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## Union Budget 2026: Transformative Amendments in Customs Law

Customs Law in India, enshrined in the Customs Act, 1962, serves as a cornerstone for regulating international trade by imposing duties on imports and exports. The proposed amendments in the Union Budget 2026 aim to modernize the Act by extending its jurisdiction to offshore activities like fishing, simplifying procedural requirements such as warehouse transfers and duty recoveries, enhancing the validity of advance rulings for greater predictability, and introducing duty-free treatments for specific sectors, ultimately fostering ease of doing business, encouraging voluntary compliance, reducing litigation, and supporting key industries like fisheries and e-commerce for importers, exporters, and taxpayers alike.

### Introduction

The Union Budget regulates international trade by imposing duties on imports and exports, and safeguarding domestic industries while promoting economic growth. A detailed examination of the amendments proposed and introduced to the Customs Act, 1962, under the Union Budget 2026 is set out below.

#### i. Revolutionizing Fisheries Trade

The fisheries sector plays a vital role in India's economy, contributing significantly to exports, employment, and food security. However, for decades, deep-sea fishing and offshore harvesting by Indian vessels remained outside the clear regulatory framework of the Customs Act, 1962. Prior to the Budget 2026, the Customs Act applied primarily within India's territorial waters (up to 12 nautical miles). Fish harvested by Indian vessels in the Exclusive Economic Zone (EEZ) (up to 200 nautical miles) or on the high seas often faced ambiguity regarding duty treatment, export status, and regulatory oversight. This resulted in compliance uncertainty, potential duty leakage, and restricted growth of deep-sea fishing. The amendment extends

the jurisdiction of the Customs Act beyond territorial waters, introduce special provisions for fish harvested in the EEZ and high seas, and aim to formalize and boost India's marine exports. Key changes in Union Budget 2026 are as follows:

#### ■ Extension of Territorial Application (Section 1(2)):

The Customs Act has been extended to cover fishing and fishing-related activities carried out by Indian-flagged fishing vessels beyond territorial waters, including the EEZ and high seas.

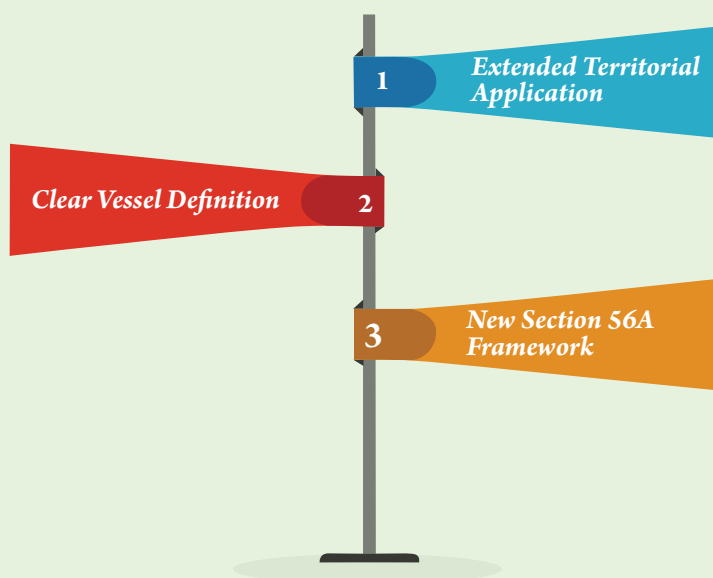
#### ■ Definition of "Indian-flagged Fishing Vessel" (Section 2):

A new definition has been inserted to clarify that only vessels registered under *the Merchant Shipping Act, 1958* and entitled to fly the Indian flag will qualify for the new benefits.

#### ■ Insertion of New Section 56A:

This new provision provides for:

- Fish harvested by Indian-flagged vessels beyond territorial waters may be



brought into India free of customs duty.

- b. Fish landed at foreign ports shall be treated as exports, subject to prescribed procedures, declarations, and safeguards.
- c. Allow C.B.I.&C to frame regulations regarding declaration, examination, assessment, and transit of such fish.

