

Budget 2026 - Anticipating The New Customs Playbook

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Siva Kumar Ramjee

Executive Director - Indirect Tax, Nangia Global Advisors LLP

INTRODUCTION

India's customs framework, rooted in the Customs Act, 1962, has steadily evolved to balance trade facilitation with revenue protection in an increasingly integrated global economy. Changing supply chains, WTO commitments and domestic industrial priorities have continually shaped both the law and its administration.

Against this backdrop, 2025-26 emerges as a pivotal year for customs reform. Legislative changes, tariff rationalisation, expanded digitalisation, and a reorientation of trade policy tools reflect a clear move towards a more modern, predictable and technology driven customs regime. As the Union Budget 2026 approaches, these developments provide an important context for understanding both the progress made and the direction ahead.

PART I - LOOKING BACK: KEY CUSTOMS REFORMS AND DEVELOPMENTS DURING 2025-26

1. Schemes, Circulars and Administrative Reforms

- Expansion of ICEGATE 2.0 with end-to-end digital modules for Section 65, MOOWR and MOOSWR, enabling online filing, approvals and monitoring.
- Significant reduction in physical interface and processing timelines for bonded manufacturing and warehousing.
- Mandatory migration of SEZ transactions to ICEGATE led to operational challenges and system gaps.
- Interim relaxations granted, allowing certain transactions (merchant exports, select DTA supplies, zone-to-zone transfers) to continue on SEZ Online.

2. Litigation, Provisional Assessment and Valuation

- Introduction of a statutory time limit for provisional assessment finalisation of 2 years under Customs (Finalisation of Provisional Assessment) Regulations, 2025 dated 12th September 2025.
- Enabling of voluntary post-clearance revision of customs entries under Section 18A to correct errors without compulsory litigation.
- Abolition of the Settlement Commission, shifting focus to assessments, audits and appellate remedies.

3. Digitisation, Technology and Transparency

- Core customs and indirect tax IT systems notified as critical information infrastructure under the IT Act 2000.
- Introduction of body worn cameras for customs officers at airport Red Channels to enhance transparency and accountability.

4. Trade Policy, FTAs and Global Developments

- Conclusion or advancement of major trade agreements with the UK, Oman and New Zealand, alongside continued EU engagement.
- Shift in global trade towards protectionism, including proposed US tariff hikes and the EU's CBAM.

PART II - LOOKING AHEAD: THE ROAD TO BUDGET 2026 AND BEYOND

1. Abolition of AIDC and SWS

Looking ahead, a key structural reform lies in simplifying the customs duty framework by abolishing the Agriculture Infrastructure and Development Cess (AIDC) and the Social Welfare Surcharge (SWS). These levies add layers of complexity to duty computation, as they apply on different bases and at different stages of assessment. The resulting multi-step calculations increase compliance costs, create scope for errors and disputes, and lead to inconsistent application across ports.

While the Government has also taken incremental steps towards simplification, including the withdrawal of Social Welfare Surcharge (SWS) on around 82 tariff lines and selective revisions to Agriculture Infrastructure and Development Cess (AIDC) rates on products such as marble slabs, footwear and PVC films. However, as long as SWS and AIDC continue to exist as parallel levies, complexities in duty calculation and associated litigation are likely to persist, underscoring the need to accelerate the transition towards their eventual abolition.

2. Tariff Rationalisation and Classification Certainty

The customs tariff continues to operate with eight effective duty slabs, which remains excessive and continues to drive classification disputes. Multiple rate structures for similar goods incentivise interpretative challenges and inconsistent assessments, suggesting the need for further rate rationalisation.

This issue is compounded in sectors such as automobiles and textiles to name a few where the same product category is spread across multiple tariff entries based on specifications such as Cubic Centimetres (CC) and Metres. Such fragmentation increases uncertainty and litigation. Moving towards single, consolidated tariff entries with neutral rates would significantly enhance predictability and ease of compliance.

Further, many disputes stem from the lack of clarity in HSN chapter and explanatory notes. More detailed notes, supported by illustrative examples and clear treatment of borderline cases, would reduce subjective interpretation and align classification practices with global standards. Together, rationalised rates, consolidated entries and clearer HSN guidance are critical to building a simpler and dispute-resistant customs tariff framework.

