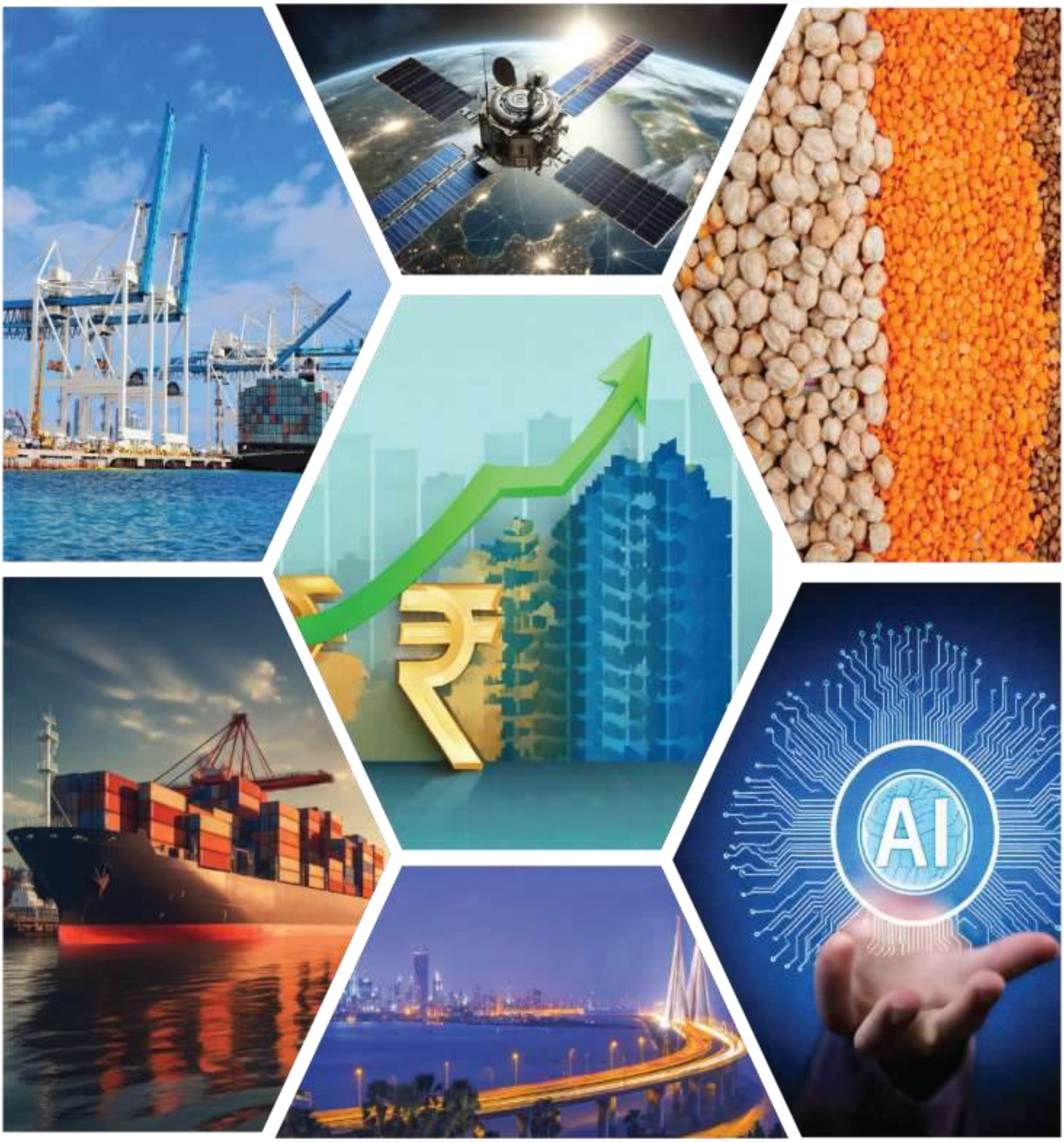
Comprehensive Analysis on

UNION BUDGET 2025-2026



FOREWORD

Facing the headwinds of global chaos, India too has suffered a slowdown in economic growth rate yet retained the title of the fastest growing economy in the world with an est 6.4% growth rate in FY 2025. Our trade deficit widening despite rise in service exports is a cause of concern and is reflected in inflationary pressures during Apr-Dec, 2024 where food inflation was recorded at 8.4%. This combined with decline in Net FDI during the year and volatile FII/ FPI activities has contributed to the Rupee Depreciating against USD by 4.15% over the past 12 months.

On the flip side, the domestic markets have propelled investments with mutual fund AUM growing 25.3%, Market Cap to GDP ratio recorded at highest ever 136% (Dec 2024) and India contributing to 30% of global IPO listings in 2024 up from 17% in 2023. Private Equity and Startups too have seen large capital infusion of Rs. 1,24,906 Cr. (USD 14.44 Bn) and numerous public listings. Real Estate market too is at an 11 year high. More importantly, India's foreign exchange reserves stood at 640 Bn USD covering 90% of our external debt to protect India from this volatile geo-political environment.

With this backdrop, on 1st February 2025, our Honourable Finance Minister, Mrs. Nirmala Sitharaman made history by presenting her 8th consecutive Finance Budget under the Modi 3.0 regime, and has attempted to continue down the path of consistent reform towards a Viksit Bharat and a USD 5 trillion economy by 2028. Keeping an eye on fiscal deficit targets of 4.4% of GDP in FY 26, our FM has wisely prioritised Growth, Inclusion, Private Investments, Consumer Demand and unleashing the power of our middle class as her focus areas.

The development measures pursued in Budget 2025 are directed at Grain (Food), Youth, Annadata (Farmer) and Nari (Women). In this pursuit, our FM goes back to basics focusing on Agriculture, MSME, Investments and Exports. For this, reforms are introduced in Budget 2025 in six domains, Taxation, Power, Urban Development, Mining, Financial Services and Regulation. This fabric of reform has been carefully woven with threads of Technology, Entrepreneurship, Innovation and Inclusiveness which were duly highlighted in the Finance Minister's speech today.

If we read between the lines, the themes of budget 2025 are clear:

- Growth to be propelled by private investment and consumption as distinct from public capital expenditure (which is now declining) in the recent past.
- Focus and invest in research, innovation and entrepreneurship to fuel one of the world's most vibrant startup ecosystems and MSMEs (currently India invests 0.64% of GDP vs China at 2.1%).
- Facilitate Self-reliance including in food and key commodities to protect against global headwinds and inflation.
- Make quick headway to increase our share in global industrial production as china is pegged to account for 45% of global industrial production by 2030.

- Leverage our demographic dividend by upskilling, job creation and creating liquidity in their hands to drive consumption. 26% of India is within the age of 10-24 yrs.
- To do all this efficiently (through technology), sustainably, inclusively offering ease of life and livelihood.

With multiple moving parts in motion, our honorable FM has greased this economic machinery reducing complexities of regulation, bringing consistency in taxation and attempting transparency in governance in Budget 2025.

In FY 25 our Fiscal deficit is estd at Rs. 15,69,527 Cr. (USD 181.44 Bn) being 4.8% of GDP. To bring this deficit down to 4.4% of GDP in FY 2026, the government is expected to borrow Rs. 15,66,452 Cr. (USD 181.09 Bn) and fund the balance from other sources including large Dividend from RBI of Rs. 3,25,000 Cr. (USD 37.57 Bn) which was at Rs. 1,70,877 Cr. (USD 19.75 Bn) in 2023-24.

With an approach of “why fix what’s not broken”, our Hon’ble Finance Minister has balanced both arithmetic and expectations given all facts and global uncertainties. In Direct Tax amendments for Rationalisation of Withholding tax including on liberalised foreign remittances, provisions to propel business and investments in IFSC, promoting start-up ventures, streamlining aspects of international tax to bring transparency including for investments are some key changes. Similarly, for Indirect Tax, material changes have been made to the GST rates and regime to simplify interpretation and implementation in line with the above-mentioned objectives.

Saving her best for last, at the end of our Finance Minister’s Speech tax reliefs were proposed for individual assesses. Subject to conditions, an individual with Rs. 12 lakhs (12.75 lakhs if salaried employee) of income would not be liable to pay income tax leaving over 1 crore (10 million) youth and middle-income earners with higher liquidity up to 1,00,000 crore (USD 11.56 Bn) and a positive sentiment to save, invest and consume. This amendment has been well received as a marquee and bold step having a ripple effect across the economy.

Significant tax reforms are expected post the Delhi state elections on 5th February, 2025 where the new Income Tax Bill will be tabled overhauling the existing Income Tax Act, 1961. The new bill is to be based on principles of “Nyaya” (Justice) offering a simple, clear and consistent regime with ease of compliance and reducing litigation.

As they say, sometimes less is more and this budget maybe one of those times. All eyes are now on the proposed tax bill.

We at DPNC look forward to reviewing, analysing and simplifying the proposed regime and sharing our thoughts with you. As your accountants, you can “Count” on us!

Thank you

Warm Regards,

Team DPNC Global LLP

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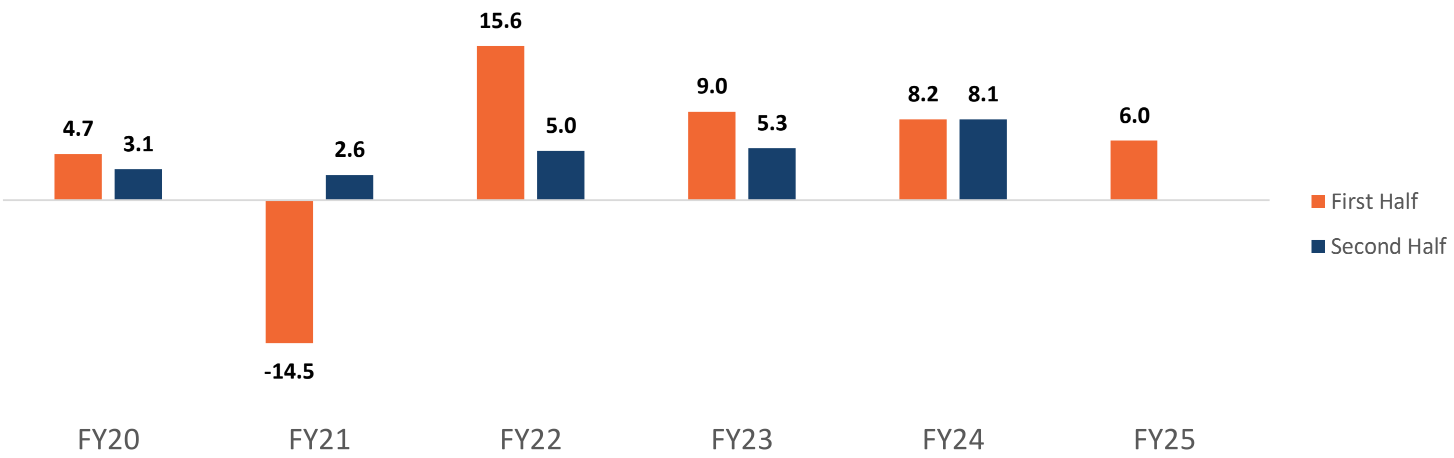
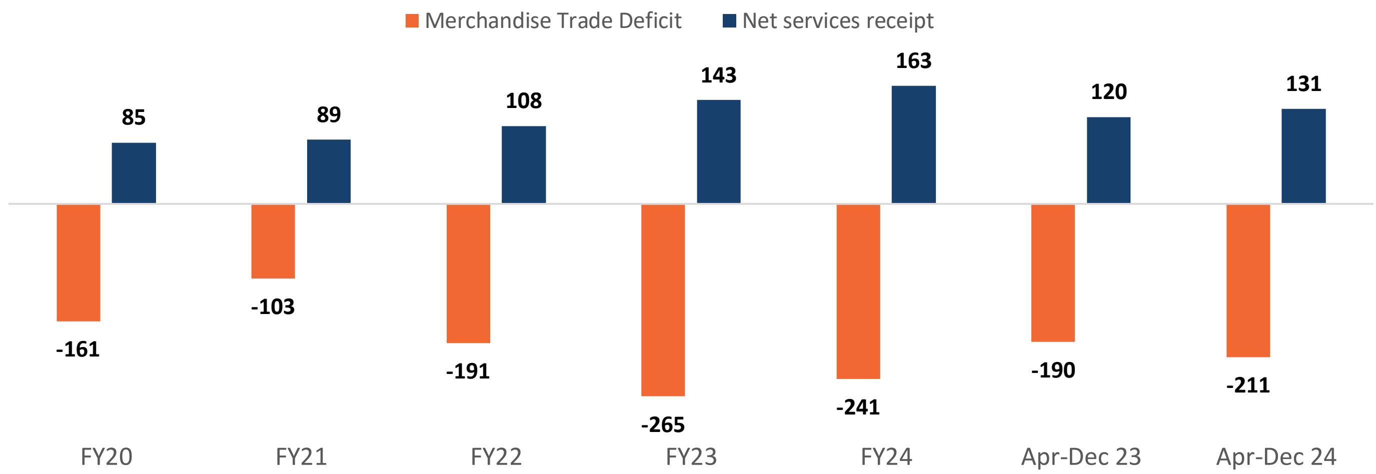
Economic Survey 2024-25