The amendments, mark a transformative step for India's fisheries and seafood export industry. Deep-sea fishing operators can now harvest tuna, shrimp, and other high-value species in international waters without fear of customs duty on return. Landing catch at foreign ports (e.g., for better prices or processing) is now recognized as a legitimate export, improving foreign exchange earnings.

## ii. Substituting 'Penalty' with 'Charge' to Promote Voluntary Duty Settlements

Section 28 of the Customs Act, 1962 lays down the mechanism for recovery of duties that have not been levied, have been short-levied, not paid, or short-paid, together with applicable interest and penalty. Sub-sections (5) and (6) provide for closure of proceedings where importers or exporters voluntarily discharge the duty liability along with interest and a reduced levy of fifteen per cent within thirty days, thereby encouraging self-compliance and reducing litigation. However, under the erstwhile framework, amounts paid in such non-litigated cases continued to be characterised as "penalty", leading to unintended consequences such as unfavourable accounting treatment, reputational concerns, audit objections, and a disincentive to voluntary compliance.

The amendment to Section 28, reflects a clear policy shift towards encouraging voluntary compliance

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and reducing the adversarial nature of duty recovery proceedings. Under sub-section (6), the expression “*penalty*” has been replaced with “*charge for non-payment of duty*” in cases where importers or exporters voluntarily settle instances of short-paid or unpaid duty in terms of sub-section (5).

This reclassification removes the negative stigma traditionally associated with the term “*penalty*,” which often implied wrongdoing even in cases arising from bona fide errors or inadvertent omissions. Importantly, the amendment does not alter the settlement mechanism itself. The timelines and the quantum payable, comprising the applicable duty, interest, and a charge equivalent to the earlier reduced penalty of fifteen per cent, remain unchanged. Nevertheless, the change strengthens a trust-based compliance framework, facilitates quicker dispute resolution, reduces avoidable litigation, and aligns

with the Government's broader objective of enhancing ease of doing business in international trade. The amendment applies prospectively, and pending matters may continue to be governed by the pre-amendment provisions, necessitating a case-specific evaluation.

## iii. Extension of Advance Ruling Validity from 3 Years to 5 Years

The Finance Bill, 2026 proposes a significant amendment to Section 28J of the Customs Act, 1962, which governs the applicability and validity of advance rulings issued by the Authority for Advance Rulings. Under the old provisions (as amended by the Finance Act, 2022), an advance ruling was binding on the applicant, the concerned Commissioner of Customs and subordinate officers, and remained valid only for three years or until there was a change in law or facts on the basis of which the ruling was pronounced, whichever was earlier; a transitional proviso from 2022 reckoned the three-year period from the date of presidential assent for rulings then in force. The new proposal substitutes “three years” with “five years” and replaces the proviso to allow any advance ruling in force on the date of assent to the Finance Bill, 2026, to be extended (upon a request by the applicant) for five years from the original date of the ruling, while retaining the safeguard that the ruling ceases upon any change in law or facts.



### Previous Duration

Advance rulings binding for 3 years or until change in law or material facts, requiring frequent reapplications

1



### Strategic Advantage

Enhances predictability for importers and exporters, enables long-term supply chain planning, and reduces compliance costs substantially

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### Extended Period

Validity now extends to 5 years with transitional extensions available upon request, significantly reducing administrative burden

This extension brings substantial benefits to trade and industry by providing long-term certainty and predictability in customs classification, valuation, exemption claims, and other critical matters. Importers and exporters can now plan multi-year investments, supply chains, and pricing strategies with greater confidence, without the frequent need to seek fresh rulings or face uncertainty after three years.

