JMP Advisors®

INDIA BUDGET 2025 - 26

On a fast track to growth

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Foreword

The Indian Finance Minister ('FM') presented Budget 2025-26 in Parliament on 1 February 2025. In the lead-up to the Budget, the economic landscape was shaped by various challenges posed due to a slowdown in growth, a weakening rupee, sluggish domestic demand, rising inflation, global turmoil and economic uncertainty and the threat of potential tariffs from the U.S., among others.

In spite of these headwinds, as per projections of the World Bank and the International Monetary Fund, the Indian economy is expected to grow at a robust rate in the range of 6.5% to 6.7% in the Financial Year ('FY') 2025-26 and FY 2026-27, significantly outpacing its global peers.

Budget 2025-26 was expected to play a pivotal role to deliver the crucial economic stimulus to bolster growth and does not disappoint on this count. With a growth rate of 6.4% for FY 2024-25 and a fiscal deficit contained at 4.8% of the Gross Domestic Product ('GDP'), the Indian economy is heading towards attaining its growth target.

The policy proposals in the Budget to set up a National Manufacturing Mission to cover small medium and large enterprises and to provide a boost to labour-intensive sectors such as leather, textiles, footwear and toys are a positive step to generate employment. Similarly, the increase in the limit for Foreign Direct Investment ('FDI') in the capital intensive insurance sector from 74% to 100% and the proposed remodelling of the Bilateral

Investment treaties will help to attract foreign investment. The FM also announced the setting up of a committee to review regulatory reforms to enhance ease of doing business. Further, a mechanism will be set up under the Financial Stability and Development Council to assess the impact of financial regulations. Other commendable measures include supporting Clean tech manufacturing, a light-touch regulatory framework based on principles and trust, widening the scope and simplifying the process of fast-track mergers and a proposal to decriminalize 100 provisions in various laws. The focus on capex continues in the Budget, which is a much needed stimulus for the economy.

On the direct tax front, the unexpected standout was the substantial enhancement of the income tax rebate and income slabs for individuals under the new regime, aimed at appeasing the middle class and at boosting discretionary private consumption. Another significant announcement is the proposed introduction of a new Income Tax Bill which aims to bring in tax certainty and reduced litigation. Some other laudable proposals include the clarity of taxation of incomes of Alternative Investment Funds ('AIFs'), introduction of the concept of block computation of the Arm's Length Price ('ALP') in transfer pricing, extension of the sunset clause by a period of 5 years for Start-ups to avail tax incentives, introduction of a presumptive tax scheme for certain non-residents and making the Tax Deducted at Source ('TDS') provisions less tedious.

Once again, the Budget does not contain any framework for the implementation of Pillar 2 measures. On the indirect taxes side, the FM announced a host of rate reductions in Customs duty on various lifesaving drugs for cancer and other rare diseases, patient assistance programs, open cells and other components used to make LCD and LED panels and parts of electronic toys among others, which are welcome.

The Indian economy has immense potential for growth given that India is the most populous country with a favourable demographic dividend and a large labour force, increased urbanisation, a thriving services sector, rapid advancements in infrastructure development, a strong financial sector, incentives for the manufacturing sector and rising foreign direct investment. However, there are still challenges in unleashing the full economic potential and strategic action is required on multiple fronts such as policy reforms, deregulation, job creation, addressing the skill gap, focus on infrastructure, inclusive development and providing a conducive environment for innovation and entrepreneurship.

Budget 2025 with its focus on stimulating balanced and inclusive growth assures that the economy is on a fast track to destination 'Viksit Bharat'.

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Key policy announcements

Key policy announcements

Budget 2025-26 dedicates resources to ten broad development areas, prioritising the needs of the Poor, Youth, Farmers and Women. With inclusivity as its driving force, the Budget ignites four engines powering the development of agriculture, MSME, investment and exports. In line with its stated goal of using reforms as a fuel for development, the Government proposed to introduce a new Income Tax Bill. This section summarises the key policy announcements.

1. Agriculture

i. Developing Agri Districts Programme

The Government will undertake the programme in partnership with states and will cover 100 districts with low productivity, moderate crop intensity and below-average credit parameters. This programme is likely to help 17 million farmers. It aims to:

- enhance agricultural productivity
- adopt crop diversification and sustainable agriculture practices
- augment post-harvest storage at the panchayat and block level
- improve irrigation facilities
- facilitate availability of long-term and short-term credit

ii. **Aatmanirbharta (Self-reliance) in Pulses**

The Government is implementing the National Mission for Edible Oilseed to achieve self-reliance in edible oils. The Government will launch a six-year Mission for self-reliance in Pulses.

iii. **Makhana (Fox nut) Board**

A Makhana Board will be established in the eastern state of Bihar to improve production, processing, value addition and marketing of makhana. The Board will provide handholding and training support to makhana farmers and will also work to ensure they receive the benefits of all relevant Government schemes.

iv. **Fisheries**

India ranks second largest globally in fish production and aquaculture. Seafood exports are valued at INR 600 billion (~USD 6.98 billion). To unlock the untapped potential of the marine sector, the Government will bring in a framework for sustainable harnessing of fisheries from Indian Exclusive Economic Zone and High Seas, with a special focus on the Andaman & Nicobar and Lakshadweep Islands.

v. **Mission for Cotton Productivity**

For the benefit of cotton growing farmers, the Government has announced a 5-year mission that will facilitate significant improvements in the productivity and sustainability of cotton farming and promote extra-long staple cotton varieties. Aligned with the vision for the textile sector, it will help in increasing the incomes of the farmers and ensure a steady supply of quality cotton for rejuvenating India's traditional textile sector.

vi. **Enhanced Credit through Kisan Credit Cards**

Kisan Credit Cards facilitate short term loans for 77 million farmers, fishermen and dairy farmers. The loan limit under the Modified Interest Subvention Scheme will be enhanced from INR 300,000 (~USD 3,500) to INR 500,000 (~USD 5,800) for loans taken through Kisan Credit Cards.

vii. **Urea Plant in North East India**

The Government reopened three dormant urea plants in North East India. To further augment urea supply, a new plant with an annual capacity of 1.27 million metric tons will be set up.

viii. **India Post as a Catalyst for the Rural Economy**

India Post with 150,000 rural post offices, complemented by the India Post Payment Bank and a vast network, will be repositioned to act as a catalyst for the rural economy.