Real GDP growth

At constant prices %

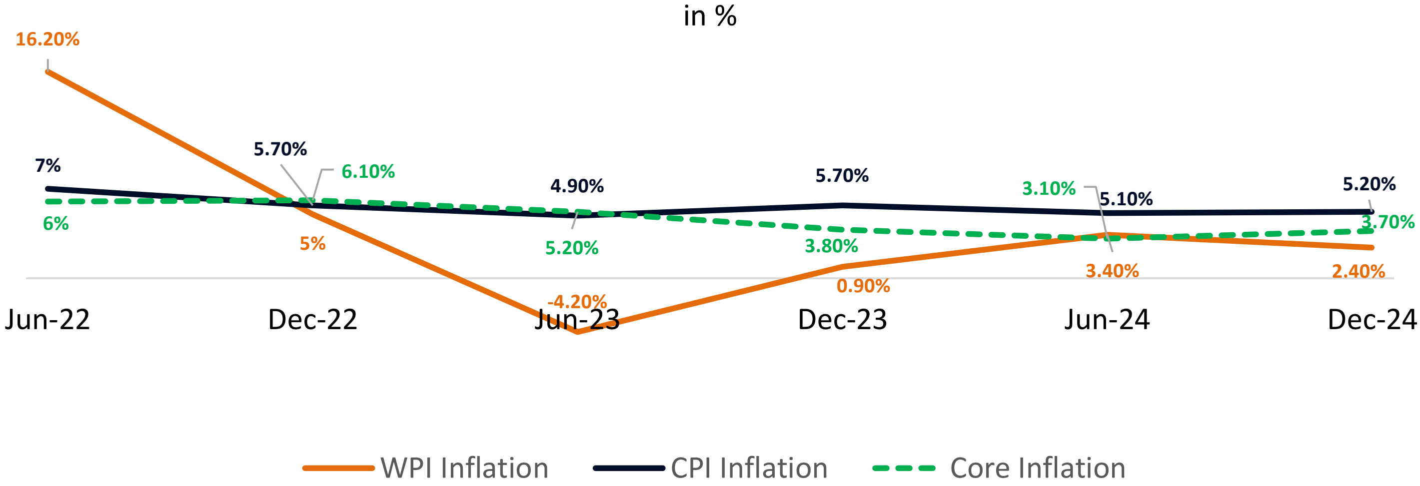


Merchandise Deficit and Net Service Receipt (in USD billions)



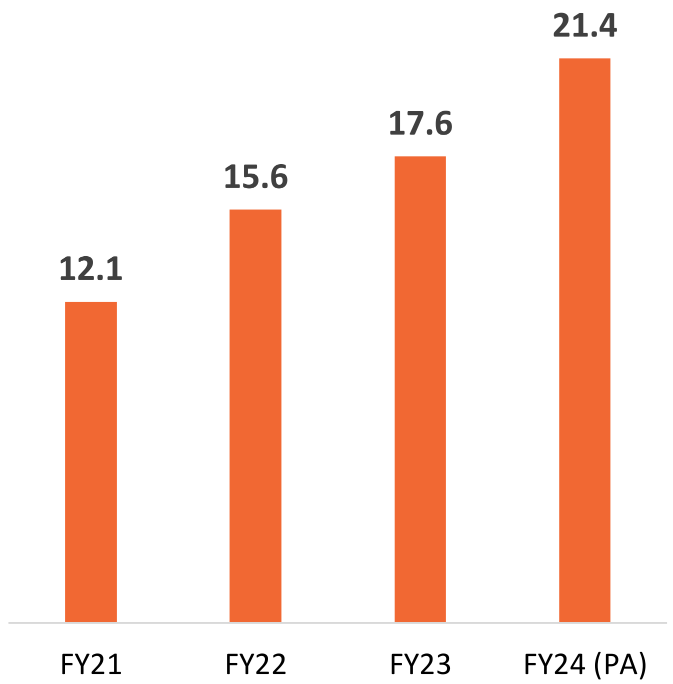
Inflation

in %

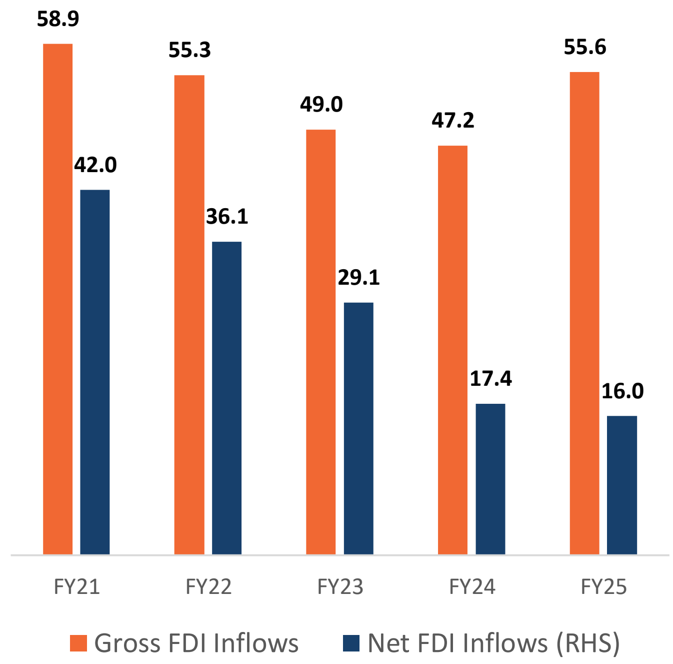


Economic Survey 2024-25

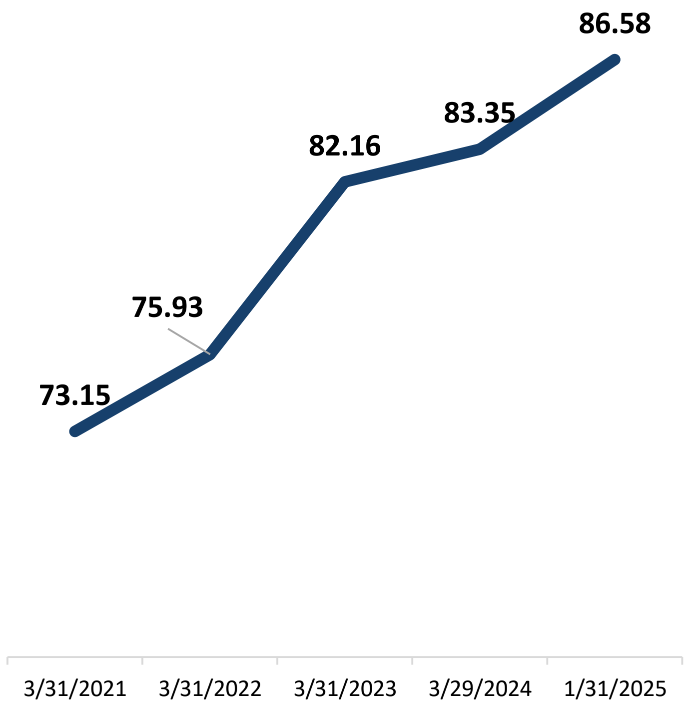
Capital Expenditure
as a % of Total Expenditure



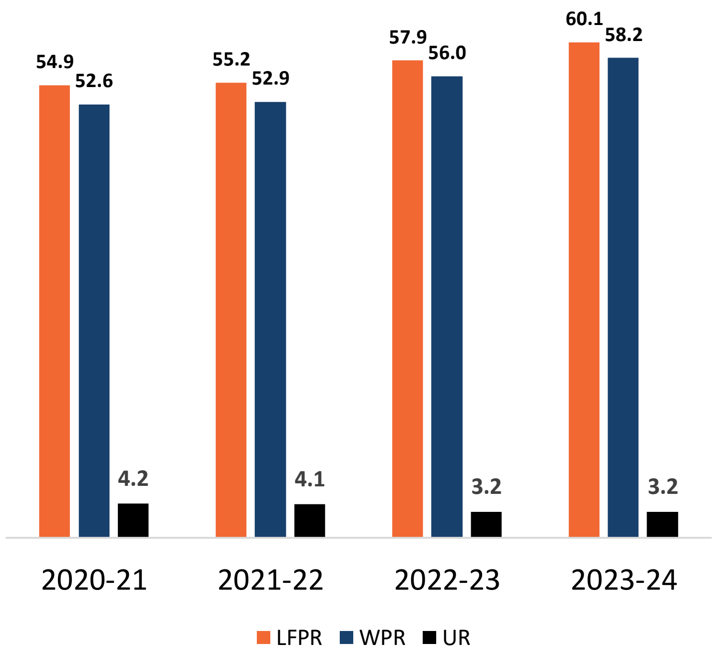
FDI Inflows
in USD billion



Value of INR per USD



Employment Data
In %



LFPR – Labor Force Participation Rate | WPR – Worker to population Ratio | UR – Unemployment Rate | PA – Provisional Actual

