
15-02-2026	ESI	ESI Challan	ESI payment for January.
	EPF	ECR	E-Payment of PF for January.
	Income Tax	Form 24G	Details of Deposit of TDS/TCS of January by book entry by an office of the Government.
Form 16A		Issue of TDS Certificates for Q3 to residents	
20-02-2026	GST	GSTR-5A	Monthly Return by persons outside India providing online information and data base access or retrieval services, for January. Also to be filed by every registered person providing online money gaming from a place outside India to a person in India.
		GSTR-1A	Add/amend particulars (other than GSTIN) in GSTR-1 of Jan. It can be filed after filing of GSTR-1 but before filing corresponding GSTR-3B.
		GSTR-3B	Summary Return cum Payment of Tax for January by Monthly filers. (other than QRMP).
25-02-2026	GST	PMT - 06	Deposit of GST of January under QRMP scheme
28-02-2026	GST	GSTR-11	Return by persons with Unique Identification Number (UIN) like embassies etc to get refund under GST for goods and services purchased by them, for January .
		Form 26QB	Deposit of TDS u/s 194-IA on payment made for purchase of property in January.
	Form 26QC	Deposit of TDS u/s 194-IB @ 5% on total payment of Rent more than 50,000 pm by individual or HUF (not liable to tax audit) during FY 24-25, where lease has terminated in January (Else TDS is to be deposited on annual basis by 30 April of next year.)	
	Form 26QD	Deposit of TDS on certain payments made by individual/HUF u/s 194M for January.	
	Form 26QE	Deposit of TDS on transfer of virtual digital asset u/s 194S, by an exchange, for January.	

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## Current Rates Corner

Policy Rates	
Policy Repo Rate	5.25%
Standing Deposit Facility Rate	5.00%
Marginal Standing Facility Rate	5.50%
Bank Rate	5.50%
Fixed Reverse Repo Rate	3.35%

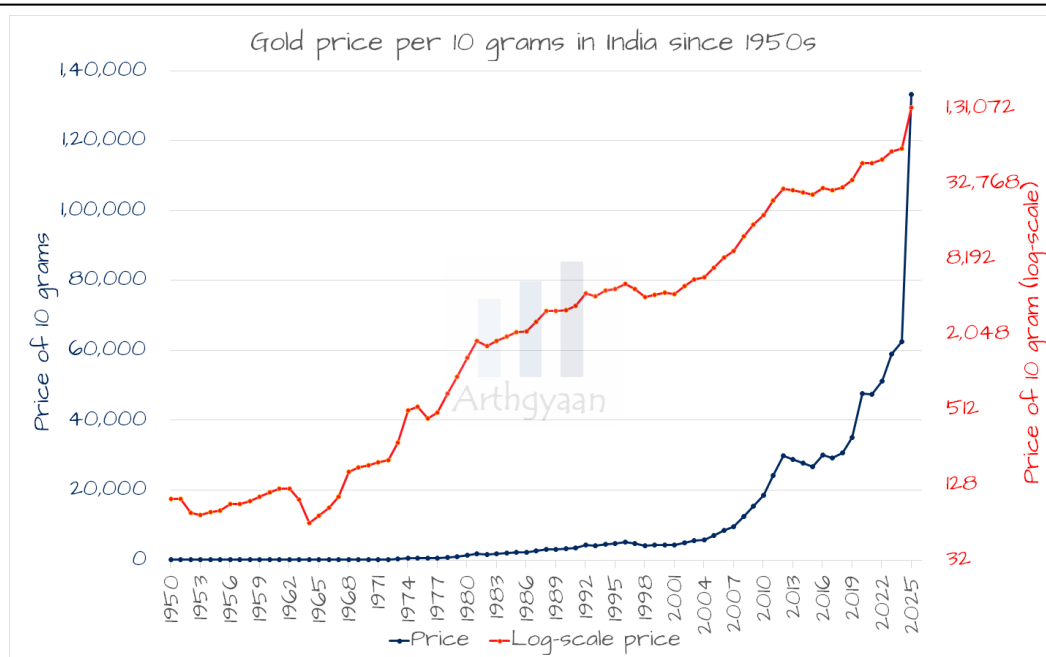
Reserve Ratios	
CRR	3.00%
SLR	18.00%
Lending / Deposit Rates	
Base Rate	8.35% - 10.00%
MCLR (Overnight)	7.70% - 7.95%
Savings Deposit Rate	2.50%
Term Deposit Rate > 1 Year	6.00% - 6.50%

Exchange Rates (30 <sup>th</sup> January 2026)	
INR / 1 USD	91.8983
INR / 1 GBP	126.3834
INR / 1 EUR	109.5661
INR / 100 JPY	59.7200
INR / 1 AED	25.0204
INR / 10000 IDR	54.7299