2. Micro, Small and Medium Enterprises

i. **Significant enhancement of credit availability with guarantee cover**

To improve access to credit, the credit guarantee cover will be enhanced as follows:

- For Micro and Small Enterprises from INR 50 million (~USD 0.58 million) to INR 100 million (~USD 1.16 million), leading to an additional credit of 150 billion (~USD 1.74 billion) in the next 5 years
- For Startups, from INR 100 million (~USD 1.16 million) to INR 200 million (~USD 2.33 million), with the guarantee fee being moderated to 1% for loans in 27 focus sectors
- For term loans up to INR 200 million (~USD 2.33 million) for well-run exporter Micro, Small and Medium Enterprises ('MSMEs').

ii. **Credit Cards for Micro Enterprises**

The Government will introduce customised Credit Cards with an INR 500,000 (~USD 5,800) limit for Micro enterprises registered on the Udyam portal. In the first year, one million such cards are proposed to be issued.

iii. **Fund of Funds for Startups**

The Alternate Investment Funds ('AIFs') for startups have received commitments of more than INR 910 billion (~USD 10.58 billion). These are supported by the Fund of Funds set up with a Government contribution of INR 100 billion (~USD 1.16 billion). The Government will set up a new Fund of Funds, with expanded scope and a fresh contribution of another INR 100 billion (~USD 1.16 billion).

iv. **Scheme for First-time Entrepreneurs**

A new scheme will be launched for 500,000 women, Scheduled Castes and Scheduled Tribes first-time entrepreneurs. This will provide term loans up to INR 20 million (~USD 0.23 million) during the next five years. The scheme will incorporate lessons from the successful Stand-Up India scheme. Online capacity building for entrepreneurship and managerial skills will also be organised.

v. **Focus Product Scheme for Footwear & Leather Sectors**

To enhance the productivity, quality and competitiveness of India's footwear and leather sector, a focus product scheme will be implemented. The scheme is expected to facilitate employment for 2.2 million persons, generate turnover of INR 4 trillion (~USD 46.5 billion) and exports of over INR 1.1 trillion (~USD 12.8 billion).

vi. **Measures for the Toy Sector**

The Government will implement a scheme to make India a global hub for toys. The scheme will focus on development of clusters, skills, and a manufacturing ecosystem that will create high-quality, unique, innovative and sustainable toys that will represent the 'Made in India' brand.

vii. **Manufacturing Mission - Furthering "Make in India"**

The Government will set up a National Manufacturing Mission covering small, medium and large industries for furthering "Make in India" by providing policy support, execution roadmaps, governance and monitoring framework for central ministries and states.

3. Investments

i. Atal Tinkering Labs

50,000 Atal Tinkering Labs will be set up in Government schools in the next five years to cultivate the spirit of curiosity and innovation and foster a scientific temper among young minds.

ii. National Centres of Excellence for Skilling

The Government will set up five National Centres of Excellence for skilling with global expertise and partnerships to equip our youth with the skills required for ‘Make for India’, Make for the World” manufacturing. The partnerships will cover curriculum design, training of trainers, a skills certification framework and periodic reviews.

iii. Expansion of Capacity in Indian Institutes of Technology

Total number of students in 23 Indian Institutes of Technology (‘IITs’) has increased 100% from 65,000 to 135,000 in the past 10 years. Additional infrastructure will be created in the five IITs started after 2014 to facilitate education for 6,500 more students. Hostel and other infrastructure capacity at IIT, Patna will also be expanded.

iv. **Centre of Excellence in Artificial Intelligence for Education**

The Government announced three Centres of Excellence in Artificial Intelligence ('AI') for agriculture, health and sustainable cities in 2023. Currently, a Centre of Excellence in AI for education will be set up with a total outlay of INR 5 billion (~USD 58.14 million).

v. **Expansion of medical education**

The Government has added almost 110,000 under graduate and post graduate medical education seats in 10 years, an increase of 130%. In the next year, 10,000 additional seats will be added in medical colleges and hospitals, towards the goal of adding 75,000 seats in the next five years.

vi. **Day Care Cancer Centres in all District Hospitals**

The Government will facilitate setting up of Day Care Cancer Centres in all district hospitals in the next three years. 200 Centres are proposed to be established in FY 2025-26.

vii. **Social Security Scheme for Welfare of Online Platform Workers**

Gig workers of online platforms provide great dynamism to the new-age services economy. Recognising their contribution, the Government will arrange for their identity cards and registration on the e-Shram portal. This measure is likely to assist nearly 10 million gig-workers.

viii. **Public Private Partnership in Infrastructure**

Each infrastructure-related ministry will come up with a 3-year pipeline of projects that can be implemented in Public Private Partnership (‘PPP’) mode. States will also be encouraged to do so and can seek support from the India Infrastructure Project Development Fund scheme to prepare PPP proposals.

ix. **Support to States for Infrastructure**

An outlay of INR 1.5 trillion (~USD 17.4 billion) is proposed for the 50-year interest free loans to states for capital expenditure and incentives for reforms.

x. **Asset Monetisation Plan**

The Government announced the second Plan for 2025-30 that will be launched to plough back capital of INR 10 trillion (~USD 116.3 billion) in new projects. Regulatory and fiscal measures will be fine- tuned to support the Plan.