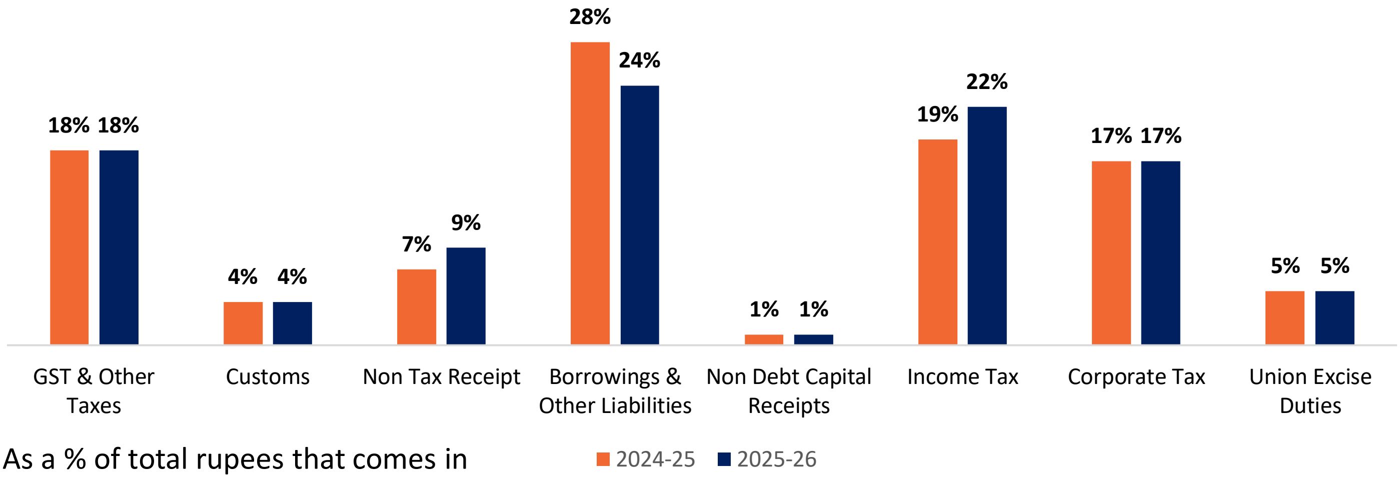
Union Budget 2025-26– A Snapshot

Budget Allocation and Fiscal Summary

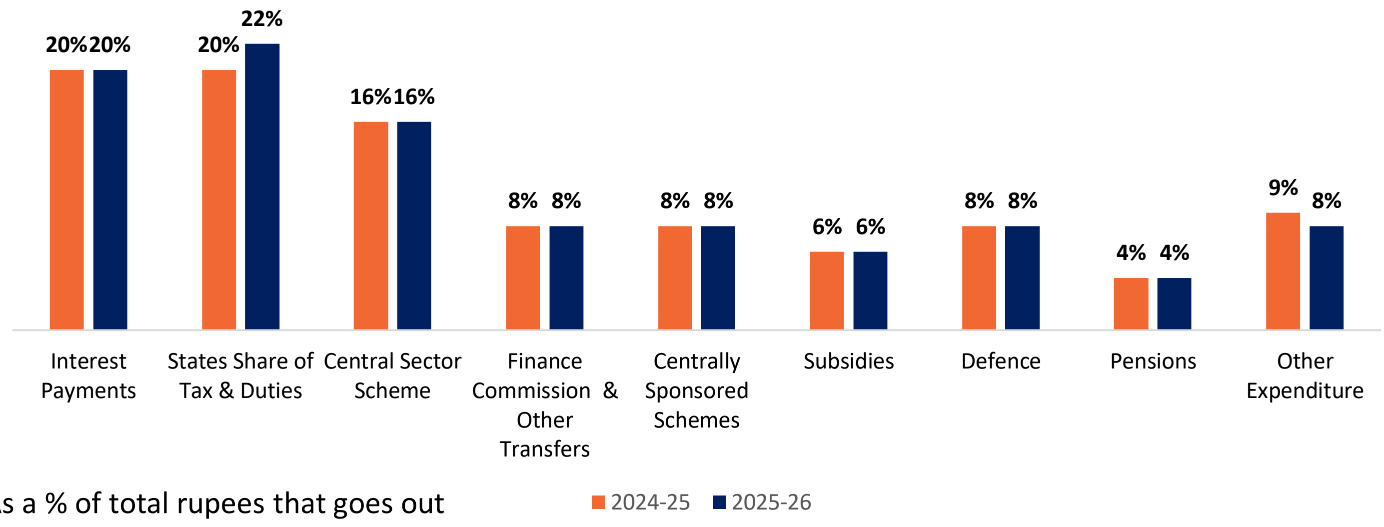
“When poor people are provided with a dignified life, it instills a sense of empowerment that helps them fight poverty. Due to such efforts, 25 crore people have overcome poverty and are moving forward in life. They have formed a ‘neo middle class’, a group that is infusing new energy into India’s growth journey,”

Hon’ble President,
Droupadi Murmu

Rupee Comes from

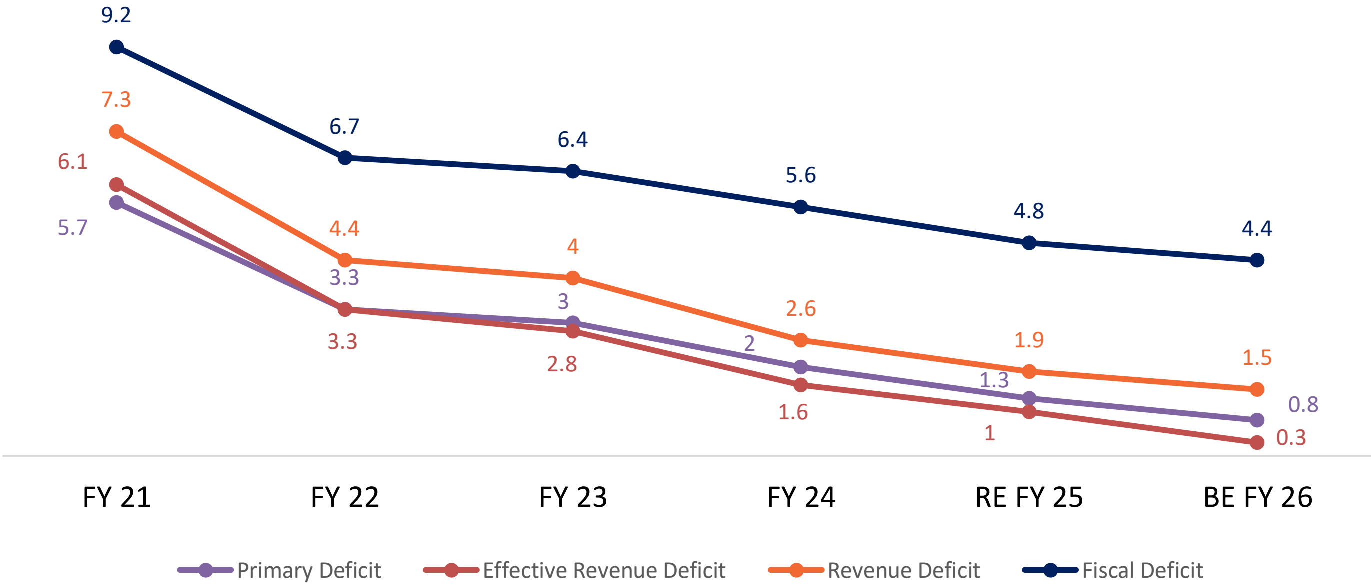


Rupee Goes to



Deficit Trends

as a % of GDP

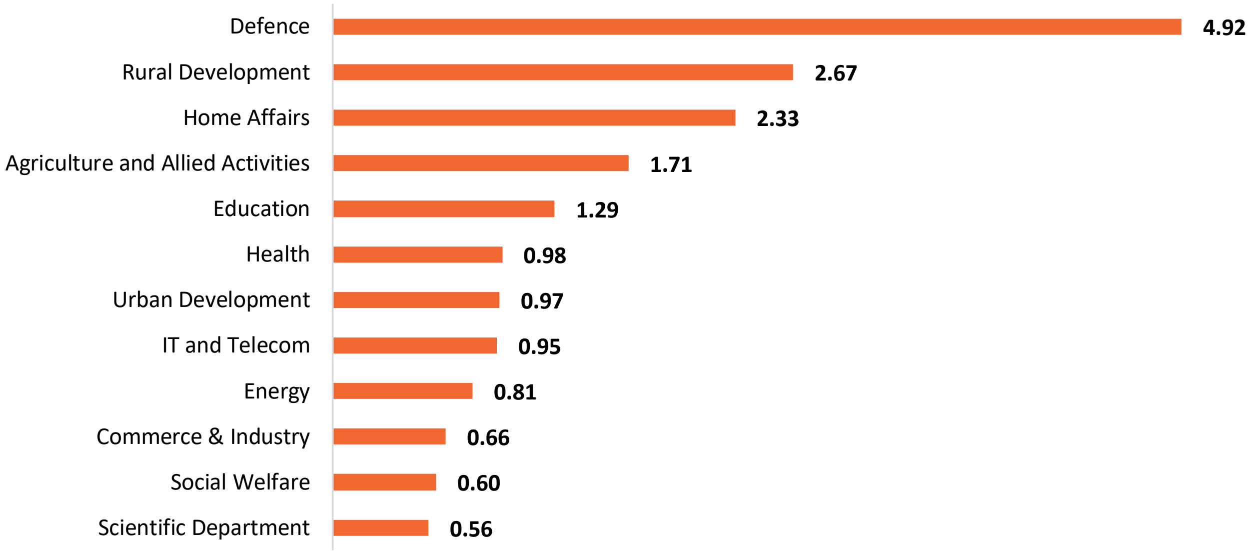


BE – Budget Estimate | RE – Revised Estimate

Source: Budget at a glance

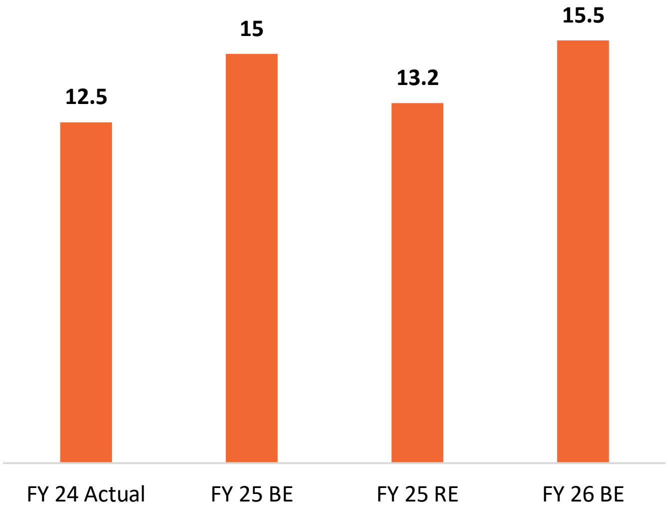
Allocation for Ministries

In Rs. Lakh Crores



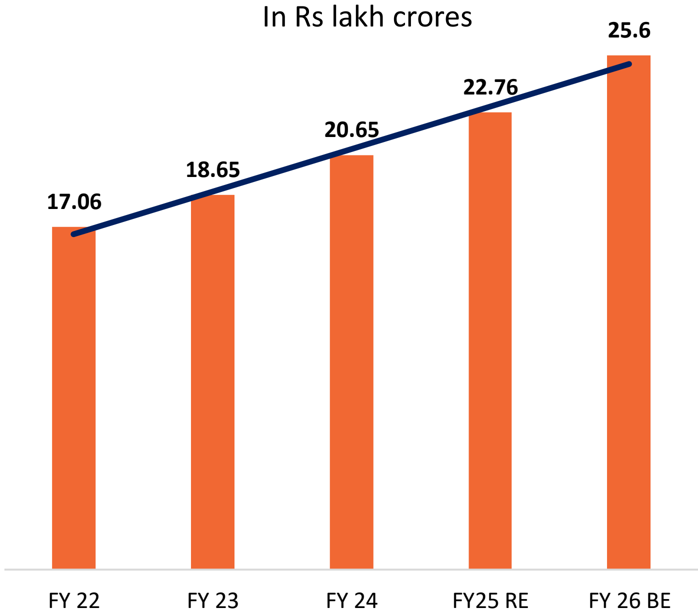
Effective Capex

In Rs lakh crores

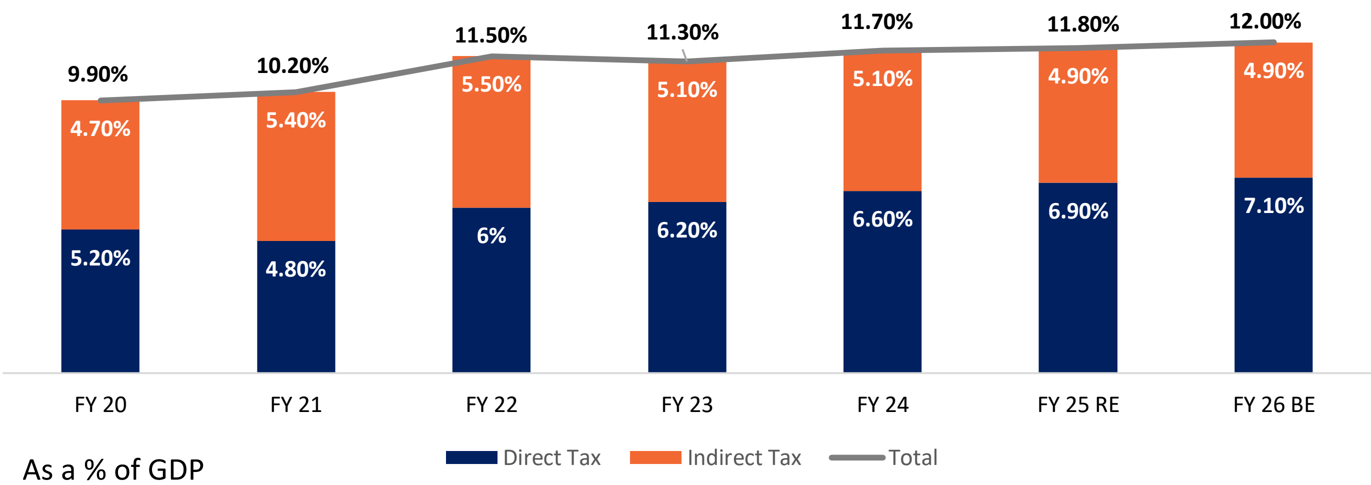


Transfer to States and UTs

In Rs lakh crores



Trend in Tax Receipts



As a % of GDP

BE – Budget Estimate | RE – Revised Estimate

Source: Budget at a glance

Budget Theme

In this budget, priority has been given to every employment sector in all possible ways. I want to highlight the reforms that will bring about significant changes in the near future. By granting infrastructure status, shipbuilding in India will be encouraged, and the Atmanirbhar Bharat Abhiyan will gain momentum. As we all know, shipbuilding is one of the sectors that provides the most employment

