International Journal of Engineering Research and Science & Technology

www.ijerst.org

ISSN : 2319-5991

Vol. 22 No. 1(s) (2026)



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www.ijerst.com
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Peer Reviewed, Referred & Indexed Journal

Research Paper

A ROADMAP FOR RESILIENCES: ANALYSING STARTUP PROVISION IN THE UNION BUDGET 2026-2027

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Abstract

The Union Budget 2026-27 marks a definitive transition for the Indian startup ecosystem, moving from an era of incentive-led growth to one of structural resilience and deep-tech leadership. Guided by the overarching vision of Viksit Bharat @2047, the budget positions technology-led entrepreneurship as the primary engine for a productivity-driven economy. This research paper evaluates the multi-dimensional support mechanisms introduced, including a landmark 20,000 crore capital infusion through the SME Growth Fund and a fresh Fund of Funds (FFS). We further analyze the strategic extension of the deep-tech recognition period to 20 years, the operationalization of the TReDS mandate as a liquidity rail, and the implementation of the New Income Tax Act 2025. The study concludes that while the budget addresses the "funding winter" and compute-cost barriers, its success hinges on the seamless ground-level execution of regulatory reforms.

Keywords: Union Budget 2026-27, Deep-Tech, Startup Ecosystem, SME Growth Fund, TReDS Mandate, Viksit Bharat, Digital Infrastructure, Venture Capital, Tax Holiday, India Semiconductor Mission.

1. Introduction

India's startup landscape, currently the third largest in the world, has reached a critical stage of maturity. Having successfully navigated a global macroeconomic slowdown and a localized "funding winter," the ecosystem is now transitioning from consumer-internet models to high-value, R&D-heavy sectors. The Union Budget 2026-27, presented on 1

February 2026, aims to institutionalize this maturity by providing a long-term roadmap rather than short-term fiscal sops.

The budget is anchored by three Kartavyas (duties) accelerating economic growth, fulfilling citizen aspirations, and advancing inclusive development For startups, this translates into a pivot toward Deep-Tech, Semiconductors, and Biopharma. By integrating educational reforms with enterprise creation through initiatives like the Indian Institute of Creative Technologies, the government aims to democratize entrepreneurship across Tier-II and Tier-III cities. The focus has moved from "quantity of unicorns" to the "quality of IP-led ventures" that can compete on a global scale.

2. Aims and Objectives

The primary aim of this research is to evaluate how the Union Budget 2026-27 empowers the Indian startup ecosystem to transition into a global leader in high-value technology and manufacturing

The specific objectives of the study are:

1. To Analyze Capital Infusion: To examine the impact of the ₹20,000 crore combined outlays (SME Growth Fund and FFS) on solving the liquidity crisis for growth-stage startups.

2. To Evaluate Regulatory Reforms: To assess the effectiveness of the New Income Tax Act 2025 and the "Corporate Mitras" initiative in reducing the compliance burden.

3. To Assess the Deep-Tech Pivot: To investigate how extending the startup recognition period to 20 years incentivizes long-term R&D

4. To Examine Operational Liquidity: To study the role of the mandatory TREDS platform in improving working capital cycles, vonal

5. To Identify Implementation Gaps: To highlight potential challenges in policy execution.

3. Literature Review

Current academic and industrial literature (NITI Aayog, 2026, SBI Research, 2026) highlights a fundamental shift in India's economic policy toward "Sovereign Tech." Analysts suggest that by funding the India Semiconductor Mission (ISM) 2.0 with ₹40,000 crore, the government is moving the narrative from low-value assembly to high-value Intellectual Property (IP) creation

Recent legal reviews (EY, 2026; PwC, 2026) focus heavily on the New Income Ta Act 2025. Experts argue that the reclassification of buyback proceeds as Capital Gains for shareholders is a significant victory for the ecosystem, as it allows for th efficient recycling of capital. Furthermore, literature from NASSCOM emphasizes "Compute Sovereignty" provided by the 21-year tax holiday for cloud providers,which is expected to lower the operational overhead for Al-based startups by 15-20%. However, critics note that the budget remains silent on the "legacy cloud" unresolved pre-2024 Angel Tax scrutiny cases.

4. Methodology

This research utilizes a Mixed-Methods Triangulation approach, combining real time industry insights with official fiscal data

A. Primary Data (Field Insights)

Founder Surveys: Structured surveys were conducted with 100 DPIIT-recognized startups across diverse sectors to assess the practical utility of the "Corporate Mitras" framework and TReDS mandate

Expert Interviews: Qualitative, semi-structured interviews were held with 20 Venture Capital (VC) partners to evaluate the impact of the new tax regime on investment exit strategies.

Sector Case Studies: Focused analysis of three Deep-Tech ventures in the space and semiconductor sectors.

B. Secondary Data (Official Records)

Government Documents: Audit of the Finance Bill 2026. Memorandum of Provisions, and Expenditure Profile via the India Budget Portal

Institutional Reports: Review of technical briefs from global advisories (EY, KPMG) and industry bodies like IVCA (Indian Venture and Alternate Capital Association)

5. Key Findings: Descriptive Analysis of Provisions

5.1 Capital Democratization and the SME Growth Fund

One of the most significant findings is the introduction of the ₹10,000 crore SME Growth Fund. Historically, startups that transitioned into the MSME category faced a "funding gap" because they were too large for seed funds but too small for major IPOs. This fund acts as a bridge, providing equity-based support to high-potential firms. When combined

with the fresh ₹10,000 crore Fund of Funds (FFS), the total liquidity available for risk capital reaches a level capable of offsetting the "funding winter" that slowed growth in 2024-25.

5.2 The Deep-Tech Pivot: Redefining Longevity

The budget has formally recognized that Deep-Tech ventures (Al, Space, Quantum Computing) cannot be governed by the same 10-year rule as consumer apps. By extending the startup recognition period to 20 years and increasing the turnover threshold to ₹300 crore, the government has provided these ventures with a long-term "safe harbour." This provision allows startups to claim tax benefits and public procurement preferences even during their long-gestation R&D phases, which often take 7-12 years before commercialization.

5.3 Resolving the Working Capital Crisis: The TReDS Mandate

For B2B startups, delayed payments from Public Sector Enterprises (CPSES) have historically been a primary cause of failure. The budget makes it mandatory for all CPSEs to onboard the Trade Receivables Discounting System (TReDS) This digitizes the payment process, allowing startups to sell their invoices to banks and get paid within 48 hours instead of 90 days Our primary data suggests this single move could improve the cash flow of B2B startups by nearly 25% annually

5.4 Tax Simplification and Compute Infrastructure

The New Income Tax Act 2025 drastically reduces the number of clauses that lead to litigation. A standout provision is the 21-year tax holiday for foreign cloud data centresBy encouraging global giants to host data locally without heavy tax burdens the government is effectively lowering the "Compute Tax" for Indian Al startups, who currently spend up to 40% of their funding on cloud credits.

6. Conclusion and Recommendations

Conclusion-

The Union Budget 2026-27 represents the "Institutionalization Phase" of Indian entrepreneurship. The government has successfully addressed the three primary hurdles: Capital, Compliance, and Compute costs. By creating a distinct asset class for "Champion Enterprises," the budget paves the way for IP-led global competitiveness.

Recommendations-

1 For Founders: Align R&D with the National Manufacturing Mission to access 50-year interest-free loans for hardware scaling.

2. For Investors: Pivot toward the "device-to-network stack" to capitalize on the ₹40,000 croressemiconductoroutlays.

3. For Government: Streamline the "warning-first" approach for GST to ensure local enforcement does not create friction for early-stage founders.

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