xi. **Urban Sector Reforms**

Urban sector reforms related to governance, municipal services, urban land and planning will be incentivised.

xii. **Urban Challenge Fund**

The Government will set up an Urban Challenge Fund of INR 1 trillion (~USD 11.6 billion) to implement the proposals for 'Cities as Growth Hubs', 'Creative Redevelopment of Cities' and 'Water and Sanitation' announced in the July 2024 Budget. This fund will finance up to 25% of the cost of bankable projects with a stipulation that at least 50% of the cost is funded from bonds, bank loans and PPPs. An allocation of INR 100 billion (~USD 1.16 billion) is proposed for FY 2025-26.

xiii. **Power Sector Reforms**

The Government will incentivise electricity distribution reforms and augmentation of intra-state transmission capacity by states. This will improve financial health and capacity of electricity companies. Additional borrowing of 0.5% of Gross State Domestic Product will be allowed to states, contingent on these reforms.

xiv. **Nuclear Energy Mission for Viksit Bharat**

Development of at least 100 GW of nuclear energy by 2047 is essential for the energy transition efforts. For an active partnership with the private sector towards this goal, it is proposed to take up amendments to the Atomic Energy Act and the Civil Liability for Nuclear Damage Act. A Nuclear Energy Mission for research & development of Small Modular Reactors ('SMR') with an outlay of INR 200 billion (~USD 2.32 billion) will be set up. At least five indigenously developed SMRs will be operationalised by FY 2033.

xv. **Maritime Development Fund**

For long-term financing for the maritime industry, a Maritime Development Fund with a corpus of INR 250 billion (~USD 2.91 billion) will be set up. This will be for distributed support and promoting competition. This will have up to 49% contribution by the Government, and the balance will be mobilised from ports and the private sector.

xvi. 'UDAN' - Regional Connectivity Scheme

UDAN scheme has connected 88 airports and operationalised 619 routes. A modified UDAN scheme will be launched to enhance regional connectivity to 120 new destinations and carry 40 million passengers in the next 10 years. The scheme will also support helipads and smaller airports in hilly, aspirational and North East region districts.

xvii. Greenfield Airport in Bihar

Greenfield airports are proposed to be facilitated in Bihar to meet the future needs of the State. These will be in addition to the expansion of the capacity of Patna airport and a brownfield airport in Bihta.

xviii. Medical Tourism and Heal in India

Medical Tourism and Heal in India is proposed to be promoted in partnership with the private sector along with capacity building and easier visa norms.

xix. Research, Development and Innovation

To implement private sector driven Research, Development and Innovation initiative announced in the July 2024 Budget, the Government is now allocating INR 200 billion (~USD 2.32 billion).

4. Exports

i. Export Promotion Mission

The Government will set up an Export Promotion Mission, with sectoral and ministerial targets, driven jointly by the Ministries of Commerce, MSME and Finance. It will facilitate easy access to export credit, cross-border factoring support and support to MSMEs to tackle non-tariff measures in overseas markets.

ii. BharatTradeNet

A digital public infrastructure, BharatTradeNet (‘BTN’) for international trade will be set-up as a unified platform for trade documentation and financing solutions. This will complement the Unified Logistics Interface Platform. The BTN will be aligned with international practices.

iii. **FDI in the Insurance Sector**

The FDI limit for the insurance sector will be raised from 74% to 100%. This enhanced limit will be available for those companies which invest the entire premium in India. The current guardrails and conditionalities associated with foreign investment will be reviewed and simplified.

iv. **Merger of Companies**

Requirements and procedures for speedy approval of company mergers will be rationalised. The scope for fast-track mergers will also be widened and the process made simpler.

v. **Bilateral Investment Treaties**

As proposed in the July 2024 Budget, India signed Bilateral Investment Treaties (‘BIT’) with two countries in 2024. To encourage sustained foreign investment and in the spirit of ‘first develop India’, the current model BIT will be revamped and made more investor-friendly.

vi. **High Level Committee for Regulatory Reforms**

A High-Level Committee for Regulatory Reforms will be set up for a review of all non-financial sector regulations, certifications, licenses and permissions. The committee will be expected to make recommendations within a year. The objective is to strengthen trust-based economic governance and take transformational measures to enhance 'ease of doing business', especially in matters of inspections and compliances. States will be encouraged to join in this endeavour.

vii. **Jan Vishwas Bill**

In the Jan Vishwas Act 2023, more than 180 legal provisions were decriminalised. The Government will now bring up the Jan Vishwas Bill 2.0 to decriminalise more than 100 provisions in various laws.

Key tax proposals


Direct taxes

This section summarises the significant direct tax proposals announced in Budget 2025-26. These proposals are subject to enactment of the Finance Bill, 2025. Further, the direct tax proposals in the Finance Bill, 2025 are effective from FY 2025-26 unless otherwise specifically stated. References to sections are to sections in the Income-tax Act, 1961 ('the Act') unless otherwise stated.

New Income Tax Bill

i. It is proposed to introduce a new Income tax Bill, which will carry forward the spirit of "Nyaya" or justice.

ii. It is proposed that the new Bill will be clear and direct in text and about half of the existing law - both in terms of chapters and words. The Bill will be simple to understand for both taxpayers as well as tax administrators and will aim to provide certainty and reduce litigation.