~ Narendra Modi
Prime Minister of India

A. ECONOMIC PERFORMANCE AND EXPECTATIONS

- **GDP Growth Rate –** The real GDP growth of Indian economy is forecasted to grow at 6.3- 6.8% in FY 25-26.
- **Fiscal Deficit for 2024-25:**
  - Total receipts (excluding borrowings): Rs.31.47 lakh crore, with net tax receipts of Rs.25.57 lakh crore.
  - Total expenditure: Rs.47.16 lakh crore, with Rs.10.18 lakh crore for capital expenditure.
  - Fiscal deficit: 4.8% of GDP.
- **Fiscal Deficit Estimates for 2025-26:**
  - Total receipts: Rs. 34.96 lakh crore, with net tax receipts of Rs. 28.37 lakh crore.
  - Total expenditure: Rs. 50.65 lakh crore
  - Fiscal deficit at 4.4% of GDP.

B. BUDGET INTRODUCTION AND EXPECTATION:

- The focus of this Budget is to accelerate economic growth, ensure inclusive development, stimulate private sector investments, uplift household sentiments, and enhance the spending power of India's rising middle class.
- Navigating global challenges and advancing towards the vision of 'Viksit Bharat,' building on the transformative groundwork laid during the Government's first two terms.
- Expect continued efforts to make India the fastest-growing major economy by encouraging investment and innovation across sectors.
- Structural reforms will likely continue to be a key focus to enhance India's global competitiveness, bringing in foreign investments, technology, and fostering a thriving export market.

C. PROPOSED DEVELOPMENT MEASURES IN THE BUDGET: FOCUS ON GARIB, YOUTH, ANNADATA, AND NARI:

- Spurring Agricultural Growth and Productivity;
- Building Rural Prosperity and Resilience;
- Taking Everyone Together on an Inclusive Growth path;
- Boosting Manufacturing and Furthering Make in India;
- Supporting MSMEs;
- Enabling Employment-led Development;
- Investing in people, economy and innovation;
- Securing Energy Supplies;
- Promoting Exports; and
- Nurturing Innovation.

D. FOUR PILLARS OF INDIA'S DEVELOPMENT JOURNEY:

- **Powerful Engines of Growth:**
  - Agriculture
  - MSME
  - Investment
  - Exports
- **The Fuel:** Reforms
- **Guiding Spirit:** Inclusivity
- **Destination:** Viksit Bharat

E. AGRICULTURE AS THE 1ST ENGINE OF GROWTH: KEY HIGHLIGHTS

- **Transformative Agricultural Initiatives:** The 'Prime Minister Dhan-Dhaanya Krishi Yojana' will focus on enhancing productivity and infrastructure in 100 low-productivity agricultural districts, benefiting 1.7 crore farmers. Additionally, missions to promote self-sufficiency in pulses and the development of high-yielding, climate-resilient seeds will further strengthen India's agricultural sector.

- **Rural Prosperity and Resilience:** A new program will address underemployment in rural areas through skilling, investment, and technology. India Post will be repositioned as a catalyst for rural economic growth, supporting MSMEs and entrepreneurs, while NCDC will enhance its lending support to the cooperative sector for rural development.

F. BOOSTING MSMEs: THE SECOND ENGINE OF GROWTH: KEY HIGHLIGHTS

- **Support for MSMEs:** The government will focus on the 5.7 crore MSMEs, which contribute 36% to India's manufacturing and 45% to exports. To drive their growth, investment and turnover limits for MSMEs will be increased by 2.5 times and 2 times, respectively, empowering them to scale, innovate, and create more job opportunities.

- **Funds of Funds for startups:** Alternate Investment Funds (AIFs) for startups have secured over Rs.91,000 crore in commitments, supported by a Fund of Funds with a Rs.10,000 crore government contribution. A new Fund of Funds, with an expanded scope and an additional Rs.10,000 crore contribution, will be established.

- **Global Toy Hub:** To establish India as a global hub for toys, a new scheme will be launched, building on the National Action Plan for Toys. The scheme will focus on developing clusters, enhancing skills, and fostering a manufacturing ecosystem to create high-quality, innovative, and sustainable toys that reflect the 'Made in India' brand.

G. INVESTMENTS - THE THIRD ENGINE OF GROWTH: KEY HIGHLIGHTS

- **Investing in People:**
  - The **Saksham Anganwadi and Poshan 2.0** programs will provide nutritional support to over 8 crore children, women, and adolescent girls.
  - **50,000 Atal Tinkering Labs** will be set up in schools to foster innovation and creativity among students.
  - **Broadband connectivity** will be extended to all government secondary schools and primary health centers in rural areas through the Bharatnet project.
  - A **Centre of Excellence in Artificial Intelligence** for education will be established with an outlay of Rs.500 crore, building on the 2023 announcement of similar centres for agriculture, health, and sustainable cities.

- **Investing in the Economy:**
  - A Rs.25,000 crore Maritime Development Fund will be set up to bolster the maritime sector, while the Jal Jeevan Mission will be extended until 2028 to ensure 100% tap water coverage in rural areas.
  - Nuclear Energy Mission for Viksit Bharat: India aims to develop 100 GW of nuclear energy by 2047, with private sector involvement through amendments to key laws. A Rs.20,000 crore mission for Small Modular Reactors (SMRs) will be

launched, with 5 indigenously developed SMRs operational by 2033.

- **Investing in Innovation:** A Deep Tech Fund of Funds will be launched to support next-generation startups, and the PM Research Fellowship program will offer 10,000 fellowships for technological research.

H. EXPORTS AS THE 4TH ENGINE OF GROWTH: KEY HIGHLIGHTS

- **Export Promotion Mission & BharatTradeNet:** A new mission will support MSMEs and export credit, while BharatTradeNet will streamline trade documentation and align with global standards.

- **Global Supply Chain Integration & Infrastructure:** The government will boost domestic manufacturing for global supply chains, upgrade air cargo infrastructure, and promote Global Capability Centres in tier-2 cities.

- **Warehousing facility for air cargo:** To facilitate upgradation of infrastructure and warehousing for air cargo including high value perishable horticulture produce.

"The demand stimulus is clearly a positive in the short run. More importantly, the long-term positives are around ease of doing business, the focus on capital goods imports, the inverted duty structure that is being addressed."

\- **Anish Shah, Mahindra And Mahindra MD & CEO**

Direct Taxation

We have made a decisive move to a world-class tax system which will be simple, transparent and friendly to taxpayers. The spirit of tax reform is going to be seen in other parts of the economy with trust and self-certification at the core. This will provide a very big boost to manufacturing and mining

~ Anil Agarwal,
Founder and Chairman of Vedanta Resources Limited

A. TAX RATES

Tax Slab for Individual/HUF (Amt in Rs.) : -

Proposed Income Slab under new tax regime (Sec 115BAC)	Slab Tax Rate
Upto 4 Lakh	NIL
4 Lakh - 8 Lakh	5%
8 Lakh – 12 Lakh	10%
12 Lakh – 16 Lakh	15%
16 Lakh – 20 Lakh	20%
20 Lakh- 24 Lakh	25%
Above 24 Lakh	30%

Existing Income Slab under new tax regime (Sec 115BAC)	Slab Tax Rate
Upto 3 Lakh	NIL
3 Lakh - 7 Lakh	5%
7 Lakh – 10 Lakh	10%
10 Lakh – 12 Lakh	15%
12 Lakh – 15 Lakh	20%
Above 15 Lakh	30%

Income Slab under Old Regime	Slab Tax Rate
Upto 2.5 Lakh	NIL
2.5 Lakh - 5 Lakh	5%
5 Lakh - 10 Lakh	20%
Above 10 Lakh	30%

Surcharge for Individual/HUF (No change):

Surcharge Slab	Surcharge Rate (New Tax Regime u/s 115BAC)	Surcharge Rate (Old Tax Regime)
Income exceeding Rs 50 Lakh but does not exceeding Rs 1 Crore	10%	10%
Income exceeding Rs 1 Crore but does not exceeding Rs 2 Crore	15%	15%
Income exceeding Rs 2 Crore but does not exceeding Rs 5 Crore	25%	25%
Income exceeding Rs 5 Crore	25%	37%

- Rebate u/s 87A under Old Tax Regime is Rs. 12,500/-.
- Rebate u/s 87A under New Tax Regime of Rs. 60,000/- is proposed compared to existing rebate of Rs. 25,000/-.
- Surcharge on Capital Gains taxable u/s 111A ,112 & 112A and on dividend income is capped at 15%.

Cess (No change):

- Health & Education cess in all cases remains unchanged at 4%.

Corporate Tax (No change):

Basic tax rates for companies are as under :-

Particulars	Tax rates
For domestic companies whose total turnover or gross receipts in the FY 2023-24 does not exceed Rs 400 Crores	25%
For companies opting for Section 115BA	25%
For companies opting for Section 115BAA	22%
For companies opting for Section 115BAB	15%
For other domestic Companies	30%
Foreign Companies	35%

- MAT is 15% except for companies opting for Section 115BAA/115BAB

Surcharge for companies

Particulars	Domestic Company	Foreign Company
Income exceeding Rs 1 crore but not exceeding Rs 10 Crore	7%	2%
Income exceeding Rs 10 crore	12%	5%

- For companies opting for Section 115BAA/115BAB, Surcharge of 10% would be levied irrespective of the income.

Cess

Health & Education Cess in all cases remains unchanged at 4%.

Firms and LLP Tax Rate (No change)

- Basic tax rate remains at 30% and surcharge rate is 12% where income exceeds Rs 1 Crore.
- Health & Education Cess in all cases remains unchanged at 4%.

Co-operative Society Tax Rate (No change)

Particulars	Tax Rate
Income upto Rs 10,000	10%
Income exceeding Rs 10,000 but not exceeding Rs 20,000	20%
Income exceeding Rs 20,000	30%

- Section 115BAD - Resident Co – operative society has the option to pay Tax @ 22%, if the co- operative Society agrees to forego prescribed deductions and exemptions under the Income Tax Act, 1961.
- Sec 115BAE applicable for new manufacturing co-operative society set up on or after 01.4.2023 , which commences manufacturing or production on or before 31.03.2024 , has the option to pay tax @ 15% for AY 2024-25 onwards.
- Surcharge: 7% if total income exceeds Rs 1 Crore and 12% if total income exceeds Rs 10 Crores. if opting for 115BAD & 115BAE Surcharge of 10% would be levied.
- Health & Education Cess in all cases remains unchanged at 4%.

