MINISTRY OF FINANCE

Tax exemption for foreign firms storing components in bonded areas

Act No. 21 of 2026 adds entry 13G to Schedule IV of the Income-tax Act, 2025 for foreign companies storing components for electronics contract manufacturers.

THE TAXATION AND OTHER Laws (Amendment) Act, 2026 (No. 21 of 2026) is an Act of Parliament that received the President's assent on August 17, 2026. The Ministry of Law and Justice (Legislative Department) published it the same day in the Gazette of India, Extraordinary, Part II, Section 1, No. 37. It amends the Payment and Settlement Systems Act, 2007, the Income-tax Act, 2025 and the Finance Act, 2026. Save as otherwise provided in it, the Act is deemed to have come into force on April 1, 2026.

KEY FACTS

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The Taxation and Other Laws (Amendment) Act, 2026, No. 21 of 2026

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With effect from October 1, 2026, the Act inserts entry 13G in the Table of Schedule IV to the Income-tax Act, 2025. It covers "Any income accruing or arising on account of storage of components in a warehouse in a custom bonded area" of "A foreign company, which stores components in a warehouse in a custom bonded area for providing them to a contract manufacturer to be used for manufacturing of specified electronic goods". Column D sets four conditions: the exemption is available on sale of components by such foreign company; such contract manufacturer produces electronic goods on behalf of any foreign company; the exemption is subject to furnishing information in such form and manner as may be prescribed; and it is available up to the tax year ending on March 31, 2041.

New Note 6, also from October 1, 2026, defines the terms. A "contract manufacturer" is an Indian company which produces specified electronic goods on behalf of any foreign company in a custom bonded area. A "custom bonded area" is a warehouse as referred to in section 65 of the Customs Act, 1962. "Specified electronic goods" has the meaning in new Note 2A: mobile phones; laptops, all-in-one personal computers and tablets; servers and ultra small form factor (USFF); sub-assemblies to those finished goods; or hearables and wearables and accessories related to them. Note 2A is written for entry 13A, where the Act replaces "2030-2031" with "2040-2041" in clause (e) of column D and makes clause (d) read "the contract manufacturer produces specified electronic goods on behalf of the foreign company for a consideration". The Act does not restate the rest of entry 13A.

Entry 13F, also from October 1, 2026, covers any income on sale of rough diamonds by a foreign company that is engaged in the business of diamond mining, is a sightholder of such a company, or is a broker, aggregator or a tender and auction entity connected with sale of rough diamonds. The sale must be carried out in a notified special zone referred to in section 9(9)(c)(ii)(C), the company must maintain and furnish prescribed information, and the exemption is available up to the tax year ending on March 31, 2041. Note 5 limits "rough diamond" to diamonds unworked or simply sawn, cleaved or bruted, under Tariff Heading 7102 10, 7102 21 or 7102 31, and accompanied by the Kimberley Process Certificate. New entries 13D and 13E cover interest on Government security, and capital gains from its sale, exchange or transfer, for a Foreign Institutional Investor and for the Bank for International Settlements, subject to furnishing prescribed information.

The Act also substitutes Schedule I, the conditions under section 9(12) for an eligible investment fund established, incorporated or registered outside India, and for its eligible fund manager. It does not say which conditions differ from the Schedule it replaces. It omits clause (a) of column D in entry 13C, and redefines a "specified data centre" as one operated by an Indian company, by owning or leasing, that meets prescribed conditions. It omits clause (b) of column D of serial number 5 in Schedule V. In the Tables in sub-sections (4) and (12) of section 3 of the Finance Act, 2026, it replaces serial number 9 with two entries against "200 or 201": 10% for every domestic company other than a special purpose vehicle referred to in Schedule V [Note 2], and 25% for such a vehicle. From the Act's publication, section 10A of the Payment and Settlement Systems Act, 2007 refers to electronic modes of payment the Central Government may specify by notification. The Act repeals the Income-tax (Amendment) Ordinance, 2026, treats anything done under it as done under the Act, and does not say what the Ordinance contained.

Issued by	Parliament: an Act of Parliament, published by the Ministry of Law and Justice (Legislative Department)
Document	The Taxation and Other Laws (Amendment) Act, 2026, No. 21 of 2026
Dated	August 17, 2026, the date of the President's assent
Published	Gazette of India, Extraordinary, Part II, Section 1, No. 37, August 17, 2026 (CG-DL-E-17082026-275521)
Amends	Income-tax Act, 2025 (Schedules I, IV and V); Finance Act, 2026 (section 3); Payment and Settlement Systems Act, 2007 (section 10A)
Applies to	Foreign companies storing components for electronics contract manufacturers or selling rough diamonds; Foreign Institutional Investors; the Bank for International Settlements; eligible investment funds and fund managers
Takes effect	April 1, 2026, save as otherwise provided; entries 13F and 13G and Notes 5 and 6 from October 1, 2026; the Payment and Settlement Systems Act change from the date of publication
Entry 13G	Income from storage of components in a warehouse in a custom bonded area, for supply to a contract manufacturer of specified electronic goods; up to the tax year ending March 31, 2041
Custom bonded area	A warehouse as referred to in section 65 of the Customs Act, 1962
Entry 13F	Income on sale of rough diamonds in a notified special zone; up to the tax year ending March 31, 2041
Related	DGFT Notification No. 42/2026-27 of October 9, 2026 lets eligible foreign entities covered under entry 13F import, auction, sell and re-export rough diamonds in a Special Notified Zone

Entry 13A	"2040-2041" in place of "2030-2031" in clause (e) of column D; clause (d) rewritten
Entries 13D and 13E	Interest on Government security and capital gains on its sale, exchange or transfer: Foreign Institutional Investor; Bank for International Settlements
Repeals	The Income-tax (Amendment) Ordinance, 2026 (Ord. 2 of 2026)
Signed by	Dr. Rajiv Mani, Secretary to the Govt. of India

Schedule IV entries the Act adds or extends

Entry	Who	What income	Until	From
13A	Not restated in the Act	Not restated in the Act	"2040-2041" in place of "2030-2031" in clause (e)	April 1, 2026
13D	A Foreign Institutional Investor	Any interest on Government security, and any capital gains arising from its sale, exchange or transfer	No end date in the entry	April 1, 2026
13E	Bank for International Settlements	Any interest on Government security, and any capital gains arising from its sale, exchange or transfer	No end date in the entry	April 1, 2026
13F	A foreign company engaged in the business of diamond mining, being a sightholder of such a company, or being a broker, aggregator or a tender and auction entity connected with sale of rough diamonds	Any income on sale of rough diamonds	Tax year ending March 31, 2041	October 1, 2026
13G	A foreign company which stores components in a warehouse in a custom bonded area for providing them to a contract manufacturer to be used for manufacturing of specified electronic goods	Any income accruing or arising on account of storage of components in a warehouse in a custom bonded area	Tax year ending March 31, 2041	October 1, 2026

The act of parliament (PDF, 508 KB)

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