

THE POWER OF BEING UNDERSTOOD

A woman with dark hair pulled back, wearing glasses and a bright pink lab coat over a matching pink button-down shirt, smiles warmly. She is holding a small white pill in her right hand. In the foreground, a glass petri dish contains a blue liquid, with a pipette tip visible. The background is a dark blue gradient.

**Newsflash - Analysis of the Budget 2026:
Pharma and Life Science Industry**

Newsflash

Analysis of the Budget 2026: Pharma and Life Science Industry

For Circulation
11 February 2026

1.0 Background

1.1 The Indian pharmaceutical industry is projected to grow at a CAGR of over 10% and contributes around 1.72% to India's GDP.¹ In 2025, the Indian Pharmaceutical market stood at Rs. 4,71,295 crore (US\$ 55 billion) and is expected to grow to Rs. 10,28,280-11,13,970 crore (US\$ 120-130 billion) by 2030, as per Bain & Co. Pharmaceutical is one of the top ten attractive sectors for foreign investment in India. The Drugs & Pharmaceuticals sector received FDI inflow of Rs. 2,10,940 crore (US\$ 24.62 billion) from April 2000 to June 2025.²



1.2 Further, in the FY 2026-27 budget, there is a substantial enhancement in the allocation for the Ministry of Health & Family Welfare and Department of Health Research amounting to Rs. 1,06,530.42 crores, i.e., about 10% increase over the revised estimates of FY 2025–26. The Union Budget 2026–27 accords strong priority to the upgradation and expansion of healthcare infrastructure and medical education.

2.0 Key Policy Matters

2.1 Biopharma SHAKTI (Strategy for Healthcare Advancement through Knowledge, Technology and Innovation)

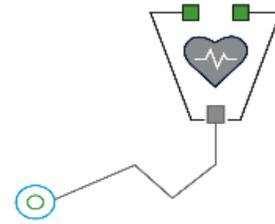
Biopharma SHAKTI has announced to develop India as a global Biopharma manufacturing hub, and an outlay of Rs. 10,000 crores over the next 5 years is allocated for the same to build the ecosystem for domestic production of biologics and biosimilars. The Strategy will include a Biopharma-focused network with 3 new National Institutes of Pharmaceutical Education and Research (NIPER) and upgrading 7 existing ones. It will also create a network of over 1000 accredited Indian Clinical Trials sites. Strengthening the Central Drugs Standard Control Organisation to meet global standards and approval timeframes through a dedicated scientific review cadre and specialists.

¹ [Indian Pharmacy: Pharma Companies in India | IBEF](#)

² [Indian Pharmacy: Pharma Companies in India | IBEF](#)

2.2 Allied Health Professionals (AHPs)

Upgradation of existing institutions and new AHP Institutions to be established in private and Government sectors, covering 10 selected disciplines and adding 100,000 AHPs over the next 5 years.



2.3 Care Ecosystem

A strong Care Ecosystem, covering geriatric and allied care services, will be built. A variety of NSQF-aligned programmes will be developed to train multiskilled caregivers combining core care and allied skills. In the coming year, 1.5 lakh caregivers will be trained.

2.4 Hubs for Medical Value Tourism

Launch a Scheme to support States in establishing five Regional Medical Hubs, in partnership with the private sector, to serve as integrated healthcare complexes that combine medical, educational and research facilities. They will have AYUSH Centres, Medical Value Tourism Facilitation Centres and infrastructure for diagnostics, post-care and rehabilitation. These Hubs will provide diverse job opportunities for health professionals, including doctors and AHPs.

2.5 AYUSH

To enable exporting quality Ayurvedic products and provide impetus to farmers who grow the herbs and the youth who process the products, it is proposed to set up 3 new All India Institutes of Ayurveda; upgrade AYUSH pharmacies and Drug Testing Labs for higher standards of certification ecosystem, make available more skilled personnel; and upgrade the WHO Global Traditional Medicine Centre in Jamnagar to bolster evidence-based research, training and awareness for traditional medicine.



2.6 Hostel for women studying in STEM Institution

It is proposed to establish 1 girls' hostel in each district to support girls pursuing higher education at STEM institutions. This will help balance diversity in the sector workforce.

2.7 Reaffirming our commitment to Mental Health and Trauma Care

Setting up a NIMHANS-2 and upgradation of National Mental Health Institutes in Ranchi and Tezpur as Regional Apex Institutions.

2.8 Emergency and Trauma Care Centres

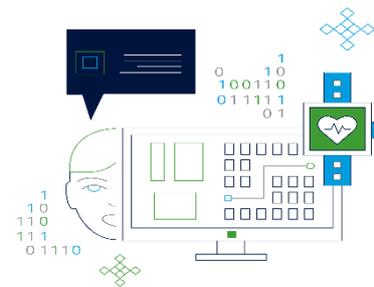
Strengthen and increase capacities by 50% in District Hospitals by establishing Emergency and Trauma Care Centres.