#### iv. Deferred Payment of Import Duty – Extended to 30 Days and Opened to Eligible Manufacturer Importers

The Government has significantly expanded the Deferred Payment of Import Duty facility under Section 47 of the Customs Act, 1962. Earlier limited to AEO Tier-2 & Tier-3 and Authorised Public Undertakings with only a 15-day deferral period, the scheme is now being opened to a new category called “Eligible Manufacturer Importers” and the deferral period has been doubled to 30 days. These changes, notified through Notification Nos. 12/2026-Customs (NT) and 13/2026-Customs (NT) dated 01.02.2026 and Circular No. 03/2026-Customs, will come into effect from 01.03.2026.

Eligible Manufacturer Importers (approved by the Directorate of International Customs) can avail the 30-day deferral facility till 31<sup>st</sup> March 2028. The window is deliberately time-bound to encourage these manufacturers to eventually obtain AEO certification and graduate to continuous deferral benefits. The Indian AEO Programme is implemented vide CBIC Circular 33/2016–Customs dated 22.07.2016, as amended & Circular 26/2018-Cus dated 10.08.2018, which provides the statutory framework for the AEO programme.

Once approved, the facility is available pan-India across all Customs locations and requires only a one-time authorisation of a nodal person with ICEGATE credentials. Importers simply select

##### Eligibility & Timeline

- AEO Tier-2 & Tier-3 entities
- Authorized Public Undertakings
- NEW: Eligible Manufacturer Importers (approved by Directorate of International Customs)

Facility available until March 31, 2028 for new manufacturers-designed to encourage AEO certification for continuous benefits.

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##### Simple Implementation

Approval is pan-India across all customs locations. One-time authorization of a nodal person with ICEGATE credentials is all it takes.

At import: Select “D” (Deferred) instead of “T” (Transactional) in your Bill of Entry.

Payment due by 1<sup>st</sup> of next month (March bills paid by March 31). No interest if paid on time.

“D” (Deferred) instead of “T” (Transactional) in the Bill of Entry.

Payment is now aligned with monthly cycles: duty on Bills of Entry returned in any month (except March) is payable by the 1<sup>st</sup> of the next month; March bills must be paid by 31<sup>st</sup> March itself. No interest is charged if paid on time. The reform directly improves working capital for manufacturers, reduces transaction costs, supports MSMEs, and strengthens the overall trust-based facilitation ecosystem while protecting revenue.

#### v. End of Prior Permission – India’s Customs Warehousing Goes Fully Digital & Trust-Based

The amendment to Section 67 of the Customs Act, 1962 removes the requirement of prior permission of a Customs officer for removal of warehoused goods

from one bonded warehouse to another. Earlier, the owner could remove goods only with explicit officer permission and prescribed conditions to ensure due arrival. The new provision allows removal simply on system-based self-declaration and online intimation through the Indian Customs portal. Compliance is monitored through digital audit trails and risk-based holistic audits rather than transaction-wise checks.

The Electronic Cargo Tracking System (ECTS) with GPS-enabled e-seals is being rolled out in phases for real-time visibility (with exceptions for bulk liquids, over-dimensional cargo, etc.). This change eliminates transaction-wise approvals, reduces paperwork, cuts delays, improves cash flow, and gives businesses greater flexibility in supply-chain planning while



Goods are processed via a system-driven self declaration on the Indian Customs portal. Automated acknowledgements are triggered by electronics intimations, shifting compliance monitoring from individual transaction checks to digital audit trail and strategic, risk-based holistic audits.

shifting oversight to automated digital tracking and risk-based monitoring.

Customs bonded warehousing enables importers to store goods without paying duty upfront, with duty becoming payable only when goods are cleared for home consumption or export. The current reforms introduce end-to-end digital processes: electronic intimations, system-generated acknowledgements, automatic validity checks for bonds/insurance, and real-time alerts for warehousing period and timely removal. Inter-warehouse movements no longer require prior permission, transshipment bonds, or physical verification; space availability is confirmed online by the receiving warehouse itself.

#### vi. Inclusion of “Custody” in Postal & Courier Regulations

The proposed amendment to Section 84 of the Customs Act, substitutes the words “the examination” with “the custody, examination” in clause (b). Previously, Section 84(b) empowered the C.B.I.&C to frame regulations only for the examination, assessment of duty, and clearance of goods imported or to be exported by post or courier, leaving a statutory gap in regulating their physical custody during the interim period when such goods are held by postal authorities, courier terminals, or authorised handling centres before final clearance or export.