AOP/BOI/Artificial Judicial Person (Old Tax Regime – No change))

Particulars	Tax Rate
Income upto Rs 2.5 Lakh	Nil
Income exceeding Rs 2.5 Lakh but not exceeding Rs 5 Lakh	5%
Income exceeding Rs 5 Lakh but not exceeding Rs 10 Lakh	20%
Income exceeding Rs 10 Lakh	30%

Surcharge for AOP/BOI/Artificial Judicial Person (Old Tax Regime – No change)

Particulars	Tax Rate
Income exceeding Rs 50 Lakh but not exceeding Rs 1 Crore	10%
Income exceeding Rs 1 Crore but not exceeding Rs 2 Crore	15%
Income exceeding Rs 2 Crore but not exceeding Rs 5 Crore	25%
Income exceeding Rs 5 Crore	37%

- Surcharge on Capital Gains taxable u/s 111A ,112 & 112A and on dividend income is capped at 15%.
- Maximum Surcharge on AOP with all members as a company is 15%.

Cess
- Health & Education cess in all cases remains unchanged at 4%.

AOP/BOI / Artificial Judicial Person (Amount in Rs.)

Proposed Income Slab under new tax regime (Sec 115BAC)	Slab Tax Rate
Upto 4 Lakh	NIL
4 Lakh - 8 Lakh	5%
8 Lakh – 12 Lakh	10%
12 Lakh – 16 Lakh	15%
16 Lakh – 20 Lakh	20%
20 Lakh- 24 Lakh	25%
Above 24 Lakh	30%

Existing Income Slab under new tax regime (Sec 115BAC)	Slab Tax Rate
Upto 3 Lakh	NIL
3 Lakh - 7 Lakh	5%
7 Lakh – 10 Lakh	10%
10 Lakh – 12 Lakh	15%
12 Lakh – 15 Lakh	20%
Above 15 Lakh	30%

Surcharge for AOP/BOI/Artificial Judicial Person (Section 115BAC - New)

Surcharge for AOP/BOI/AJP opting for 115BAC – New Tax Regime	Tax Rate
Income exceeding Rs 50 Lakh but not exceeding Rs 1 Crore	10%
Income exceeding Rs 1 Crore but not exceeding Rs 2 Crore	15%
Income exceeding Rs 2 Crore	25%

- Surcharge on Capital Gains taxable u/s 111A ,112 & 112A and on dividend income is capped at 15%.
- Maximum Surcharge on AOP with all members as a company is 15%.

Cess

- Health & Education cess in all cases remains unchanged at 4%.

B. LITIGATION

1. Penalty under section 271AAB not to apply on Searches post 01.09.2024:

- The existing provisions of section 271AAB of the Act relates to penalty in respect of searches initiated after 15/12/2016. Finance Act 2024, introduced provisions of 'Block Assessment' u/s 158BC for searches initiated u/s 132 on or after 01/09/2024. In order to remove any ambiguous interpretation of applicability of section 271AAB to searches conducted on or after 01/09/2024, it is proposed to amend provisions of section 271AAB to provide that its provisions shall not be applicable to the assessee in whose case search has been initiated under section 132 on or after 01/09/2024.
- This amendment will take effect from the 1st day of September, 2024.

2. Time limit for imposing penalties rationalised

- Section 275 of the Act inter-alia provide for the bar of limitation for imposing penalties. This section has multiple timelines for imposition of penalties in various cases where assessment order or other order is subject matter of appeal before CIT(A)/ITAT or where no appeal is filed etc.
- To rationalise the same, it is proposed to amend section 275 of the Act to provide single time-limit to impose penalties in different cases as under:
- 6 months from the end of the quarter in which:
  - The connected proceedings are completed or
  - The order of appeal is received by jurisdictional Principal Commissioner or Commissioner or
  - The order of revision is passed or
  - The notice for imposition of penalty is issued.
- These amendments will take effect from the 1st day of April, 2025.

3. Certain penalties to be imposed by the Assessing Officer and not by Joint Commissioner

- Sections 271C, 271CA, 271D, 271DA, 271DB and 271E of the Act, inter-alia, provide that penalty under these sections shall be imposed by the Joint Commissioner (JCIT). Though, assessment in such cases were being made by the Assessing Officer(AO), penalty under these sections were being imposed by the JCIT.
- In order to rationalize the process, it is proposed amend these sections so that penalties under these sections shall be levied by the AO in place of JCIT. However AO is to take prior approval from JCIT u/s 274(2).
- This amendment will be effective from 01/04/2025.

4. **Extending the processing period of application seeking immunity from penalty and prosecution**

- Section 270AA of the Act relates to immunity from imposition of penalty or prosecution where no appeal is filed against the assessment order and tax & interest determined therein is paid.
- That as per the existing provisions, Assessing officer is required to pass an order accepting or rejecting the application for immunity, within a period of one month from the end of the month in which the application requesting immunity is received. In order to remove difficulties being faced by tax payers in representing the case within the limited time period, it is proposed to increase the period for passing an order by AO from one month to three months from the end of the month in which the application requesting immunity is received.
- This amendment will take effect from the 1st day of April, 2025.

5. Exclusion of stay period for calculating time limit to pass TCS default order

- Section 206C(7A) sets a time limit for issuing an order deeming a person as an assessee in default for failing to collect tax. Currently, the time limit therein doesn't exclude the periods when proceedings are stayed by court orders etc. To address this, it is proposed to amend the section to apply the relevant provisions of Section 153, which includes the exclusion of time during such stays and similar other situations. This amendment is set to take effect from 1st April 2025.

6. Amendments proposed in provisions of Block assessment for search and requisition cases under Chapter XIV-B

Vide Finance Act, 2024, block assessment provisions (section 158B to 158BI) were introduced and made applicable where a search u/s 132 of the Act is initiated on or after 01/09/2024. To rationalise the same, inter alia, following amendments are proposed :

- Inclusion of Virtual Digital Assets - The definition of "undisclosed income" under Section 158B is expanded to include virtual digital assets.
- As per existing provisions of section 158BA (2) & (3), any pending assessments, reassessments, or recomputation at the time of search/requisition shall abate and as per existing provisions of section 158BA(5) if any proceedings initiated under this chapter has been annulled in appeal or any other legal proceedings, then the assessment or reassessment relating to any assessment year which has been abated shall revive. It is proposed to align the said sub sections by adding words "recomputation", "reference" or "order" in section 158BA(5).
- 158BA (4) provides that "Where any assessment under the provisions of this Chapter is pending in the case of an assessee in whose case a subsequent search is initiated, or a requisition is made, such assessment shall be duly completed, and thereafter, the assessment in respect of such subsequent search or requisition shall be made under the provisions of this Chapter", It is now proposed that for the word "pending", the words "required to be made" shall be substituted.
- Section 158BB of the Act, which outlines the methodology for computing the total income of the block period, is proposed to be amended as follows:
  - Amendment in clause (i) of the sub-section (1) to substitute reference to 'total income disclosed' with "undisclosed income" which has been declared in return.

  - Amendment in clause (iii) of the sub-section (1) to specify that any income declared in the return of income filed under section 139 or in response to a notice under sub-section (1) of section 142 or section 148, prior to the date of initiation of the search or the date of requisition, shall form part of the total income of the block period for which credit would be given while charging the tax for the said period.
  - word total from 'total income' in clause (ii) and (iii) of the sub-section (1) to be omitted.
  - It is also proposed to amend clause (iv) of sub-section (1) to provide the clarity over computation of the income pertaining to the previous year which has ended but the due date for furnishing the return for such year has not expired prior to the date of initiation of the search or requisition so that income pertaining to books of account maintained in normal course for the said period is taxed under the normal provisions.
- Exclusion of International & Specified Domestic Transactions Section 158BB(3): Income from international and specified domestic transactions is excluded from block period income.
- Revised Time Limit for Block Assessment: The time limit for completing block assessments is changed from 12 months from the end of the month of the last authorization to 12 months from the end of the quarter of the last authorization.
- This amendment will take effect from 1st February, 2025.

7. Revision in time limit for approval for retention of books of seized books of account or other documents:

- As per existing provisions of section 132(8), the deadline for AO for obtaining approval to retain seized books of account or other documents was 30 days from the date of the assessment, reassessment, or recomputation order.
- Now it is proposed to amend section 132(8) to provide that time limit for taking approval for retention shall be one month from the end of quarter in which the assessment, reassessment or recomputation order has been made.
- These amendments will take effect from the 1st day of April, 2025.

C. WITHOLDING TAXATION

1. Revision of certain TDS/TCS threshold (applicable with effect from (‘w.e.f.’) 1st April 2025)

Section	Nature of Payment	Existing Threshold (in Rs.)	Proposed Threshold (in Rs.)
193	Payment of interest on securities	NIL	10,000
194	Payment of dividend to an individual shareholder	5,000	10,000
194A	Payment of interest other than interest on securities		
	By Bank, co-operative bank and post office to person other than senior citizen	40,000	50,000
	By Bank, co-operative bank and post office to senior citizens	50,000	1,00,000
	By any other person to any person	5,000	10,000
194B	Winnings from Lottery, crossword puzzle, etc.	10,000/FY	10,000/ transaction
194BB	Winnings from horse race		
194D	Payment of Insurance Commission	15,000	20,000
194G	Payment of commission, prize etc. on sale of lottery tickets	15,000	20,000
194H	Payment of commission or brokerage	15,000	20,000
194I	Payments of rent	2,40,000/ FY	50,000/month
194J	Fees for professional or technical services	30,000	50,000
194K	Payment of Income in respect of units of a mutual fund or specified company or undertaking	5,000	10,000
194LA	Payment in respect of compulsory acquisition of land	2,50,000	5,00,000
206C(1G)	Remittance under LRS and for overseas tour program package	7,00,000	10,00,000

- **Changes proposed in TDS and TCS rates (to be effective from 1st April, 2025) :**

TDS			
S. No.	**Section of the Act**	**Existing TDS/TCS Rate**	**Proposed TDS/TCS Rate**
1	Section 194LBC - Income in respect of investment in securitization trust	25% if payee is Individual or HUF and 30% otherwise	10%
TCS			
2	Section 206C(1) – TCS on timber or any other forest produce (not being tendu leaves) obtained under a forest lease and timber obtained by any mode other than under a forest lease	2.50%	2%
3	Section 206C(1G) – TCS on remittance under LRS for purpose of education financed by loan from financial institution	0.50% post Rs. 7 lakh	Nil

2. Reduction in compliance burden by omission of TCS on sale of specified goods:

- To ease the compliance burden on sellers, it has been proposed that Section 206C(1H) will be removed from 1st April 2025. This section currently requires sellers to collect tax at 0.1% on goods sold to a buyer exceeding Rs. 50 lakhs in a financial year. A similar provision under Section 194Q requires buyers to deduct TDS at 0.1% on purchases over Rs. 50 lakhs. The overlap of TDS and TCS on the same transaction caused confusion for sellers, as they had to verify whether the buyer had deducted TDS. To simplify this, the proposal aims to eliminate Section 206C(1H) from 1st April 2025.

3. Exemption from prosecution for delayed payment of TCS in certain cases

- Section 276BB mandates prosecution for failure to pay TCS to the government, with imprisonment ranging from three months to seven years, along with a fine. It is proposed to amend this section to exempt prosecution if the TCS is deposited before filing the quarterly TCS return. This amendment is set to take effect from 1st April 2025.

4. Removal of higher TDS/TCS for non-filers of return of income

- Sections 206AB and 206CCA were introduced to ensure tax return filing by individuals with taxable income by imposing higher tax deduction/collection rates on non-filers. However, tax deductors/collectors face challenges verifying tax filing status, leading to higher rates, capital blockage, and increased compliance. To ease this burden, it is proposed to remove both sections i.e., 206AB and 206CCA, effective from 1st April 2025.