I. Tax rates

1. Personal tax rates under New Tax Regime *[Section 115BAC]*

The slab rates under the new tax regime are proposed to be revised as under:

Existing Income slabs	Existing Rates of Income tax	Proposed Income slabs	Proposed Rates of Income tax
Upto INR 300,000	Nil	Upto INR 400,000	Nil
INR 300,001 - INR 700,000	5%	INR 400,001 - INR 800,000	5%
INR 700,001 - INR 1,000,000	10%	INR 800,001 - INR 1,200,000	10%
INR 1,000,001 - INR 1,200,000	15%	INR 1,20 0,001 - INR 1,600,000	15%
INR 1,200,001 - INR 1,500,000	20%	INR 1,600,001 - INR 2,000,000	20%
Above INR 1,500,000	30%	INR 2,000,001 - INR 2,400,000	25%
		Above INR 2,400,000	30%

2. Income tax rebate in case of resident individuals *[Section 87A]*

It is proposed to increase the limit of total income from INR 700,000 (~USD 8,100) to INR 1,200,000 (~USD 14,000) for computing income tax rebate in case of resident individual taxpayers under the new tax regime. Such rebate is not available on tax on incomes chargeable at special rates.

II. Provisions relating to International Financial Services Centre

1. Simplified regime for Fund managers [Section 9A]

i. Currently, the fund management activity carried out through an eligible fund manager shall not constitute a Business Connection in India provided that participation in the investment fund by persons resident in India does not exceed 5% of the corpus of the fund.

ii. It is proposed that the above participation of 5% by persons resident in India should be determined as on 1 April and 1 October of the FY. It is proposed to extend the period by four months from 1 April or 1 October if there is a non-compliance of such condition on either of the said days.

iii. The Central Government has been given the power to extend relaxations (other than the condition for maximum 5% investment in the fund by persons resident in India) to fund managers based in

International Financial Services Centre ('IFSC') to not comply with certain conditions where the date of commencement of operations is on or before 31 March 2030.

2. ***Extension for commencing operation for an investment division of offshore banking unit [Section 10(4D)]***

It is proposed to extend the timeline for commencement of operations by an investment division of offshore banking unit registered in an IFSC to avail exemption on income arising on the transfer of specified assets on a recognised stock exchange located in an IFSC up to 31 March 2030

3. **Tax exemptions for units in IFSCs *[Sections 80LA, 10(4E), 10(4F), 10(4H), 10(34B) and 2(22)]***

i. The sunset clause for the commencement of operations of IFSC units is proposed to be extended to 31 March 2030.

ii. The exemption available to non-residents on the income from the transfer of non-deliverable forward contracts or offshore derivative instruments or over-the-counter derivatives or distribution of income on offshore derivative instruments with Offshore Banking units in an IFSC is proposed to be extended to similar contracts entered into with a Foreign Portfolio Investor ('FPI') registered under the

Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2019 based in an IFSC.

iii. Further, the exemption available to Non Residents on any income by way of royalty or interest on account of lease of an aircraft or a ship is proposed to be extended till 31 March 2030.

iv. The exemption available to Non Residents or a unit of an IFSC engaged in the business of leasing of an aircraft is proposed to be expanded to include leasing of ships. The sunset clause for commencement of business of leasing of aircraft or a ship is also proposed to be extended to 31 March 2030.

v. The exemption for specified dividend income available to a Non Resident or unit of an IFSC engaged in the business of leasing of aircraft is proposed to be extended to units of IFSC engaged in the business of leasing of ships.

vi. It is proposed to provide that any advance or loan between two group entities will not be considered as deemed dividend if:

a. One of the entities is a ‘Finance company’ or ‘Finance unit’ in an IFSC and a global or regional corporate treasury centre for undertaking treasury activities; and

b. The parent entity or principal entity of such group is listed on a stock exchange outside India.

4. **Exemption of sum received under a life insurance policy issued by an IFSC unit *[Section 10(10D)]***

It is proposed to extend the exemption in respect of amounts received under life insurance policies issued by the insurance offices in IFSC, subject to conditions.

III. Provisions relating to Non Residents and Transfer Pricing

1. **Aligning the meaning of Significant Economic Presence of non-resident taxpayers *[Section 9]***

   i. In case of non-resident taxpayers, income from operations confined to the purchase of goods for the purpose of export is specifically excluded from income deemed to accrue or arise in India.

   ii. It is proposed to amend the meaning of Significant Economic Presence ('SEP') to specifically exclude transactions or activities confined to purchase of goods in India for the purpose of export.

2. **Presumptive taxation regime for certain Non Residents *[New Section 44BBD]***

   i. It is proposed to compute the income of Non Residents engaged in providing services or technology for setting up an electronics manufacturing facility or in connection with manufacturing or providing electronic goods, article or thing in India at 25% of the amount paid or payable or received or receivable on account of providing services or technology.

ii. It is proposed that such services or technology is provided to a Resident company, under a scheme notified by the Central Government in the Ministry of Electronics and Information Technology and the Resident company fulfils the conditions prescribed.

iii. It is further proposed to not allow set off of unabsorbed depreciation and brought forward loss to Non Residents paying tax under the above presumptive scheme.

3. Determination of ALP for multiple years *[Sections 92CA and 155]*

i. The tax officer has the power to refer any international transaction or specified domestic transaction to the Transfer Pricing Officer ('TPO') to determine the ALP. In order to reduce the compliance burden and to avoid repeated computation of ALP for similar international transactions, it is proposed to carry out block computation as follows:

   a. A taxpayer may exercise the option in the form specified to avail the same ALP for similar international transactions for the two immediately following FYs.

b. TPO to approve the option exercised within a period of one month from the end of the month in which application for availing option was made.

c. Once the option is exercised and declared valid, no reference will be made by the tax officer to the TPO to determine the ALP for such international transactions for the two immediately following FYs.

ii. Once the TPO declares the option to be valid, the tax officer is required to recompute the total income of the taxpayer for the two immediately following FYs in the specified manner and within the specified time limit.

iii. The above amendments would not apply for search cases.

iv. Guidelines may be issued by the Central Board of Direct Taxes with Parliamentary approval to remove difficulties in transactions in giving effect to the above provisions.