The new provision explicitly brings “custody” within the regulatory ambit, enabling the Board to prescribe detailed rules on safe storage, security standards, accountability, and liability for loss or damage. This change is particularly beneficial in the context of surging e-commerce and express courier volumes, as it provides a clear legal foundation for safeguarding high-value consignments, reducing risks, and

ensuring a more comprehensive, transparent, and accountable end-to-end framework for postal and courier shipments (indicate amendment to Notification 45/2017 - Custom).

#### vii. Revised Baggage Rules, 2026: Key Updates and Passenger Facilitation Measures

##### a. Introduction:

As one of the world’s largest economies, India has become increasingly connected globally, with heightened movement of professionals, businesspeople, entrepreneurs, and skilled personnel for employment, investment, and collaboration opportunities. This has also led to a greater inflow of tourists from abroad, necessitating updates to align customs procedures with contemporary realities. The revisions to the Baggage Rules aim to address genuine passenger concerns encountered at airports, such as outdated allowances and procedural complexities. By enhancing duty-free limits and clarifying rules on temporary carriage of goods, the changes seek to prevent unnecessary detentions and ensure a smoother, faster, and hassle-free arrival process.

The Baggage Rules, 2026, introduce rationalized definitions for key terms, including personal effects (*which now explicitly include personal jewellery*) and a new passenger

category for foreigners holding a valid visa other than a tourist visa for extended stays. Duty-free exemptions continue for used personal effects and travel souvenirs, with revised general free allowances tailored to passenger categories and restricted benefits for land border arrivals. Provisions for temporary import and re-import of valuable goods are added, supported by digital monitoring and simplified procedures. Special jewellery allowances are now based solely on weight limits, *eliminating outdated value caps*, to modernize the framework.

##### b. Duty-Free Allowances

Duty-free entitlements are available to various passenger categories arriving in India, including residents, tourists of Indian origin, foreigners with a valid visa other than tourist visa, tourists of foreign origin, and crew members. These include clearance of used personal effects required for daily necessities, along with general free allowances for articles excluding those in Annexure-I. Articles in Annexure-I are subject to restrictions and not permitted duty-free beyond specified limits (if any). The details of the permissible allowance (*any mode other than land*) and list of **Negative Goods** are given below:

| Sr. No. | Class of Passengers                            | Duty-Free Allowance (INR) |
|---------|------------------------------------------------|---------------------------|
| 1       | Resident                                       | 75,000                    |
| 2       | Tourist of Indian origin                       | 75,000                    |
| 3       | Foreigner with valid visa (other than tourist) | 75,000                    |
| 4       | Tourist of foreign origin                      | 25,000                    |
| 5       | Crew Members (any mode)                        | 2,500                     |

**Annexure-I Articles (Not Duty-Free Beyond Limits)**

- Firearms
  - Cartridges of firearms exceeding 50
  - Cigarettes exceeding 100 sticks or cigars exceeding 25 or tobacco exceeding 125g
  - Alcoholic liquor or wines in excess of two litres
  - Gold or silver in any form other than ornaments
  - Television
- c. Passengers may bring used personal jewellery duty-free, provided it is reasonably necessary for their personal use during the journey and meets the essential needs of daily life.
- d. Besides the above, Special duty-free allowances apply to jewellery for eligible residents or tourists of Indian origin residing abroad for over one year. These allowances are now based solely on weight limits, eliminating outdated value caps, to modernize the framework. The limit allowed in the new rules is as follows:

| Jewellery Allowance         | Weight Limit   |
|-----------------------------|----------------|
| Female passenger            | Up to 40 grams |
| Other than female passenger | Up to 20 grams |