2.9 Strengthening Veterinary Professionals

Loan-linked capital subsidy support scheme for the establishment of veterinary and para-vet colleges, veterinary hospitals, diagnostic laboratories and breeding facilities in the private sector and facilitation of collaboration between Indian and foreign institutions.

3.0 Major Direct and Indirect Tax Amendments Impacting the Pharma and Life Science Industry

Beyond budgetary outlays, the Finance Bill, 2026 (the Bill) strategically employs tax levers to alter corporate behaviour, enhance project profitability, and reduce compliance friction, thereby improving the underlying financial architecture of the Pharma and life Science Industry.



4.0 Direct Tax Proposals

4.1 Buy-back tax recharacterization and tax rate overhaul:

Under the ITA, 2025, it is now proposed to tax buy-back proceeds as 'capital gains' instead of dividend income. The applicable rate for promoter shareholders shall be as follows:

Type of Promoters	Nature of gains	Type of security	Normal tax rate	Additional tax rate	Total tax rate
Domestic Company	Long term	Listed Shares	12.5%	9.5%	22%
	Long term	Unlisted Shares	12.5%	9.5%	22%
	Short term	Listed Shares	20%	2%	22%
	Short term	Unlisted Shares	Applicable Rate	-	Applicable Rate
Other than domestic company	Long term	Listed Shares	12.5%	17.5%	30%
	Long term	Unlisted Shares	12.5%	17.5%	30%
	Short term	Listed Shares	20%	10%	30%
	Short term	Unlisted Shares	Applicable Rate	-	Applicable Rate

The above tax rates excludes surcharge and health & education cess. Tax rates for Non-promoter shareholders shall be same as their applicable capital gains tax rates.

4.2 The Minimum Alternate Tax (MAT) Regime Overhaul

Tax rate Reduction:

- The MAT rate is proposed to be reduced to **14% from current 15%**, and it will be a final tax i.e., no further credit will accumulate from 1 April 2026.

Transitioning to new tax regime:

- Domestic companies opting for concessional tax regime for the tax year 2026-27 and onwards shall be allowed to set-off MAT credit available as on 31 March 2026 to the extent of 25% of the tax payable for that tax year.
- Remaining tax credit allowed to be carried forward to subsequent tax years and eligible for set-off up to 15 tax years from the tax year immediately succeeding the tax year in which the credit became allowable.

4.3 Transfer Pricing

Safe Harbour for IT Services

All software development services, Information Technology Enabled Services (ITeS), Knowledge Processing Outsourcing (KPO), and software development-related contract R&D services are to be treated as a single category, Information Technology Services (IT), for applying the safe harbour.



Uniform safe harbour rate of 15.5% proposed to be applied to such IT category and eligibility threshold proposed to be substantially enhanced from operating revenue of Rs. 3,00,00,00,000 to Rs. 20,00,00,00,000. Safe Harbour applications are to be processed through an automated process and can be applied for up to 5 years at the taxpayer's choice.

4.4 Certain Procedural Changes proposed in the Budget

- 4.4.1 The time limit to file a revised return of income is proposed to be extended from 31 December to 31 March from the end of the relevant tax year, on payment of fees. Once legislated, the proposed amendment shall be effective from 1 March 2026, relevant for FY 2025-26 onwards.
- 4.4.2 Earlier, filing an updated return was not allowed in case of a return of losses. It is proposed to allow filing of updated returns in case the amount of loss is reduced in comparison to the loss already claimed in the original return of income. Post legislation, the proposed amendment shall take effect from 1 March 2026.
- 4.4.3 Filing of an updated return was not permitted in cases where assessment or reassessment was pending. It is proposed to allow the filing of an updated return, where reassessment proceedings are initiated, within the time limit specified in the reassessment notice. The additional tax payable on such updated return (i.e., 25%, 50%, 60%, 70% of the aggregate tax and interest payable in addition to the original tax) is to be further increased by 10%. The proposed amendment shall take effect from 1 March 2026 post legislation.
- 4.4.4 It is proposed to streamline the assessment and penalty framework to avoid multiple proceedings and prolonged uncertainty for taxpayers, by providing that the penalty for under-reporting or misreporting of income shall be imposed along with the assessment order. Further, interest for delay in payment of tax demand raised on account of penalty levied can be levied only after passing of the order by CIT(A) or ITAT (for appeal against DRP) [earlier 30 days from date of service of demand notice], as the case may be.
- 4.4.5 In the budget speech, it is announced that the amount of pre-payment shall be reduced from 20% to 10% and will continue to be calculated only on the core tax demand.
- 4.4.6 It is proposed to streamline the assessment and penalty framework to avoid multiple proceedings and prolonged uncertainty for taxpayers, by providing that the penalty for under-reporting or misreporting of income shall be imposed along with the assessment order.
- 4.4.7 Assessment not to be invalid on ground of any mistake, defect, or omission on account of the Document Identification Number (DIN), if such assessment is referenced by DIN in any manner.
- 4.4.8 It is proposed to rationalize/ decriminalise certain offences by making punishments proportionate to the crimes. Further, the “rigorous imprisonment” is proposed to be changed to “simple imprisonment” in the majority cases.