IV. Provisions relating to incentives and relief

1. Extension of timeline for tax benefits to start-ups *[Section 80-IAC]*

i. Currently, tax deductions are available to eligible start-ups incorporated after 1 April 2016 but before 1 April 2025.

ii. It is proposed to extend the timeline for incorporation by a period of five years i.e. start-ups incorporated before 1 April 2030.

2. Deduction for contributions to minor's National Pension Scheme account *[Section 80CCD(1B)]*

i. It is proposed to allow deduction upto INR 50,000 (~USD 600) for contributions made by a parent or guardian in the account of minor under National Pension Scheme Vatsalya Scheme ('NPS'). The total deduction available under this section to a taxpayer cannot exceed INR 50,000 (~USD 600).

ii. It is proposed that any amount withdrawn or received from the minor's account, for which a deduction has been claimed, along with any accrued interest, shall be treated as the taxable income of the parent or guardian in the year in which it is received.

iii. It is further proposed that if the amount is received on the death of a minor, for whom the deduction has been claimed, it shall not be considered as income.

3. Exemption for partial withdrawal from a minor's account with NPS *[Section 10(12BA)]*

It is proposed to exempt partial withdrawal from the minor's account from NPS subject to terms and conditions specified under Pension Fund Regulatory and Development Authority Act, 2013, provided the withdrawal amount does not exceed 25% of the contribution made.

V. Provisions relating to profits and gains of business or profession

1. Extension of benefits of tonnage tax scheme to inland vessels *[Chapter XII-G]*

It is proposed to extend benefit of the tonnage tax scheme to inland vessels registered under the Inland Vessels Act, 2021.

2. Time limit to issue order of opting for tonnage tax scheme *[Section 115VP]*

It is proposed that for applications received on or after 1 April 2025, the Tax Authorities shall issue an order within three months from the end of the quarter in which such application was received.

VI. Capital gains

1. Taxation on receipts from Unit Linked Insurance Policies *[Sections 2(14), 45 and 112A]*

i. It is proposed to provide that any Unit Linked Insurance Policy ('ULIP') to which the exemption under Section 10(10D) of the Act does not apply will be treated as a Capital Asset. Accordingly, any gains arising on receipt of any amount under such ULIP shall be chargeable to tax under the head 'Capital Gains'.

ii. It is further proposed to provide that any scheme of an insurance company comprising of ULIP to which the exemption under Section 10(10D) does not apply will be treated as an equity oriented fund for the purpose of taxation of long term capital gains.

2. Transfer on account of relocation of fund *[Section 47(viiad)]*

i. It is proposed to amend the definition of resultant fund for the purposes of granting relocation exemption, to mean any fund established in the IFSC:

   a. which is registered as Category I or Category II or Category III AIF; or
   b. which is registered as a retail scheme or Exchange Traded Fund.

c. Includes any securities classified or regulated as market linked debentures by Securities and Exchange Board of India (‘SEBI’).

ii. The relaxation on capital gains arising from the relocation of funds is proposed to be extended for relocations until 31 March 2030.

3. Increase in the rate of tax on transfer of certain Long Term Capital Assets *[Section 115AD]*

It is proposed to revise the rate of tax on long term capital gains arising on the transfer by a specified fund or Foreign Institutional Investor (‘FII’) of securities other than equity shares, units of an equity oriented mutual funds or units of a business trust, subject to Securities Transaction Tax (‘STT’), to 12.5% to bring parity.

VII. Withholding Taxes

1. Rationalisation of withholding tax thresholds

i. Withholding tax provisions have various thresholds of payment amount, beyond which tax is required to be deducted. It is proposed to rationalise these thresholds as under:

Nature of payment	Existing threshold	Proposed threshold
Interest on securities	Nil	INR 10,000 (~USD 120)
Interest other than interest on securities	i. INR 50,000 (~USD 600) for senior citizen; ii. INR 40,000 (~USD 500) in case of others when the payer is a bank, cooperative society or a post office iii. INR 5,000 (~USD 60) in other cases	i. INR 100,000 (~USD 1,200) for senior citizen ii. INR 50,000 (~USD 600) in case of others when the payer is a bank, cooperative society or a post office iii. INR 10,000 (~USD 120) in other cases

Dividend paid to an individual shareholder	INR 5,000 (~USD 60)	INR 10,000 (~USD 120)
Income in respect of units of a mutual fund or specified company or undertaking	INR 5,000 (~USD 60)	INR 10,000 (~USD 120)
Winnings from lottery, crossword puzzle, etc.	Aggregate of amounts exceeding INR 10,000 (~USD 120) during the FY	INR 10,000 (~USD 120) in respect of a single transaction
Winnings from horse race		
Insurance commission	INR 15,000 (~USD 180)	INR 20,000 (~USD 240)
Income by way of commission, prize etc. on lottery tickets	INR 15,000 (~USD 180)	INR 20,000 (~USD 240)
Commission or Brokerage	INR 15,000 (~USD 180)	INR 20,000 (~USD 240)
Rent	INR 240,000 (~USD 2,800) during the FY	INR 50,000 (~USD 600) per month or part of a month

Fee for professional or technical services, royalty	INR 30,000 (~USD 350)	INR 50,000 (~USD 600)
Income by way of compensation for compulsory acquisition of immovable property	INR 250,000 (~USD 3,000)	INR 500,000 (~USD 6,000)

2. Reduced withholding tax rates on income from investment in Securitisation trusts *[Section 194LBC]*

i. Currently, tax on income from investments in Securitisation trusts is withheld at the rate of 25% on payments made to resident individuals and HUFs and 30% for all other resident payees.

ii. It is proposed to withhold taxes on income from investments in Securitisation trusts at the rate of 10% for all resident payees.

3. Deletion of higher rate of TDS/TCS for non-filers of income tax return *[Section 206AB and Section 206CCA]*

It is proposed to delete the requirement for deduction/collection of tax at source at a higher rate on taxpayers who have failed to furnish a return of income as per section 139(1) of the Act.

