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Powering the Digital Economy India's Roadmap for Cloud and AI Infrastructure

Cloud computing forms the backbone of modern digital infrastructure. It enables the storage, processing and transmission of vast volumes of data through remote servers, allowing businesses, governments and individuals to access digital services in real time without relying on physical, on-site systems. By offering scalable and flexible computing resources, cloud infrastructure supports a wide range of activities—from digital payments and e-governance to advanced artificial intelligence (AI) applications.

Closely linked to cloud computing are data centres, which serve as the physical foundation of these services. These facilities house the servers and networking systems that power cloud operations. As digital activity expands and AI applications become increasingly data-intensive, the demand for advanced, high-capacity data centres has grown significantly. Together, cloud service providers and data centres form a critical layer of the digital economy.

Building world-class data centre infrastructure requires not only large financial resources but also access to advanced technologies, specialised skills and established global networks. Domestic capacity alone may not be sufficient to meet the rapidly rising demand for cloud and AI services. In this context, inviting foreign investment allows India to accelerate infrastructure creation, integrate with global digital value chains and ensure that it remains competitive in a strategically important and fast-evolving sector.

Tax Holiday for Foreign Cloud Service Providers: A Crucial Policy Intervention

The Union Budget 2026-27 proposed a tax holiday until 2047 for eligible foreign cloud service providers operating through India-based data centres. This measure represents a major policy step aimed at strengthening India's position as a global hub for cloud and AI infrastructure, while also supporting the broader goal of *Viksit Bharat* by 2047.

The rationale behind this initiative lies in the nature of digital infrastructure investments. Data centres require substantial capital, long development



timelines and stable policy conditions. By offering a long-term tax exemption, the government provides certainty to global cloud providers, encouraging them to establish and expand their operations in India.

Key Features of the Tax Framework

- Eligible foreign cloud service providers may avail tax exemption on income arising from global cloud operations, subject to prescribed conditions.
- The exemption is applicable where such providers utilise approved data centre facilities located in India.
- Services to Indian customers are required to be routed through domestic reseller entities, ensuring that such transactions remain within the Indian tax framework.
- A safe harbour margin of 15 per cent (if an Indian data centre company is providing services to its related foreign cloud entity, it can declare a fixed profit of 15% on its costs).
- The safe harbour provision is intended to provide tax certainty, simplify compliance, and minimise transfer pricing disputes.

Linkages with the Broader Technology Ecosystem

Importantly, this tax policy is not a standalone measure. It forms part of a wider set of initiatives in Budget 2026-27 aimed at strengthening India's technology and digital manufacturing ecosystem. These measures address multiple layers of the technology value

chain—from semiconductor production and electronics manufacturing to IT services and digital infrastructure.

A key component is the expansion of the India Semiconductor Mission (ISM) 2.0, which builds on earlier efforts to develop domestic semiconductor capabilities. The programme focuses on the design and manufacturing of semiconductor equipment, production of critical materials, expansion of the design ecosystem and development of skilled talent. An allocation of Rs.1,000 crore has been made for 2026-27, supporting the core electronics base required for advanced computing and data centre infrastructure.

Similarly, the Electronics Components Manufacturing Scheme (ECMS) has received a substantial boost, with its allocation increased from approximately Rs. 22,000 crore to Rs. 40,000 crore. Strong industry participation—reflected in 149 applications—indicates growing interest in domestic electronics production. This expansion is expected to strengthen supply chains and reduce import dependence, thereby reinforcing the broader digital ecosystem.

Reforms in IT Services

The Budget also introduces important reforms in the IT services sector, which remains one of India's largest export industries, with exports exceeding USD 220 billion. To enhance tax certainty and ease of doing business, various IT-related

services—including software development, IT-enabled services, knowledge process outsourcing and contract R&D—have been grouped under a single category of Information Technology Services.

A common safe harbour margin of 15.5 per cent has been proposed, alongside an increase in the eligibility threshold from Rs. 300 crore to Rs. 2,000 crore. In addition, approvals are to be processed through automated, rule-based systems, and the Unilateral Advance Pricing Agreement (APA) mechanism is to be fast-tracked, thereby reducing compliance burdens and disputes.

India's Expanding Digital Infrastructure Base

India's cloud and data centre ecosystem is expanding rapidly in response to increasing digital adoption. Under the Digital India programme, the government has established the GI Cloud (MeghRa),



which provides secure and scalable cloud services for public sector applications through the National Informatics Centre. National Data Centres operate with layered security frameworks aligned with international standards.

Industry estimates suggest that India's data centre capacity has reached approximately 1,280 MW and is projected to grow four to five times by 2030. This growth is driven by rising demand for digital services, greater Internet penetration and the expansion of AI-based applications across sectors.

At the same time, investment in the sector is accelerating. Nearly USD 70 billion is already being deployed in India's data centre industry, with an

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