3. SVB: One-Time Approval, Ongoing Responsibility

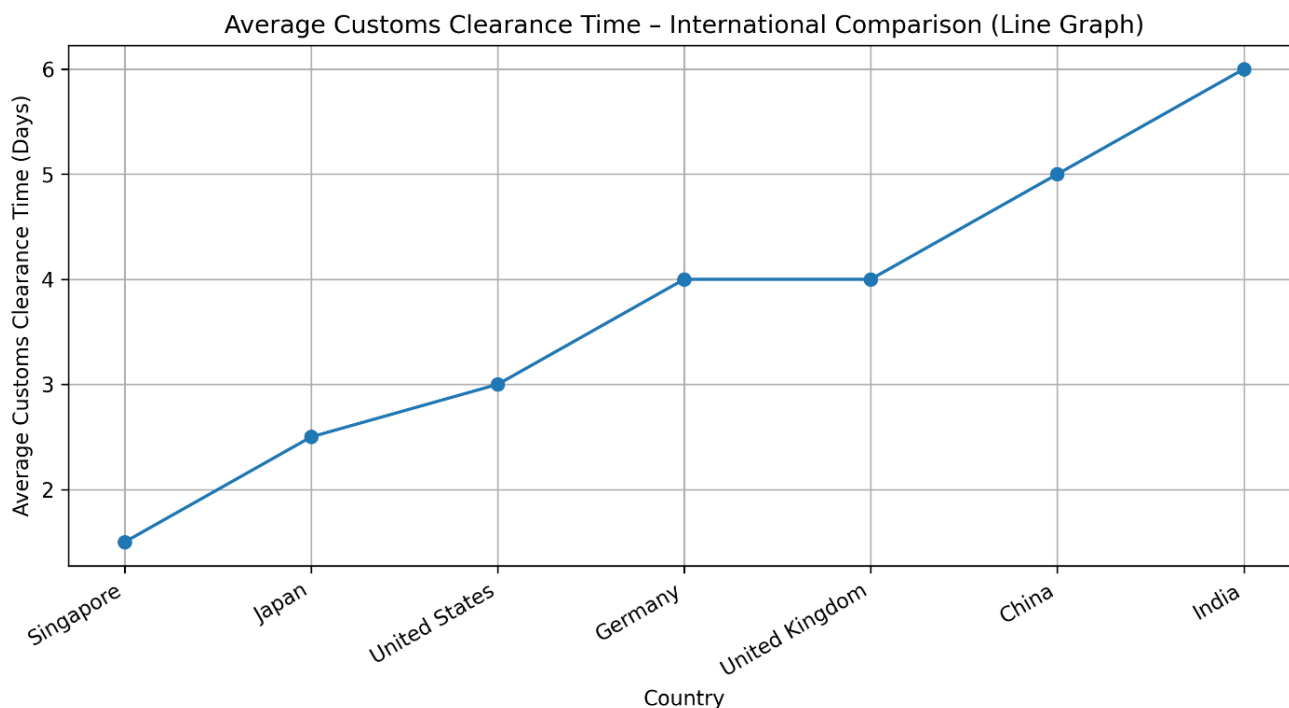
The SVB framework has been streamlined by replacing the earlier 3 year validity with **one time approval**, significantly reducing repetitive compliance. This facilitation, however, is contingent on importers intimating Customs of any material change in related party transactions or valuation parameters. In practice, such intimation is often missed, either due to weak internal controls or uncertainty around what constitutes a material change, creating valuation risks. To balance facilitation with oversight, Customs will need a structured check mechanism such as periodic digital self declarations on the ICEGATE portal or linkage with transfer pricing documentation so that SVB evolves from a static approval into a **continuous compliance model**.

4. Bridging the Clearance Gap through Integrated Customs Digitisation

CBIC's issuance of an Expression of Interest for the Customs Integrated System (CIS) signals the next phase of digitisation. By integrating ICEGATE, ICES and RMS into a unified platform, CIS aims to achieve 24 hour cargo clearance by April 2027. While promising faster clearances and stronger risk based targeting, successful implementation will depend on seamless data migration, system stability and uninterrupted trade during transition.

Despite being the world's fourth largest economy, India's customs clearance timelines remain longer than those of major developed economies such as Singapore, Japan and the US, underscoring the importance of effective CIS rollout.

Indicative Comparison of Average Import Cargo Clearance Timelines



Source: - [Tonlexing.com](https://www.tonlexing.com)

The comparison highlights that while India has made progress through digitisation and faceless assessments, clearance timelines still lag advanced customs administrations,

reinforcing the need for systemic integration, process stability and effective implementation of the CIS.

4. TRADE POLICY AND SAFEGUARDS IN A PROTECTIONIST WORLD

As global trade becomes increasingly defensive, India is likely to rely more on calibrated safeguards FTAs with built in protections, BIS/QCO enforcement, carbon readiness and effective trade remedies while remaining WTO compliant. Balancing facilitation with enforcement, and predictability with flexibility, will remain central to customs policy debates.

CONCLUSION

The reforms of 2025-26 mark a clear inflection point in India's customs regime, reshaping law, procedure and administration. As Budget 2026 approaches, the emphasis is expected to move towards deepening, stabilising and institutionalising these reforms to create a simpler, more digital and globally aligned customs framework. This evolution will demand higher standards of self-compliance from trade participants, while policymakers will need to ensure that facilitation and enforcement continue to evolve in tandem.