4. Rationalisation of TCS *[Section 206C(1G)]*

i. It is proposed to enhance the limit for the applicability of TCS on the remittances under the Liberalised Remittance Scheme ('LRS') and on the amount received from the buyer of a foreign tour package from INR 700,000 (~USD 8,400) to INR 1,000,000 (~USD 12,000).

ii. It is further proposed to not collect tax when the remittance is made for the purpose of education from a loan taken from specified financial institution.

5. Reduction in compliance by omission of TCS on sale of specified goods [*Section 206C]*

It is proposed to do away with the applicability of TCS on sale of goods aggregating to more than INR 5,000,000 (~USD 58,100) per year.

VIII. Other key proposals

1. Simplified provision for determining annual value of self-occupied property *[Section 23]*

i. It is proposed to provide that the annual value of the house property or any part thereof shall be Nil, if the owner occupies it for his own residence or cannot actually occupy it due to any reason.

ii. The benefit shall continue to be allowed in respect of two such houses only.

2. Obligation to furnish information in respect of crypto-asset *[Section 2(47A) and New Section 285BAA]*

i. It is proposed to enhance the scope of virtual digital asset to include 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.

ii. It is proposed that a reporting entity shall submit specified information regarding transactions involving crypto-asset. The reporting must be done within the prescribed time and in the specified format, to the designated tax authority.

iii. It is further proposed that if there is a defect found in the information submitted, such defect shall be intimated to the reporting entity who shall rectify it within a period of 30 days from the date of such intimation. If the defect is not rectified within the aforesaid period, it will be considered as inaccurate information, with the attendant penal consequences.

3. Amendment in the period of validity of registration for smaller charitable trusts and cancellation of registration *[Section 12AB]*

i. It is proposed to extend the period of validity of registration of charitable trusts or institutions from 5 years to 10 years, where the total income does not exceed INR 50 million (~USD 0.58 million) during each of the two years prior to the year in which the trust applies for registration.

ii. It is proposed that an incomplete application for registration or where incorrect information is provided shall not be treated as a 'specified violation' risking the cancellation of registration and attendant tax consequences. The charitable trust shall be given an opportunity to complete or rectify the application.

4. Amendment in the meaning of 'Substantial contribution' to a charitable trust or institution *[Section 13]*

i. The current provision states that if any income of a charitable trust or institution is applied for the benefit of a 'specified person' (other than founder, author or trustee, member or manager), or his relative or the concern in which such person has substantial interest, such income shall not be exempt.

ii. A 'specified person' includes any person who has made a substantial contribution of INR 50,000 (~ USD 600) in aggregate in a FY. It is proposed to increase the limit of substantial contribution from INR 50,000(~ USD 600) to INR 100,000 (~ USD 1,200) during the relevant FY or aggregate of INR 1 million (~ USD 11,600) up to the end of the relevant FY.

iii. Further, it is proposed to exclude the relative of the person or any concern in which such person has a substantial interest from the list of 'specified persons'.

5. Revision in the limits of the income of employees from employers for perquisite calculation *[Section 17]*

i. It is proposed to revise the limits of the income of employees for perquisite calculation for the following:

   a. the amenities and benefits granted free of cost or at a concessional rate by the employer.
   b. expenditure incurred by the employer for travel outside India for medical treatment of the employee or his family members.

ii. Both the monetary limits mentioned above shall be revised by way of rules to be prescribed.

6. Carry forward and set off of accumulated losses and unabsorbed depreciation in cases of amalgamation or business reorganisation *[Sections 72A and 72AA]*

i. In a scheme of amalgamation or business reorganisation, the successor entity is eligible to carry forward and set off accumulated losses and unabsorbed depreciation for eight years from the year in which the amalgamation or business reorganisation is effective.

ii. It is proposed that in case of amalgamations effective from 1 April 2025, the accumulated loss of the predecessor entity can be carried forward by the successor entity for eight years from the year in which it was first computed, instead of the year of amalgamation.

7. Tax on Long Term Capital Gains in the hands of Business Trusts *[Section 115UA]*

i. It is proposed to amend the definition of ‘Capital asset’ to include securities held by a specified Business Trust.

ii. The income earned by business trusts other than short term capital gains on listed equity shares or unit of an equity oriented mutual fund and long term capital gains on unlisted equity shares are currently taxable at maximum marginal rate.

iii. It is proposed to clarify that Long Term Capital Gains of a business trust arising from the transfer of an equity share or an equity-oriented fund or a unit of a business trust, which is subject to levy of Securities Transaction Tax (‘STT’), shall also be taxed at special rates and not at the maximum marginal rate.

8. Tax Exemption on withdrawals from specified savings schemes *[Section 80CCA]*

i. It is proposed that any amount withdrawn by an individual or HUF from the National Savings Scheme or specified deferred annuity plan scheme, shall not be subject to tax.

ii. This amendment is effective from 29 August 2024.

9. Extension of timeline for retention of seized books of account or other documents in case of search and seizure *[Section 132]*

It is proposed that in case of search and seizure cases, the period of retention of seized books of account or other documents by the tax officer is to be enhanced from 30 days to one month from end of the quarter in which assessment or reassessment or recomputation order has been made.

10. Extending eligibility to file updated return and additional tax payments *[Sections 139(8A) & 140B]*

i. It is proposed to increase the time limit to file updated return from 36 months from the end of FY to 60 months. Any person that has received a show cause notice under section 148A of the Act after 48 months from the end of the FY shall not be eligible to file an updated return. The above prohibition against filing an updated return shall not apply to cases that are considered unfit for reassessment.

ii. It is proposed that the taxpayer shall be required to pay additional income tax amounting to:-

a. 60% of aggregate tax and interest if such updated return is filed after 36 months but before 48 months.
b. 70% for filing an updated return after 48 months but before 60 months.