D. TRANSACTION TAX

1. Rationalisation of provisions related to carry forward of losses in case of amalgamation

- Section 72A and 72AA are proposed to be amended in cases of amalgamation and business reorganization to provide that accumulated losses of predecessor entity which is deemed to be loss of the successor entity after amalgamation and business reorganization, shall be carried forward for 8 AYs from the AY in which such loss was first computed for the predecessor entity.
- This amendment is aimed to prevent the evergreening of the losses of predecessor entity resulting from successive amalgamations.
- This amendment shall apply to amalgamations and business re-organisations effected on or after 01.04.2025.

E. INTERNATIONAL TAX AND TRANSFER PRICING

1. Scheme of presumptive taxation extended for non-resident providing services for electronics manufacturing facility

- New section 44BBD is proposed to provide a presumptive taxation for non-residents engaged in business of providing services or technology, to a resident company which are establishing or operating electronics manufacturing facility for manufacturing or producing electronic goods in India.
- **PGBP of such NR-** 25% of aggregate amount received by or paid to such NR on account of providing such services,
- Amendment results in an effective tax payable of less than 10% on gross receipts by a NR company.
- These amendments will take effect from 1st April, 2026 and shall apply in relation to AY 2026-27 and subsequent Assessment Years.

2. Harmonization of Significant Economic Presence applicability with Business Connection

- Proviso is proposed to be inserted in Section 9 Explanation 2A to provide that the transactions or activities of NR in India which are confined to purchase of goods for purpose of export shall not constitute SEP of such NR in India.
- This amendment is proposed to be effective from 1st day of April, 2026 and shall apply in relation to AY 2026-27 and subsequent AYs.

3. Rationalization of transfer pricing provisions for carrying out multi-year arm’s length price determination

- It has been observed that for similar international or specified domestic transactions over multiple years, the same facts and arm's length analysis are repeated, creating compliance and administrative burdens. To address this, it is proposed to conduct transfer pricing (TP) assessments in blocks. Specifically, the arm's length price (ALP) determined for a transaction in one year will apply to similar transactions in the next two consecutive years. Inter alia, following amendments are proposed accordingly.

- Assessee to exercise option for the above effect in the form, manner and within such time period as may be prescribed [new sub-section (3B) in section 92CA];
- the TPO may by an order within one month from the end of the month in which such option is exercised, declare that the option is valid subject to the prescribed conditions [new sub-section (3B) in section 92CA];
- if the TPO declares that the option exercised by the assessee is valid,–
  - The ALP determined for an international or specified domestic transaction in a previous year will apply to similar transactions in the next two consecutive years (new sub-section 3B in section 92CA).
  - The TPO will examine and determine the ALP for similar transactions in the consecutive years as per sub-section (3) of section 92CA (new sub-section 4A in section 92CA).
  - on receipt of such order from the TPO, the AO shall recompute the total income for such consecutive previous years as per section 155(21) [new sub-section (4A) in section 92CA];
  - no reference for computation of ALP in relation to such transaction shall be made [new first proviso to sub-section (1) of section 92CA];
  - If a reference is made before or after the TPO's declaration, sub-section (1) of section 92CA will apply as if no reference was made for the transaction (new second proviso to sub-section 1 of section 92CA).
- Above provisions not to apply in search cases under Chapter XIV-B [proviso to new sub-section (3B) in section 92CA]
- This amendment will take effect from 1st April, 2026 i.e., AY 2026-27 and subsequent years.

F. RATIONALISATION, SIMPLIFICATION AND OTHERS

1. Extending the time-limit to file the updated return

- Building on the success of the updated return concept introduced in Finance Act 2022, it is proposed to extend the filing period for updated returns from 24 to 48 months from the end of the relevant assessment year (AY). With this extension, the following additional tax rates are proposed:

Current Provisions (Up to 24 months):

Months	Additional Tax
0-12 months	25%
12-24 months	50%

Proposed Amendment (Up to 48 months)

Months	Additional Tax
0-12 months	25%
12-24 months	50%
24-36 months	60%
36-48 months	70%

- Additionally, no updated return can be filed if a show-cause notice is issued under section 148A after 36 months from the relevant AY, unless a subsequent order under section 148A(3) determines no notice is warranted, in which case filing can continue up to 48 months.
- This amendment is proposed to take effect from 1st April 2025.

2. Relaxation in Registration provisions for Trusts: Incomplete Applications No Longer a "Specified Violation“

- Section 12AB(4) allows for the cancellation of a trust or institution's registration if a "specified violation" is found, including incomplete or false applications. Currently, even minor issues such as incomplete applications can lead to cancellation, making the trust liable for tax on its accreted income. To address this, it is proposed to amend Section 12AB(4) to exclude incomplete applications as a "specified violation" for cancellation. The amendment is set to take effect from 1st April 2025.

3. Period of registration of smaller trusts or institutions proposed to be increased from 5 years to 10 years

- Currently, Section 12AB grants trust or institution registration for 5 years or provisional registration for 3 years. After expiration, they must reapply for further registration. This process increases the compliance burden, especially for smaller trusts. To ease this, it is proposed to extend the registration validity from 5 to 10 years for trusts with income under Rs. 5 crores in the past two years, and that meet specific criteria. The amendment is set to take effect from 1st April 2025.

4. Extension of benefits of tonnage tax scheme to inland vessels

- Benefits of presumptive tonnage taxation scheme which was earlier available to only sea going ships is extended to companies engaged in inland water transportation for the inland vessels which are registered under the Inland Vessels Act, 2021.

- The presumptive scheme based on net tonnage of ship and days involved has provided great certainty to the industry about their tax liability.
- These amendments will take effect from the 1st day of April, 2026 and shall, accordingly, apply in relation to the assessment year 2026-27 and subsequent assessment years.

5. Rationalization of persons specified under sub-section (3) of section 13 for trusts or institutions

- The current provisions deny exemptions under Sections 11 and 12 of the Income Tax Act if a trust's income benefits a 'specified person' (excluding founders, trustees, members, or managers) or their related entities.
- Previously, a person contributing Rs.50,000 in aggregate was considered a 'specified person.' The amendment revises this threshold to:

  a) Rs.1 lakh during the relevant previous year, or

  b) Rs.10 lakh in aggregate up to the end of the relevant previous year.

- This change applies to persons other than the author, founder, trustee, member, or manager of the trust. Additionally, relatives and concerns in which such persons have substantial interest are no longer classified as 'specified persons' under Section 13(3).
- This amendment will take effect from 1st April, 2025.

6. Extension of exemption to Specified Undertaking of Unit Trust of India (SUUTI)

- SUUTI is proposed to be further exempted till 31st March, 2027 from paying any income-tax in respect of any income, profits or gains derived, or any amount received in relation to the specified undertaking.
- The amendment is proposed to be effective from the 1st day of April, 2025

7. Rationalization of taxation of capital gains on transfer of capital assets by non-residents

- Through Finance (No. 2) Act, 2024, the tax rate to be levied, in respect of long-term capital gain arising from transfer of capital asset, by a resident or non-resident assessee, was amended from 10% to 12.5%.
- However, tax rate, under section 115AD, on long term capital gain earned by a specified fund or foreign institutional investor, from transfer of securities (other than units referred in section 115AB) not referred under section 112A, was retained at 10%.
- In order to provide parity, it has been proposed to amend such tax rate under section 115AD from 10% to 12.5%.The amendment is proposed to be effective from the 1st April, 2026 i.e. AY 2026-27.

8. Bringing clarity in income on redemption of Unit Linked Insurance Policy

- In the present provisions, in the case of Unit Linked Insurance Policy, even where payable premium exceeded 10 percent of the sum assured but premium not exceeding 2.5 Lakhs, the sum received on redemption was not being charged to tax as 'capital gain' under sub-section (1B) of section 45 due to fourth and fifth provisos to Section 10(10D). Even though it was not exempt as per Section 10(10D), there was ambiguity regarding the head of chargeability.

- Therefore, it is proposed to amend sections 2(14), 45(1B) and 112A removing the effect of fourth and fifth proviso to Section 10(10D) resulting into consistent tax treatment to all ULIP policies. Thus, if exemption under Section 10(10D) does not apply, the sum received under both ULIP shall be chargeable to tax under the head 'capital gains'.
- These amendments will take effect from the 1st day of April, 2026 and shall accordingly, apply in relation to the assessment year 2026-27 and subsequent assessment years.

9. Rationalisation of the Self-occupied property taxation

- Currently, as per section 23(2), annual value of a self-occupied property was taken as nil if it was occupied by the owner for his own residence or if he cannot reside therein due to reasons of his business, profession or employment.
- With a view to simplifying the provisions, it is proposed to amend the section 23(2) so as to provide that the annual value of the property consisting of a house or any part thereof shall be taken as nil, if the owner occupies it for his own residence or cannot actually occupy it due to any reason. Therefore, additional condition of not being able to reside therein due to his business or employment or profession has been done away with.
- This amendment will take effect from the 1st day of April, 2025 and shall accordingly apply for assessment year 2025-26 onwards.

10. Amendment proposed in definition of 'Capital Asset' to include 'Securities held by Investment Fund'

- Section 2(14) defines "capital asset" to include property held by an assessee, excluding stock-in-trade and personal assets. Securities held by Foreign Institutional Investors (FII) under the SEBI Act, 1992 are also considered capital assets.
- There is uncertainty regarding whether income from securities transactions is treated as capital gains or business income for investment funds under section 115UB.
- To clarify, it is proposed that securities held by investment funds, in accordance with SEBI regulations, will be treated as capital assets, with income from their transfer being classified as capital gains.
- This amendment will take effect from 1st April 2026, applicable for the assessment year 2026-27 and onward.

11. Extension of timeline for tax benefits to start-ups

- As per existing provisions of section 80-IAC of the Act, 100% deduction is provided to profit & gains derived from eligible business by an eligible start-up for 3 consecutive assessment years within a 10-year period, beginning from the year of incorporation, at the option of the assessee subject to certain conditions.
- Currently the said tax benefit is available for start-up incorporated before the 01/04/2025.
- Now it is proposed to amend the period during which this benefit can be availled by extending it for an additional five years i.e. for startups incorporated before 01/04/2030.
- This amendment will take effect from 1st April, 2025.

12. Deduction under section 80CCD for contributions made to NPS Vatsaly

- The NPS Vatsalya Scheme, launched on 18 September 2024, allows parents or guardians to open an NPS account for minors. The guardian manages the account until the child turns 18, at which point the account is transferred to the child with the accumulated corpus and moved to an NPS-Tier 1 Account or another non-NPS scheme.
- It is proposed to extend tax benefits under Section 80CCD to contributions made to NPS Vatsalya accounts, as follows:
  - Parents/guardians can claim a deduction of up to Rs. 50,000 for contributions made to a minor's NPS account, as per section 80CCD(1B).
  - Amounts deducted under section 80CCD(1B) or any accrued amounts will be taxed upon withdrawal from the minor's account.
  - If the account is closed due to the minor's death, the amount will not be considered income for the parent/guardian.
- The NPS Vatsalya Scheme allows partial withdrawals from a minor's account for contingencies like education, medical treatment, or disability (over 75%). It is proposed to add clause (12BA) to section 10, stating that any income from partial withdrawals will not be included in the parent/guardian's total income, provided it does not exceed 25% of the contributions made, and complies with the terms under the Pension Fund Regulatory and Development Authority Act, 2013 w.e.f. 1st April, 2026.