**e. Transfer of Residence Framework**

The transfer of residence provisions has been simplified by merging previous annexures into a single rationalized list of duty-free items, incorporating an overall value cap and updating or removing obsolete items. Benefits are extended to foreign professionals based on their intended stay in India,

while enhancements for Indian residents depend on their duration abroad. The details of the permissible allowance are as follows:

| Category                                 | Stay Duration     | Value Limit (INR) |
|------------------------------------------|-------------------|-------------------|
| Residents / Tourists of Indian Origin    | 3 – 12 months     | 1,50,000.00       |
|                                          | 1 – 2 years       | 3,00,000.00       |
|                                          | More than 2 years | 7,50,000.00       |
| Foreigners with Valid Visa (Non-Tourist) | 6 – 12 months     | 1,50,000.00       |
|                                          | 1 – 2 years       | 3,00,000.00       |
|                                          | More than 2 years | 7,50,000.00       |

Safeguards include frequency restrictions on claims and condonation of shortfalls in stay durations under special circumstances. Concessions for laptops and pet imports are now integrated, ensuring a unified, transparent regime that reduces disputes and facilitates clearance.

Besides the above, the rules allowed one unit of the following articles, provided they fit within the total value caps mentioned above. The **sample list** is as follows:

| Appliances & Electronics | Lifestyle & Kitchen | Modern Tech & Gadgets          |
|--------------------------|---------------------|--------------------------------|
| Air-Conditioner          | Microwave Oven      | Personal Computer (Desktop)    |
| Domestic Refrigerator    | Gas Cooking Range   | Laptop or Notepad              |
| Washing Machine          | Dish Washer         | Tablet (e.g., iPad)            |
| Deep Freezer             | Air Fryer           | Play Station or Gaming Console |
| Television               | Electric Oven       | Small Bluetooth Speakers       |
| Home Theatre System      | Water Dispenser     | Projector                      |
| Video Camera or Combo    | Oil Heater          | Amplifier                      |
| Vacuum Cleaner           | Air Cooler          | Multifunction Printer          |
| Robotic Vacuum Cleaner   | Dehumidifier        | Air Purifier                   |
| Dryer Machine            | Massage Chair       | Musical Instrument             |

**f. Procedural and Implementation Aspects**

These regulations come into force from 02.02.2026, implemented through notifications including

No. 14/2026-Customs (N.T.) for the rules, No. 15/2026-Customs (N.T.) for declaration and processing regulations, and others for amendments and rescissions. Passengers carrying dutiable or prohibited goods must declare electronically via the automated system up to three days before arrival, with options for updates or alternative filing. Temporary certificates for import/re-import of valuables are valid up to six months or first departure/return, without extension

Table 1.