11. Clarification regarding the period stayed by the Court *[Sections 144BA, 153, 153B, 158BFA, 206C(7A), 263, 264 and Rule 68B of the Second Schedule]*

It is proposed to clarify that while determining the time limit for conclusion of the various proceedings, the period from the date a court grants a stay on the proceedings until the date the tax authorities receive the order vacating the stay shall be excluded.

12. Time limit to notify faceless scheme *[Sections 144C, 253 and 255]*

The time limit for issuing clarifications regarding the faceless scheme for Dispute Resolution Panel and appeal to Income Tax Appellate Tribunal is deleted.

13. Inclusion of Virtual Digital Assets under undisclosed income *[Section 158B]*

i. It is proposed to amend the definition of undisclosed income under the procedure for scrutiny of search cases to include virtual digital assets that have not been or would not have been disclosed under the existing provisions of the Act.

ii. The proposed amendment will be effective from 1 February 2025.

14. Increase *in the time limit for processing applications requesting immunity from penalty and prosecution [Section 270AA]*

The time limit for passing an order on a taxpayer's application for grant of immunity from penalty and prosecution for under reporting of income, wilful evasion of tax or failure to file the return of income is proposed to be increased from one month to three months from the end of the month in which such application is received.

15. Standardisation of the time limit for imposing penalties *[Section 275]*

i. It is proposed to provide a standardised time limit to pass penalty orders after the connected/ appellate proceedings are completed.

ii. A consequential amendment in Section 246A of the Act is also made.

16. Immunity from prosecution in case of failure to pay within time limit *[Section 276BB]*

It is proposed that prosecution shall not be initiated against a person for delay in payment of TCS if the same has been paid to the Central Government on or before the date prescribed for filing TCS quarterly statements.

Indirect taxes

This section summarises some of the significant indirect tax proposals announced in Budget 2025-26.

I. Customs Duty

i. A comprehensive review of the Customs Tariff rate structure is proposed, retaining only 8 tariff rates including a zero rate.

ii. Certain Items for which Basic Customs Duty is proposed to be increased with effect from 2 February 2025 are as follows:

Name of Item	Existing rate	Proposed rate
Knitted Fabrics covered under certain tariff items of Chapter 60	10/20%	20% or INR 115 per kg, whichever is higher
Interactive Flat Panel Display - Completely Built Unit ('CBU')	10%	20%

iii. Certain items for which Basic Customs Duty rates are proposed to be reduced with effect from 2 February 2025 to reduce input costs, deepen value addition, promote export competitiveness, correct inverted duty structure and boost domestic manufacturing are as follows:

Name of Item	Existing rate	Proposed rate
Synthetic flavouring essences and mixtures of odoriferous substances of a kind used in food or drink industries	100%	20%
Waste and scrap of Lithium-ion Battery and of Cobalt powder	5%	Nil
Addition of six more medicines for manufacture of bulk drugs	Varying rates	5%
Addition of 36 more medicines for manufacture of bulk drugs for cancer treatment	Varying rates	Nil
Addition of 37 more medicines and 13 Patient Assistance Programmes in the list of duty-free imports by pharmaceutical companies for supply free of cost to patients	Varying rates	Nil
35 capital goods for use in manufacture of lithium-ion battery of EVs and 28 capital goods	Varying rates	Nil

for use in manufacture of lithium-ion battery of mobile phones		
Inputs/ parts and sub-parts of PCBA, camera module, connectors and inputs or raw materials for use in manufacture of wired headset, microphone and receiver, USB cable, fingerprint reader/sensor of cellular mobile phone	2.5%	Nil
Specified inputs/parts for use in manufacture of open cells of TV panels of LED/LCD TV	2.5%	Nil
Ethernet Switches Carrier-Grade	20%	10%
Open Cells (with or without touch), Touch Glass Sheets, and Touch Sensor PCBs for used in the manufacture of Interactive Flat Panel Display module	15/10%	5%
Motorcycles i. Engine capacity not exceeding 1600 CC (CBU) ii. Semi-knocked down (SKD) iii. Completely knocked down (CKD)	 50% 25% 15%	 40% 20% 10%

Motorcycles i. Engine capacity 1600 CC and above (CBU) ii. Semi-knocked down (SKD) iii. Completely knocked down (CKD)	 50% 25% 15%	 30% 20% 10%

iv. Certain items where there is a decrease in Tariff rate with a reduction in effective rate with effect from 2 February 2025 are as follows:

Name of Item	Existing rate	Proposed rate
Solar module	40% (+4% SWS)	20% (+20% AIDC)
Motor vehicles (For passengers)	40% (+4% SWS)	20% (+20% AIDC)
Motor vehicles (For goods)	40% (+4% SWS)	20% (+20% AIDC)
Parts of electronic toys	70%	20% (+20% AIDC)

v. It is proposed to provide a time limit of two years for finalisation of provisional assessment, extendable for a further period of one year by Commissioner of Customs for sufficient cause. For pending provisional assessments, the time limit shall be computed from the date of enactment of the Finance Bill, 2025.

vi. A new provision has been proposed for voluntary revision of ‘entry’ after clearance of goods to allow importers and exporters to revise any entry made in relation to the goods within a prescribed time and subject to the conditions as may be prescribed. If any refund arises consequent to the revised entry, the period of limitation for the claim of refund shall be one year from the date of payment of duty or interest. Similarly, the ’relevant date’ in case of any additional demand of duty will be the date of payment of duty or Interest as per the revised entry.

vii. It is proposed to abolish Customs, Central Excise and Service tax Settlement Commission with effect from 1 April 2025. The pending applications for settlement as of 31 March 2025 shall be dealt with by the Interim Boards for Settlement for which necessary provisions are incorporated in the respective Acts.

viii. It is proposed to remove custom duty exemption on import of seeds for use in manufacture of rough Lab Grown Diamond under Import of Goods at Concessional Rate Rules (‘ICGR’). Further, Rules 6 and 7 of IGCR are being amended to increase the time limit for fulfilling end use from six months to one year and to file only a quarterly statement instead of a monthly statement.

ix. For railway goods, the time limit for export of foreign origin goods imported for repairs is being extended from 6 months to one year, further extendable by one year from the date of import, subject to conditions.