13. Obligation to furnish information in respect of crypto-asset:

- To enhance compliance and transparency in crypto transactions, it is proposed to introduce section 285BAA in the Act, to mandate prescribed reporting entities to furnish details of crypto-asset transactions within a specified timeframe and format.
- Vide Finance Act 2022, taxation of virtual digital assets (VDA) has been introduced in the Act u/s 115BBH wherein the transfer of VDA is to be taxed at the rate of 30%. Also to define VDA clause section (47A) was inserted in section 2 of the Act. Now it is proposed to amend clause (47A) to insert sub clause(d) which states that the definition of virtual digital asset also includes any crypto-asset being a digital representation of value that relies on a cryptographically secured distributed ledger or a similar technology to validate and secure transactions, whether or not already included in the definition of virtual digital asset or not.
- These amendments are proposed to take effect from April 1st 2026.

14. Increasing time limit available to pass order under section 115VP

- That provisions of section 115VP of the Act pertains to method and time of opting for tonnage tax scheme.
- It is proposed to amend sub-section (4) of section 115VP to provide that for application received under sub-section (1) on or after the 1st day of April, 2025, order under sub-section (3) shall be passed before the expiry of three months from the end of the quarter in which such application was received. Earlier it was within one month from end of the month in which application was received.

15. Removing date restrictions on framing the faceless schemes in certain cases

- The Central Government has implemented various electronic processes under the Act to minimize direct interaction between taxpayers and the Department, enhance resource efficiency, and enable team-based assessments with dynamic jurisdiction. Faceless schemes under Sections 92CA, 144C, 253, and 255 were introduced through TOLA (effective 01.11.2020) and Finance Act, 2021 (effective 01.04.2021), with notification deadlines extended through Finance Acts of 2022 and 2024 due to implementation challenges. To ensure flexibility, it is now proposed to remove the deadline for notifying faceless schemes, allowing the Central Government to issue directions beyond March 31, 2025, if required.

"The Union Budget 2025-26 appears to be focused on stimulating consumer spending and fostering economic growth. Measures such as tax rationalization aim to increase disposable income and boost consumption. The government's commitment to maintaining capital expenditure, without raising taxes, is a positive step.The emphasis on domestic value addition for EV batteries and the development of a comprehensive EV ecosystem, including battery recycling, customs duty exemption on 35 capital goods for EV battery manufacturing and charging infrastructure, are encouraging initiatives that should drive EV adoption across various segments. By focusing on demand-side incentives, without placing an undue burden on taxpayers, the budget seeks to create a favorable environment for EV growth. Overall, the budget seems to be forward-looking and focused on sustainable economic development."

- Jyoti Malhotra, Managing Director, Volvo Car India

G. INTERNATIONAL FINANCIAL SERVICES CENTRE (IFSC)

1. Extension of sunset dates for several tax concessions pertaining to IFSC

- In order to attract and promote additional activities in the IFSC, extension has been proposed in the sunset dates for below mentioned provisions, from 01st April 2025 to 31st day of March, 2030:

Section	Brief Description
80LA(2)(d)	Deductions in respect of certain incomes of Offshore Banking Units and International Financial Services Centre
10(4D)	Exemption to certain incomes including income on transfer of assets as per section 47(viiab)
10(4F)	Exemption to income of a non-resident by way of royalty or interest, on account of lease of an aircraft or a ship, paid by a unit of IFSC
10(4H)	Exemption to income of a non-resident or a unit of IFSC, engaged primarily in the business of leasing, by way of capital gains arising from the transfer of equity shares of domestic company, being a unit of IFSC
47(viiad)	Transactions which are not regarded as transfers for the purposes of capital gains as provided in section 45

2. Exemption on life insurance policy from IFSC Insurance offices

- In order to provide parity to non-residents availing life insurance from insurance office located in IFSC, the proceeds received therefrom by IFSC insurance intermediary office shall be exempted without any condition of maximum premium payable as earlier i.e. Rs. 2,50,000 for ULIPs and Rs. 5,00,000 for life insurance policies other than ULIPs.
- These amendments will take effect from the 1st day of April, 2025.

3. Exemption to capital gains and dividend for ship leasing units in IFSC

- Exemptions available to non-residents or unit of IFSC under section 10(4H) and 10(34B) which are engaged in aircraft leasing shall also be extended to such entity engaged in ship leasing on following:
  - On capital gains tax on transfer of equity shares of domestic companies being units of IFSC, engaged in ship leasing
  - Dividend paid by a company being a unit of IFSC engaged in ship leasing, to a unit of IFSC engaged in ship leasing.
- These amendments will take effect from the 1st day of April, 2025.

4. Rationalization of definition of 'dividend' for treasury centres in IFSC

- Any advance or loan between two group entities, where one of the group entity is a unit in IFSC set up as a global or regional corporate treasury centre and the 'parent entity' or 'principal entity' of such group entity is a listed entity, <u>shall not be treated as 'dividend'</u>. The conditions for a group entity, parent entity and principal entity shall be prescribed.

- These amendments will take effect from the 1st day of April, 2025.

5. Simplified regime for fund managers based in IFSC

- Condition under section 9A(c) is being relaxed for all the investment funds whether or not its fund manager is located in IFSC, by determining the aggregate participation or investment in fund as on 1st day of April and the 1st day of October of the previous year.
- Further, all conditions other than (c) can be relaxed by the Central Government for investment fund whose fund manager located in IFSC commences operations before 31.03.2030. Such cut-off date was earlier 31.03.2024.
- These amendments will take effect from the 1st day of April, 2025

6. Amendment of Section 10 related to Exempt income of Non-Residents

- The exemption for transactions in derivatives which was limited to transactions made by NR with Offshore Banking Units are proposed to be extended to such transactions made with a Foreign Portfolio Investor being a unit in the IFSC.
- This amendment will take effect from the 1st day of April, 2026 and shall accordingly, apply in relation to the assessment year 2026-27 and subsequent assessment years.

"The Union Budget for FY25-26 is reassuring, as it instils confidence that India is investing in the right areas to drive stable and inclusive economic growth"

-Kiran Mazumdar Shaw,
Executive Chairperson and Founder of Biocon Limited and Biocon Biologics Limited.

Union Budget 2025-26– A Snapshot

Indirect Taxation

"The removal of basic customs duties on key materials for battery manufacturing is a strategic move to boost domestic EV production, foster a sustainable ecosystem, and drive India's transition to a greener economy.“

Girish Wagh
Executive Director
TATA Motors

A. Amendments under CGST Act, 2017 (effective from the date to be notified)

- **Input Service Distributor changes-** Clause (61) of section 2 is being amended to explicitly provide for distribution of input tax credit by the Input Service Distributor in respect of inter-state supplies on which tax has to be paid on reverse charge basis, by inserting reference to subsection (1)/ (2) of Section 20 and sub-section (3) and sub-section (4) of section 5 of Integrated Goods and Services Tax Act. This amendment will be effective from 1st April 2025. This will allow ISD to distribute IGST credit pertaining to RCM liability as well.

- **Amendment to Local Authority Definition-** Sub-clause (c) of clause (69) of section 2 is being amended to replace "municipal or local fund" with "municipal fund or local fund" and to insert an Explanation after the said sub-clause, to provide for definitions of the terms ‘Local Fund’ and ‘Municipal Fund’ used in the definition of “local authority” under the said clause so as to clarify the scope of the said terms. These explanations are inserted to avoid disputes as to which bodies to be qualified to be a “local authority”

- **Unique Identification Marking** - A new clause (116A) is being inserted in section 2 to provide definition of Unique Identification Marking (UIM) for implementation of Track and Trace Mechanism. Further, 122B is being inserted to provide penalty for contraventions of provisions related to the Track and Trace Mechanism provided under section 148A and 148A is being inserted to provide for an enabling mechanism for Track and Trace Mechanism for specified commodities. UIM can be in the form of digital marks or stamps which is unique in nature. These amendments are being introduced for sin items like tobacco base items.

- **Time of Supply of Vouchers**-Sub-section (4) of Section 12 /13 relating to time of supply in respect of Vouchers is being deleted. This is line with the recent circular no. 243 dated 31/12/2024 that vouchers are only payment instruments and not liable to tax as they neither qualify as goods nor services.

- **Input tax credit in respect of credit note-** Proviso to sub-section (2) of section 34 is being amended to explicitly provide for requirement of reversal of corresponding input tax credit in respect of a credit-note, if availed, by the registered recipient, for the purpose of reduction of tax liability of the supplier in respect of the said credit note. This amendment will curb the cases where liability was reduced without reciprocal reduction in input tax credit by the recipient

- **Amendment overcoming judgement in the case of Safari Retreat-** Clause (d) of sub-section (5) of section 17 is being amended to substitute the words "plant or machinery" with words "plant and machinery". This amendment will be effective retrospectively from 1st July 2017, notwithstanding anything to the contrary contained in any judgment, decree or order of any court or any other authority. This amended is being done to overcome the recent observations of Hon’ble supreme court in the case of Safari Retreat (Civil appeal no. 2948 of 2023)

- **Invoice management system-** Section 38(1) is being amended to omit the expression “auto generated” with respect to statement of input tax credit in the said subsection. Further, section 38(2) is being amended by omitting the expression “auto generated” with respect to statement of input tax credit in said subsection and also to insert the expression “including” after the words “by the recipient” in clause (b) of said sub-section to make the said clause more inclusive. Further it has been amended by inserting a new clause (c) in the said sub-section to provide for an enabling clause to prescribe other details to be made available in statement of input tax credit. This amendment ensures smooth transition to Invoice management system (IMS)

- Section 39(1) is being amended so as to provide for an enabling clause to prescribe conditions and restriction for filing of return under the said sub-section

- **10% Pre- deposit in case involving only penalty amount for appeals-** Section 107(6) and 112(8) is being amended to provide for 10% mandatory pre deposit of penalty amount for appeals before Appellate Authority/ Tribunal respectively in cases involving only demand of penalty without any demand for tax. This will generate additional receipts to the exchequer and will block the working capital for the taxpayers.

- **Special Economic Zone or in a Free Trade Warehousing Zone-** Schedule III of CGST Act is being amended, w.e.f. 01.7.2017 by inserting a new clause (aa) in paragraph 8 of Schedule III, to provide that the supply of goods warehoused in a Special Economic Zone or in a Free Trade Warehousing Zone to any person before clearance for exports or to the Domestic Tariff Area shall be treated neither as supply of goods nor as supply of services.

  It further seeks to amend Schedule III, w.e.f. 01.07.2017 inserting Explanation 3 to define the terms ‘Special Economic Zone’, ‘Free Trade Warehousing Zone’ and ‘Domestic Tariff Area’, for the purpose of the proposed clause (aa) in paragraph 8 of said Schedule. This is in line with the press release of 55th Council meeting dated 21/12/2024 and foreign trade policy.

- **Warehoused goods**- It further seeks to amend Explanation 2 of Schedule III, w.e.f. 01.07.2017 to clarify that the said explanation would be applicable in respect of clause (a) of paragraph 8 of the said Schedule. This will settle the past disputes pertaining to transfer of warehouse goods.

- **No refund**- No refund of tax already paid will be available due to the aforesaid amendment in explanation 2 and insertion of Explanation 3. Illustratively wherever tax has already been paid in relation to supply of goods by SEZ or FTWZ to DTA, no refund will be granted even though the explanation has been deemed to be amended by 01.07.2017

C. Amendments under Customs Act, 1962.

- A new sub-section (1B) is being inserted in Section 18 of the Customs Act, 1962 so as to provide definite time limit of two years for finalization of provisional assessment. It also provides that this time period may be extended by the Commissioner of Customs for a further period of one year if sufficient cause is shown. Further, it also provides that, for the pending cases, the time-limit shall be reckoned from the date of assent of the Finance Bill. Further, a new sub-section (1C) is being inserted to provide for certain grounds on which the time-limit of two years for finalizing provisional assessment shall remain suspended. This amendment will bring the transparency and certainty as no time limit in the current provisions used to leave the taxpayers prone to delayed assessment and risk of heavy duty liabilities.