| Sl. No.                                                                                    | Description of Change                                                                                                                                                                                                                                                                                                                                                                     | Effective Date                                                    |
|--------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|
| 1                                                                                          | <b>Modification of S. No. 69A of Notification No. 25/2002:</b> Extension of BCD exemption on capital goods used for manufacturing Lithium-Ion Cells for batteries of Electrically Operated Vehicles to also cover <b>stationary energy storage applications (BESS)</b> .                                                                                                                  | 02.02.2026                                                        |
| 2                                                                                          | <b>Insertion of S. No. 334A in Table I of Notification No. 45/2025-Customs:</b> BCD exemption on raw materials for manufacture of aircraft parts for <b>maintenance, repair or overhaul (MRO)</b> of aircraft/parts/engines; applicable to PSU imports under MoD, subject to <b>IGCRS Rules, 2022</b> and end-use certificate (JS level).                                                 | 02.02.2026                                                        |
| 3                                                                                          | <b>Insertion of S. No. 335A in Table I of Notification No. 45/2025-Customs:</b> BCD exemption on <b>components or parts (including engines)</b> of aircraft for manufacture of aircraft and parts thereof, subject to <b>IGCRS Rules, 2022</b> .                                                                                                                                          | 02.02.2026                                                        |
| 4                                                                                          | <b>Amendment to S. No. 66 of Table II of Notification No. 45/2025-Customs dated 24-10-2025:</b> Exemption extended to goods for setting up <b>specified Nuclear Power Projects irrespective of capacity</b> ; certification by JS level officer, DAE. Validity extended up to <b>30.09.2035</b> (contracts registered with the Customs Houses concerned on or before this date eligible). | 02.02.2026                                                        |
| 5                                                                                          | <b>Amendment to List 3 appended to Table I of Notification No. 45/2025-Customs:</b> Inclusion of <b>17 additional drugs/medicines</b> for BCD exemption.                                                                                                                                                                                                                                  | 02.02.2026                                                        |
| 6                                                                                          | <b>Amendment to List 22 appended to Table I of Notification No. 45/2025-Customs:</b> Inclusion of <b>7 rare diseases</b> (as per NPRD, 2021) for customs duty exemption on drugs, medicines, and food for special medical purposes imported for personal use.                                                                                                                             | 02.02.2026                                                        |
| 7                                                                                          | <b>Notification No. 36/2024-Customs simplification measure:</b> 29 entries omitted and shifted to Tariff (01.05.2026); 22 redundant entries omitted (02.02.2026); Following 3 entries merged into Notification No. 45/2025-Customs dated 24-10-2025 w.e.f (02.02.2026). Notification rescinded from <b>01.05.2026</b> . <i>Effective BCD rates unchanged.</i>                             | 02.02.2026 /01.05.2026                                            |
| Entries Merged from Notification No. 36/2024-Customs into Notification No. 45/2025-Customs |                                                                                                                                                                                                                                                                                                                                                                                           |                                                                   |
| S. No. in Notification No. 36/2024-Customs                                                 | Description                                                                                                                                                                                                                                                                                                                                                                               | Inserted as S. No. in Table I of Notification No. 45/2025-Customs |
| 38                                                                                         | Salts of oxometallic or peroxometallic acids of Beryllium and Rhenium                                                                                                                                                                                                                                                                                                                     | 110B                                                              |
| 39                                                                                         | Inorganic or organic compounds of rare earth metals                                                                                                                                                                                                                                                                                                                                       | 111A                                                              |
| 55                                                                                         | Unwrought; waste and scrap; powders of (i) Gallium (ii) Germanium (iii) Indium (iv) Niobium (v) Vanadium                                                                                                                                                                                                                                                                                  | 226A                                                              |

provisions. Unaccompanied baggage must meet dispatch timelines, with extensions possible under specified circumstances, ensuring efficient clearance while upholding customs integrity.

#### viii. Other Changes proposed in the Custom Notifications

The Union Budget 2026 has introduced a series of targeted amendments in Customs duty exemptions aimed at strengthening strategic manufacturing, clean energy, defence aviation, nuclear power, healthcare, and critical minerals supply chains. These changes primarily involve rationalisation and expansion of existing exemption notifications, insertion of new serial entries, extension of validity periods, and alignment of exemptions with end-

use-based compliance frameworks such as the IGCRS Rules, 2022. Collectively, the amendments seek to promote domestic manufacturing, support public sector and strategic projects, ensure affordable access to essential medicines, including those for rare diseases, and simplify the customs exemption structure without altering the effective Basic Customs Duty rates.

Table 1 summarises the key Customs duty changes and their respective effective dates.

- ix. Social Welfare Surcharge (SWS) framework amended via Notification No. 11/2018-Customs for exemption rationalisation. Continuity ensured for graphite, quartz, silicon dioxide, compound alcoholic preparations, and spent catalysts/ash with precious metals. Personal-use imports

(heading 9804) now attract SWS from 01.04.2026. Electronic toy parts exempted from SWS (full exemption under heading 9503) from 02.02.2026. No increase in effective duty.

- x. New pneumatic rubber tyres for aircraft (4011.30.00) continue to attract 0.5% Agriculture Infrastructure and Development Cess (AIDC). Notification No. 11/2021-Customs technically amended from 02.02.2026 to remove obsolete reference—no change in AIDC rate. Applies except where NIL BCD exists.

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