II. Service Tax

It is proposed that services provided or agreed to be provided by insurance companies by way of reinsurance services under the Weather Based Crop Insurance Scheme and the Modified National Agricultural Insurance Scheme are proposed to be exempted from Service tax retrospectively for the period commencing from 1 April 2011 and ending with 30 June 2017, thus providing major relief to Insurance companies from litigation. Refund shall be made of all such Service tax which has been collected provided that application for the refund of service tax shall be made within a period of six months from the date on which Finance Bill, 2025 is enacted.

III. Goods and Services Tax

Amendments carried out through the Finance Bill, 2025 in the Central Goods and Services Tax Act, 2017 will come into effect from the date when the same will be notified concurrently, unless specified otherwise, with the corresponding amendments to the similar Acts passed by the States & Union territories with legislature.

1. **Insertion of reference to provisions of IGST Act in definition of Input Service Distributor and manner of distribution of credit**

   It is proposed to amend the definition of 'Input Service Distributor' and manner of 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 provisions of IGST Act. The proposed amendment will be effective from 1 April 2025.

2. **Clarifying the scope of terms used in the definition of local authority**

   It is proposed to insert an explanation to provide for definition of terms 'Local Fund' and 'Municipal Fund' used in the definition of 'local authority' in section 2(69) of the CGST Act to clarify the scope of the said terms.

3. **Deletion of provision for time of supply in case of supply of vouchers**

   It is proposed to delete the provision for time of supply of vouchers for supply of goods and services in sections 12 and 13 of the CGST Act respectively.

4. Retrospective amendment to overcome decision of Supreme Court in case of Safari Retreats *[Civil Appeal No.2948 of 2023]*

It is proposed to retrospectively amend Section 17(5)(d) from 1 July 2017 of the CGST Act that provides restriction on input tax credit, and to substitute the term ‘Plant or Machinery’ with ‘Plant and Machinery’.

5. Reduction of tax lability of supplier in respect of issuance of credit note

It is proposed to amend the proviso to Section 34(2) providing for requirement of reversal of input tax credit in respect of a credit note, if availed by a registered recipient, for the purpose of reduction of tax liability of supplier in respect of the said credit note.

6. Enabling prescription for conditions and restrictions for filing returns

It is proposed to amend Section 39(1) so as to provide for an enabling clause to prescribe conditions and restrictions for filing returns.

7. Mandatory pre-deposit in cases involving only demand of penalty

A ten percent mandatory pre-deposit of penalty amount for appeals before Appellate Authority and Appellate Tribunal is proposed in cases involving only demand of penalty, without any demand of tax.

8. Track and trace mechanism for specified commodities

i. It is proposed to insert a new Section 148A for enabling affixation of unique identification marking and for electronic storage and access of information contained therein for specified commodities. This provision may be introduced on the recommendations of the GST Council by notifications specifying:

   a. the goods
   b. person or class of persons who are in the possession of or deal with such goods

ii. For this purpose, 'unique identification marking' has been defined to include digital stamp, digital mark or other any similar marking, which is unique, secure and non-removable.

9. Retrospective amendments to Schedule III of the CGST Act

i. Retrospective amendments have been proposed with effect from 1 July 2017 by inserting new clause (aa) in paragraph 8 of Schedule III of the CGST Act in respect of supply of goods warehoused in SEZ or in FTWZ (Free Trade Warehousing Zone) to any person before clearance for exports or to DTA, implying that it shall neither be treated as supply of goods nor supply of services.

ii. No refund of tax already paid will be available for the aforesaid activities or transactions.

iii. Further, in Explanation 2 to the said paragraph 8, an amendment has been proposed to clarify that the said explanation assigning meaning to the words ‘warehoused goods’ would be applicable in case of clause (a) of paragraph 8 of the said Schedule i.e. the said explanation would not apply to goods warehoused in SEZ or FTWZ referred to in clause (aa).

Abbreviations

AIDC	: Agriculture Infrastructure Development Cess	FDI	: Foreign Direct Investment
ALP	: Arm's Length Price	FY	: Financial Year
AI	: Artificial Intelligence	GDP	: Gross Domestic Product
BCD	: Basic Customs Duty	GST	: Goods and Services Tax
BTN	: BharatTradeNet	HUF	: Hindu Undivided Family
BIT	: Bilateral Investment Treaty	IFSC	: International Financial Services Centre
CGST	: Central Goods and Services Tax	INR	: Indian Rupee
CBU	: Completely Built Unit	ITC	: Input Tax Credit
DRP	: Dispute Resolution Panel	IGCR	: Import of Goods at Concessional Rate
FTWZ	: Free Trade Warehousing Zone	IIT	: Indian Institute of Technology

MSMEs	: Micro, Small and Medium Enterprises
NBFCs	: Non-Banking Financial Companies
NPS	: National Pension System
PPP	: Public Private Partnership
SEP	: Significant Economic Presence
SMR	: Small Modular Reactor
SFT	: Statement of Financial Transactions
SWS	: Social Welfare Surcharge
STT	: Securities Transactions Tax
TCS	: Tax Collected at Source
TDS	: Tax Deducted at Source
TPO	: Transfer Pricing Officer
The Act	: The Income-tax Act,1961
VDA	: Virtual Digital Asset
ULIP	: Unit Linked Insurance Plan
USD	: United States Dollar
WHT	: Withholding Tax

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