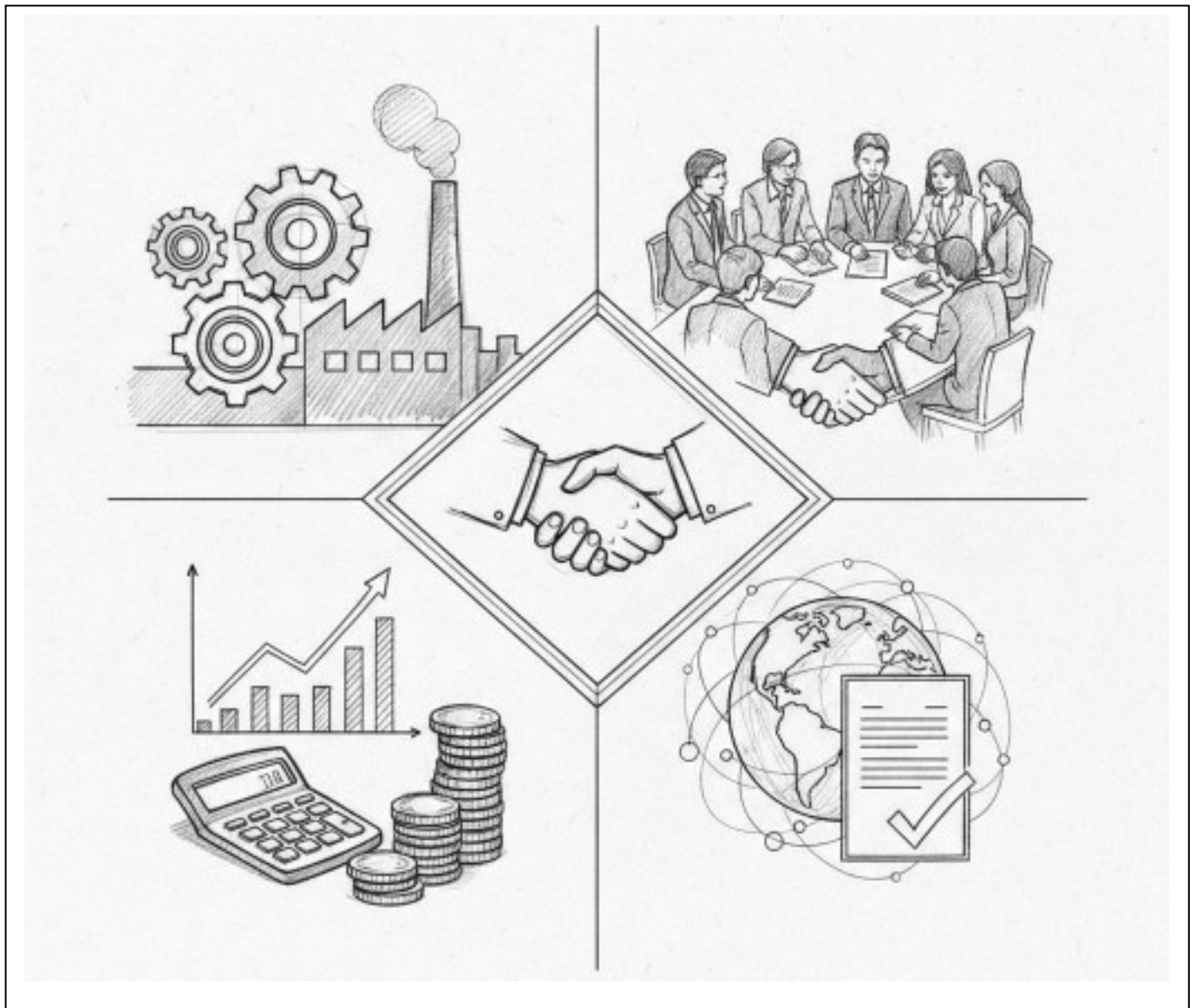
Capital Market [29-Jan-2026]	
S&P BSE Sensex	82,566.37
Nifty 50	25,418.90

Money Market	
Call Rates[29-Jan]	4.50% - 5.50%
Government Securities Market	
5.91% GS 2028	5.9840%
6.01% GS 2030	6.4061%
6.48% GS 2035	6.6987%
6.68% GS 2040	7.0982%
7.24% GS 2055	7.3748%
91 day T-bills	5.4997%
182 day T-bills	5.6793%
364 day T-bills	5.7391%

Source: www.rbi.org.in



Gold has risen 729 times in 74 years with a CAGR of 9.32%



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