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STRATEGIC ADVISORY MEMORANDUM

Union Budget 2026-27: Cloud & Data Centre Tax Holiday

Impact Assessment for Domestic Data Centre, Cloud, AI & Tech Players

February 2026

1. The Catch: Decoding Paragraph 130 & Annexure Section 4(i)

The Finance Minister's speech announced a tax holiday for foreign cloud companies, but the Annexure reveals the operative constraint. The tax exemption applies exclusively to services provided **"to any part of the world outside India."** For Indian customers, revenue must route through an Indian reseller entity and will be *"taxed appropriately"*, meaning no tax rebate for domestic revenue streams.

The Policy Statement (Decoded)

"Global companies, come use India as your cloud delivery backbone for serving the world, and we won't tax you till 2047."

Three structural implications emerge for domestic players:

First: The tax holiday covers only revenue from serving *non-India customers* (Middle East, Africa, Southeast Asia, global clients) through Indian data centres. Indian customer revenue flows through an Indian reseller entity and attracts standard corporate tax.

Second: The 15% safe harbour (Paragraph 131, Annexure) applies to the *resident entity*, the Indian OpCo providing data centre services to the foreign entity gets a deemed profit margin of 15% on cost. This margin is taxed at prevailing corporate rates.

Third: The provision references *"foreign company"*, a term of art under Indian tax law. Whether a Dubai Free Zone LLC, Singapore Pte Ltd, or other offshore vehicle qualifies under Section 2(17) of the Income Tax Act requires immediate tax counsel verification.

2. Sector-Wise Impact Assessment

2.1 Data Centre Operators

Players: Adani Group, Anant Raj, Yotta, CtrlS, NTT, STT GDC

Upside	Constraint
• Surge in colocation demand from hyperscalers • 15% safe harbour provides transfer pricing certainty • Capacity expansion justified by export revenue pipeline	• Tax holiday accrues to foreign tenant, not Indian operator • Indian OpCo taxed on 15% deemed margin • No differentiation for Indian-owned vs foreign-owned DCs

Net Assessment: Demand-side tailwind, not a tax arbitrage. Data centre operators benefit from increased utilisation and pricing power, but the tax economics favour their tenants, not themselves. Bullish for capacity addition; neutral for margin expansion.

2.2 ndian Cloud Service Providers

Players: ESDS, CtrlS Cloud, Yotta Cloud, Jio Cloud, Tata Communications Cloud

Opportunity	Structural Disadvantage
• Export play via offshore holding structure (Dubai FZ, Singapore) • Tax-free revenue from ME, Africa, SEA clients served from India • Reseller margin on hyperscaler partnerships	• Zero benefit for domestic customer revenue • Hyperscalers get same tax treatment, no competitive edge • Entity classification risk for offshore structures

Net Assessment: The provision creates an export opportunity but does nothing to address the fundamental competitive disadvantage against hyperscalers in domestic markets. Indian cloud players serving Indian enterprises remain on an unlevel playing field. The only path to tax benefit requires international expansion, which demands capital, go-to-market capability, and structural sophistication most domestic players lack.

2.3 AI Infrastructure & GPU Cloud Providers

Players: Yotta (NVIDIA DGX), E2E Networks, Jio AI Cloud, emerging GPU-as-a-Service providers

Strategic Angle	Critical Gap
• India as AI training hub for global clients • GPU compute export revenue qualifies for holiday • Power cost arbitrage + tax exemption = compelling TCO	• No incentive for AI model development domestically • Indian AI startups using Indian GPU clouds get no benefit • Reinforces India as compute substrate, not AI innovator

Net Assessment: AI infrastructure providers can position India as a global GPU cloud hub for training workloads, a genuine opportunity given power costs and the tax holiday. However, the provision does nothing to catalyse domestic AI capability. Indian AI startups training models on

Indian infrastructure see no tax benefit. The policy treats AI compute as exportable commodity, not strategic capability.

2.4 IT Services & Tech Majors

Players: TCS, Infosys, Wipro, HCL, Tech Mahindra (as cloud resellers/MSPs)

IT majors operate primarily as managed service providers and cloud resellers. Their role under this provision is as the **Indian reseller entity** through which foreign cloud companies must route domestic customer revenue. This creates a captive intermediation opportunity, but also positions them as toll collectors rather than value creators.

Net Assessment: Incremental revenue from reseller margins on hyperscaler partnerships. No transformative impact. The provision reinforces the IT services body-shopping model, intermediation rather than IP ownership.

3. Structural Illustration: The ESDS Case

Consider ESDS as a representative domestic cloud player contemplating an offshore structure to access the tax holiday:

Entity	Revenue Stream	Tax Treatment
ESDS (Foreign) , Dubai FZ LLC	Middle East, Africa, SEA, global clients served from Indian DCs	**Tax Holiday until 2047**
ESDS India , Resident Reseller	Indian enterprise customers	**Standard Corporate Tax**
ESDS India , DC Services	Data centre services provided to ESDS (Foreign)	**15% Safe Harbour Margin** (taxed at corporate rate)

Critical Due Diligence: Tax advisors must verify whether a Dubai Free Zone LLC qualifies as a *"foreign company"* under Section 2(17) of the Income Tax Act. The consequences of misclassification extend beyond tax, they could trigger GAAR provisions, Permanent Establishment challenges, and retrospective assessments.

4. The Strategic Reality for Domestic Players

4.1 What the Provision Does

• Creates export revenue opportunity for players with offshore structures and global go-to-market

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capability

- Provides transfer pricing certainty (15% safe harbour) for domestic data centre operators
- Increases colocation demand from hyperscalers seeking India as export hub
- Positions India as global cloud/AI compute backbone

4.2 What the Provision Does NOT Do

- Provides zero benefit for Indian cloud players serving Indian customers
- Creates no competitive advantage against hyperscalers in domestic market
- Offers no incentive for indigenous cloud platform development
- Does not address data sovereignty or localisation beyond existing sectoral rules
- Provides no support for domestic AI model development or Indian AI startups

Verdict by Segment

Data Centre Operators: BULLISH , Demand uplift, capacity justified

Indian Cloud Providers: NEUTRAL , Export opportunity if structured; domestic unchanged

AI/GPU Infrastructure: BULLISH , Global training hub positioning

IT Services Majors: NEUTRAL , Incremental reseller margin only

Indian Cloud Software Ambitions: UNCHANGED , No policy support for domestic platform play

The provision reflects a clear-eyed, if unambitious, policy choice. India has opted to leverage cost advantages and geographic positioning to become a global cloud export hub, generating employment, foreign exchange, and infrastructure investment. What it explicitly does **not** do is position Indian players to compete at the value chain's apex. The parallel to IT services body-shopping, intermediation rather than product ownership, is uncomfortably precise