- A new section 18A is being inserted after Section 18 of the Customs Act, 1962 for voluntary revision of entry post clearance so that the importers and exporters may revise any entry that is made in relation to the goods within a prescribed time and according to certain conditions as may be prescribed. It also provides for treating such entry as self-assessment and allowing payment of duty or treating the revised entry as a refund claim under section 27. It also provides for certain cases where this section will not apply. Parallel amendment has been made in section 27 by inserting new Explanation to clarify that the period of limitation of the claim of refund consequent to the revised entry under section 18A or amendment under section 149 shall be one year from the date of payment of duty or interest. Illustratively, wherever an exporter wishes to get a BOE re-assessed for making payment of IGST earlier claimed as exempt on imports against advance authorization would now be able to get the BOE re-assessed subject to the rules and mechanism to be prescribed.

- A new clause is being inserted in Explanation 1 of section 28 of the Customs Act, 1962, wherein, the relevant date in the case where duty is paid under the revised entry under section 18A is the date of payment of duty or interest. This amendment seeks to extend the limitation period for issuance of SCN wherever BOE has been revised in terms of section 18A.

- It is proposed to constitute a body called Interim board which is going to take up the applications pending before the settlement commission. It is further clarified that no new applications for the purpose of settlement will be taken up post 31.03.2025. Consequents amendments are made in the Customs Act 1962. Similar amendments are made in the Central Excise Act, 1944.

D. Amendments in The Customs Tariff Act 1975:-

- **Basic Customs Duty:** The First/Second Schedule is being amended to reduce the tariff rates on certain tariff items to implement rationalisation of customs tariff structure and reduction of rate slabs alongside creation of new tariff items for better identification of goods and to align tariff lines with World Customs Organization classification.

The above changes are categorized as follows:

(a). Changes in tariff rates (changes are directly made in the first schedule of the Customs Tariff Act 1975): Increase of duties are effective immediately w.e.f 02.02.2025 and reduction in duties are going to be effective w.e.f 01.05.2025 unless otherwise specified.

(b). Changes in notification (changes are made in the notification by which rate was prescribed): Effective immediately w.e.f 02.02.2025

Refer Second and Third Schedule of Finance Bill.

- **AIDC-** Notification No. 11/2021 – Customs, dated 01.02.2021 is being amended to revise the AIDC rates on 32 tariff line items (w.e.f. 02.02.2025**).** For list- check page 65 of memorandum to Finance bill 2025.
- **Social welfare surcharge (SWS) –** 25 tariff items have been exempted from levy of Social welfare surcharge w.e.f 02.02.2025. For list of 25 tariff items- check page 66 of memorandum to Finance bill 2025.
- **Review of Customs duty Exemptions-**

(a). Notification No. 50/2017-Customs dated 30th June, 2017-

- A comprehensive review has been undertaken in respect of 25 conditional exemptions/concessional rate entries whose validity is expiring by 31.3.2025. After review, 24 entries are being continued for varying periods with modification in few entries and 1 entry is being lapsed. For detailed details- Page 67 of Memorandum to Finance Bill 2025.

- 9 new groups of items such as sea shell, adhesive etc. are being added to the list of duty-free items for use in manufacture of handicrafts for export. The time period for export of the handicraft items is also being increased from 6 months to 1 year, further extended by another three months.

(b). Notifications Nos. 16/2017-Customs dated 20.04.2017 and 153/94-Customs

dated 13.07.1994

- 37 new drugs and 13 patient assistance programmes are being added to the list of specified drugs and medicines from the whole of the duty of customs leviable there on subject to their being supplied free to cost to patients under Patient Assistance Programme (PAP) run by the pharmaceutical companies.

- Currently, articles of foreign origin can be imported into India for maintenance, repair and overhauling subject to their export within six months extendable to 1 year. The duration for export in the case of railway goods imported for such purpose has been increased from 6 months to 1 year further extendable by 1 year.

E. Amendments to IGCR (Import of Goods at Concessional Rate of Duty for Manufacture of Excisable Goods) Rules, 2017

- Rules 6 and 7 are being amended to increase the time limit for fulfilling end use from current six months to one year. Further, the importers will now have to file only a quarterly statement instead of monthly statement.

***** All the above amendments to The Customs Act/* The Customs Tariff Act *would be effective from the date of enactment unless otherwise stated hereinabove.***

Sector-specific changes from Union Budget 2025-26

Sector	Changes in Indirect Tax
Healthcare/ Pharmaceuticals	• 36 lifesaving drugs fully exempted from Basic Customs Duty (BCD) • 6 lifesaving medicines to get concessional 5% customs duty • Specified drugs under Patient Assistance Programmes fully exempted from BCD • 37 new medicines and 13 new patient assistance programmes added **Comments :** It will reduce the cost burden associated with the importation of critical medications. These amendments shall enhance affordability for end consumers, including hospitals, pharmacies, and patients.
Textiles	• Two more types of shuttle-less looms fully exempted • BCD on knitted fabrics revised from "10% or 20%" to "20% or Rs.115 per kg," whichever is higher **Comments :** The exemption on shuttle-less looms fosters technological advancement in the domestic textile sector, aligning with industrial policies such as the National Technical Textiles Mission.
Shipping	▪ BCD exemption on raw materials, components, consumables or parts extended for another 10 years ▪ Similar extension for ship breaking industry **Comments :** The 10-year extension ensures regulatory predictability and stability for stakeholders engaged in shipbuilding and ship recycling.
Electronics	▪ BCD on Interactive Flat Panel Display increased from 10% to 20% ▪ BCD reduced to 5% on Open Cell and components ▪ BCD exempted on parts of Open Cells ▪ 28 additional capital goods for mobile phone battery manufacturing exempted **Comments :** The concessional duty structure for Open Cells and related components creates a favorable fiscal environment for local value addition and assembly operations.

Sector	Changes in Indirect Tax
Automobile (EV)	• 35 additional capital goods for EV battery manufacturing exempted **<u>Comments :</u>** The exemption facilitates cost reduction in electric vehicle (EV) production, thereby enhancing affordability and market penetration of environmentally sustainable transportation.
Telecommunications	• BCD reduced from 20% to 10% on Carrier Grade ethernet switches **<u>Comments :</u>** The reduction in import duty on critical telecom components shall lower telecom infrastructure costs and encourage domestic production.
Leather	• Wet Blue leather fully exempted from BCD • 20% export duty exempted on Crust leather **<u>Comments :</u>** The full exemption on Wet Blue leather and removal of export duty on Crust leather will enhance the competitiveness of leather exports.
Marine Industry	• BCD reduced from 30% to 5% on Frozen Fish Paste • BCD reduced from 15% to 5% on fish hydrolysate **Comments** : Duty reductions on frozen fish paste and fish hydrolysate will benefit seafood exports and reduce costs for fish and shrimp feed.

Union Budget 2025-26– A Snapshot

Company law, Foreign Exchange Management Act (FEMA), IBC and Other

"The Union Budget has sufficient provisions to unshackle India's demographic dividend. Through new and strengthening of existing welfare policies, it promotes social justice, and through tax and FDI reforms and simplification, the demand will get a fillip"

~Sriharsha Majety, Group Ceo, Swiggy

A. Revised limits for classification of MSME

- MSMEs play a vital role in India's manufacturing and exports, driving employment and economic growth. To support their expansion, technological advancement, and access to capital, the investment and turnover limits for MSME classification will be increased by 2.5 and 2 times, respectively.

B. Creation of New Fund of Funds for Startups

- Startups have received over Rs. 91,000 crore through Alternate Investment Funds (AIFs), supported by a Rs. 10,000 crore Government-funded Fund of Funds. A new Fund of Funds with an additional Rs. 10,000 crore and expanded scope will be introduced to further boost startup growth.

C. Increase in FDI limit to 100% in Insurance Sector

- The FDI cap in the insurance sector will be increased from 74% to 100%, applicable to companies that reinvest their entire premium collections within India. Existing foreign investment regulations and conditions will be reviewed and streamlined to simplify the process. This move aims to attract greater global investment and strengthen the sector. This revision aims to empower MSMEs to scale up operations, enhance competitiveness, and create more job opportunities.

D. Streamlining Company Mergers

- The requirements and procedures for faster approval of company mergers will be simplified and rationalized. The scope for fast-track mergers will be expanded, and the overall process will be simplified.

- Currently, fast-track mergers are permitted only for mergers between small companies, defined as those with a paid-up capital of less than Rs. 4 crore and turnover of less than Rs. 40 crore, as well as mergers between wholly owned subsidiaries and their holding companies.

E. Regulatory Reforms for Ease of Doing Business

- Over the past decade, the Government has prioritized 'Ease of Doing Business' through financial and non-financial reforms. To align with technological advancements and global standards, a modern, trust-based, and light-touch regulatory framework will be introduced. This includes updating outdated laws and fostering productivity and employment.

F. Key Measures:

- High-Level Committee for Regulatory Reforms: A committee will review non-financial sector regulations, licenses, and permissions, aiming to simplify inspections and compliance within a year.

- Investment Friendliness Index: Launching in 2025, this index will promote competitive federalism among states.

- FSDC Mechanism: A framework will evaluate and enhance financial regulations to boost sectoral growth.

- Jan Vishwas Bill 2.0: Building on the 2023 Act, over 100 additional legal provisions will be decriminalized to reduce compliance burdens.

G. Simplified KYC Process

- To streamline KYC procedures as previously announced, the revamped Central KYC Registry will be launched in 2025. Additionally, a more efficient system for periodic updates will be introduced to enhance user convenience.

GLOSSARY

ABBREVIATION	MEANING
AO	Learned Assessing Officer
AY	Assessment Year
BCD	Basic Customs Duty
Bill/ Finance Bill	Finance Bill, 2025
CBDT	Central Board of Direct Taxes
CENVAT	Central Value Added Tax
CGST Act	Central GST Act, 2017
FY	Financial Year
FM	Finance Minister
GST	The Goods and Service Tax
IGST Act	Integrated GST Act, 2017
INR/Rs.	Indian Rupees
InvIT	Infrastructure Investment Trust
ITC	Input Tax Credit
IT Act	Income Tax Act, 1961
IT Rules	Income Tax Rules, 1962
ITAT	Hon’ble Income Tax Appellate Tribunal
NBFC	Non-Banking Financial Companies
OECD	Organisation for Economic Co-operation and Development
PAN	Permanent Account Number
PCIT	Learned Principal Commissioner of Income Tax
PE	Permanent Establishment
RBI	Reserve Bank of India
SEZ	Special Economic Zone
SC	Hon’ble Supreme Court
STT	Securities Transaction Tax
TDS	Tax Deduction at Source
TCS	Tax Collection at Source
TPO	Learned Transfer Pricing Officer
UOI	Union of India
UTGST	Union Territory Goods and Services Tax
UTGST Act	Union Territory Goods and Services Act, 2017
PGBP	Profit and Gains from Business and Profession
NR	Non-Resident
VAT	Value Added Tax

DISCLAIMER

This document has been prepared in summary form by DPNC Global LLP based on Explanatory Memorandum, Economic Survey (2024-25), Budget Speech and Finance Bill 2025 presented by the Hon'ble Finance Minister of India on 1st February, 2025 and from sources believed to be reliable. For further details, please refer to Budget Speech, Finance Bill 2025 and Economic Survey (FY2024-25). The information contained herein is intended only for the person to whom it is sent. While the information is believed to be accurate to the best of our knowledge, we do not make any representations or warranties, express or implied, as to the accuracy or completeness of such information. Recipients should conduct and rely upon their own examination, investigation and analysis and are advised to seek their own professional advice. The information and data contained herein is not a substitute for the recipient's independent evaluation and analysis. This document is not an offer, invitation, advice or solicitation of any kind. We accept no responsibility for any errors it may contain, whether caused by negligence or otherwise or for any loss, howsoever caused or sustained, by the person who relies on it. The quotes presented here represent the speaker's independent views and are publicly available on public platforms.

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