5.0 Indirect tax proposals

5.1 Goods and Services Tax

5.1.1 Removal of pre-agreed terms and invoice linkage requirement for post-sale discounts

The existing GST provisions mandate that post-sale discounts can be excluded from the value of supply only when such discounts are established in terms of a prior agreement and are specifically linked to relevant invoices.

It is now proposed to remove the requirement of establishing such post sale discount through pre-agreed terms of an agreement and linkage to specific invoices. The amendment permits exclusion of post-sale discounts from the value of supply, if the supplier issues a credit note for such discounts and the recipient reverses the corresponding input tax credit attributable to the credit note issued.

5.1.2 Empowering existing authority to function as National Appellate Authority for Advance Ruling (NAAAR)

In view of the pending constitution of the NAAAR, sub-section 101A(1A) has been inserted in the CGST Act, 2017 (the Act), enabling the Central Government, by way of notification, to designate an existing authority to hear appeals under section 101B of the Act.

5.2 Customs

5.2.1 Exemption from Basic Customs Duty (BCD)

With a view to providing relief to patients, particularly those undergoing treatment for cancer, the Government has proposed to exempt BCD on 17 specified drugs/medicines from the existing 5%/10%. This measure is expected to reduce the cost of critical treatments and improve access to essential healthcare.

Additionally, the Government has proposed to include seven more rare diseases within the scope of exemptions for personal imports of drugs, medicines, and Food for Special Medical Purposes (FSMP) used in their treatment.

5.2.2 Withdrawal on concessional rate of BCD on imports

The Government has undertaken a review of the prevailing customs notifications that provide concessional BCD rates on the specified goods. Based on this evaluation, select concessions have been rationalised and are proposed to be withdrawn from 2 February 2026.

- Artificial Plasma
- Alpha pinene

5.2.3 Extension of exemption/concessional rates on BCD on import of goods up to 31 March 2028

The exemption or concessional BCD rates on the import of certain goods, which were scheduled to expire on 31 March 2026, have been extended up to 31 March 2028. Such goods include Lactose for use in the manufacture of homeopathic medicine, Pharmaceutical

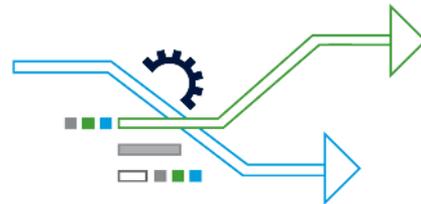
Reference Standard, Hospital equipment for specified hospitals, Medical and surgical instruments, apparatus and appliances, including spare parts and accessories, etc.

5.2.4 Ease of doing business

The Government plans to introduce a unified and interconnected digital window to facilitate seamless processing of approvals required for cargo clearance across multiple government agencies. Clearance processes for food, drugs, plant, animal, and wildlife products, constituting around 70% of interdicted cargo, are targeted to go live by April 2026, with full implementation by the end of the financial year.

6.0 Synthesizing the Path Forward

The Budget has provided strong priority to boost Biologics, Biosimilars & promote research in Pharma, upgradation and expansion of healthcare infrastructure and healthcare facilities, medical education expansion and modernisation, etc. Thus, the budget reaffirms the Government's unwavering commitment to building a resilient, inclusive and future-ready healthcare system, ensuring affordable and quality healthcare for all citizens, in pursuit of the vision of '*Viksit Bharat.*'



For further information please contact:

RSM Astute Consulting Pvt. Ltd.

301-307, 3rd Floor, Technopolis Knowledge Park, Mahakali Caves, Chakala, Andheri East, Mumbai - 400095.

T: (91-22) 6108 5555/ 6121 4444

F: (91-22) 6108 5556/ 2287 5771

E: emails@rsmindia.in W: www.rsmindia.in

Offices: Mumbai, New Delhi - NCR, Chennai, Kolkata, Bengaluru, Navi Mumbai, Surat, Hyderabad, Ahmedabad, Pune, Gandhidham, Jaipur and Vijayanagar.



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