Tax Matters

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Key tax proposals of the Finance Bill, 2025

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 by 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. Despite these headwinds, the Indian economy emerged resilient with a growth rate of 6.4%.

The team at JMP Advisors is pleased to summarise below the significant tax proposals announced in Budget 2025-26. These proposals are subject to enactment of the Finance Bill, 2025 and are effective from FY 2025-26 unless otherwise stated.

I. DIRECT TAX

➢ Proposed introduction of the new Income tax Bill

- It is proposed to introduce a new Income tax Bill next week, which will carry forward the spirit of "Nyaya" or justice.
- 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 and tax administrators which is expected to provide certainty and reduce litigation.

➢ Rates of tax

- **Corporate tax** - No amendments have been proposed in the rates of tax for domestic companies.
- **Personal tax** - The following amendments have been proposed in the rates of personal tax for resident individuals and Hindu Undivided Families ('HUFs') who elect to be taxed under the new tax regime:

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 1,200,001 - 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%

It is proposed to increase the limit of taxable income from INR 700,000 (~USD 8,100) to INR 1,200,000 (~USD 14,000) for availing 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.

Significant Economic Presence(‘SEP’)

- To harmonise the provisions of SEP with Business Connection, it is proposed to provide that the activities of a non-resident which are confined to the purchase of goods in India for exports shall not constitute SEP in India.

Non-residents

- It is proposed to introduce a new presumptive tax scheme for non-resident taxpayers engaged in providing services or technology in India to resident companies engaged in establishing or operating an electronics manufacturing facility or a connected facility for manufacturing electronic goods in India, under a notified scheme and subject to conditions. In such cases, the deemed income is proposed to be computed at 25% of the aggregate amount received/receivable by the non-resident.

- The sunset clause for investments by notified sovereign wealth funds and foreign pension funds is proposed to be extended to 31 March 2030.

Transfer Pricing

- It is proposed that the Arm’s Length Price (‘ALP’) computed for any Financial Year (‘FY’) will apply to a similar international transaction or a specified domestic transaction for the two immediately following FYs, at the option of the taxpayer. This provision will be subject to completion of specified compliances by the taxpayer and the transfer pricing officer. This proposal is expected to reduce multiple proceedings for determining the ALP.

- It is further proposed to expand the scope of ‘Safe Harbour Rules’ with a view to reduce Transfer Pricing litigation. Rules shall be prescribed in this regard in due course.

International Financial Services Centre(‘IFSC’)

- The relocation of an ‘original fund’ to a ‘resultant fund’ is a tax-neutral transaction, subject to conditions. It is proposed to expand the definition of ‘resultant fund’ to include Retail schemes and Exchange Traded Funds (‘ETFs’) that are regulated under the IFSCA (Fund Management) Regulations, 2022.

- The sunset clause for the commencement of operations of IFSC units and relocation of funds to IFSC is proposed to be extended to 31 March 2030.

- 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.

- The exemption for specified dividend income and capital gains 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.

- It is proposed to provide that any advance or loan between two group entities will not be considered as deemed dividend if:
    - One of the entities is is a 'Finance company' or 'Finance unit' in an IFSC and a global or regional corporate treasury centre undertaking treasury activities and
    - The parent entity or principal entity of such group is listed on a stock exchange outside India.
- The exemption available to non-residents on the income from the transfer of specified non deliverable derivative contracts with Offshore Banking units in an IFSC is proposed to be extended to similar contracts entered into with Foreign Portfolio Investors ('FPI') in an IFSC.
- It is proposed to simplify some of the conditions for fund managers based in an IFSC.

Trusts

- It is proposed to reduce the compliance burden on small charitable trusts and institutions with measures such as increasing the registration validity period from 5 years to 10 years, and not treating incomplete applications as 'specified violations'.

Alternative Investment Funds

- It is proposed to amend the definition of 'Capital asset' to include securities held by a specified Investment Fund.
- 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 Securities Transaction Tax ('STT'), shall also be taxed at special rates and not at the maximum marginal rate.

House property

- It is proposed to eliminate the conditions related to employment, business or profession carried on at any other place in order to claim 'Nil' value of up to two self-occupied properties.

Carry forward of losses

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

Start-ups

- It is proposed to extend the timeline for incorporation of eligible Start-ups in order to avail tax exemption by 5 years i.e. upto 31 March 2030.

Withholding Taxes/Tax Collection at Source ('TCS')

- It is proposed to delete the applicability of TCS on the following:
    - Consideration for the sale of any goods;

— Overseas remittance under the Liberalised Remittance Scheme ('LRS') for the purpose of repayment of an education loan obtained from notified financial institutions.

- It is proposed to enhance the limit for applicability of TCS for various transactions from INR 700,000 (~ USD 8,100) to INR 10,00,000 (~ USD 12,000).

- It is proposed to enhance the limit for applicability of withholding tax on rent payments by persons other than individuals and HUFs from INR 240,000 (~ USD 3,000) per year to INR 50,000 (~ USD 60) per month or part of the month.

- It is proposed to rationalise various limits and rates in respect of withholding tax provisions.

Other proposals

- It is proposed to provide that specified information in respect of Virtual Digital Assets ('VDA') to be furnished in the specified statement by reporting entities.

- It is proposed to extend the benefit of the tonnage tax scheme to certain inland ships.

- It is proposed to decriminalise the offence of delayed payments of TCS in certain cases and to rationalise certain other penalty provisions.

- It is proposed to extend the time limit to file an updated return from 24 months to 48 months with progressive payments of additional taxes.

II. INDIRECT TAX

Customs duty

- It is proposed to provide a time limit of two years for the finalisation of provisional scrutiny proceedings, which is further extendable by a period of one year by the Commissioner of Customs, if sufficient cause is provided.

- It is proposed to abolish the Customs, Central Excise and Service tax Settlement Commission with effect from 1 April 2025. The pending applications for settlement as on 31 March 2025 shall be dealt with by the Interim Boards for Settlement.

Goods and Services Tax ('GST')

- It is proposed to amend the definition of input credit distributor and manner of distribution of input tax credit in respect of inter-state supplies on which tax has to be paid on reverse charge basis.

- It is proposed to explicitly provide 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 the supplier in respect of the said credit note.

- A retrospective amendment in Schedule III of the CGST Act is proposed in respect of supply of goods warehoused in SEZ or in FTWZ to any person before clearance for exports or to DTA specifying that it shall neither be treated as supply of goods or supply of services.

- A retrospective amendment is proposed to substitute the words 'plant or machinery' with the words 'plant and machinery' in Section 17(5)(d) of the CGST Act that provides restrictions on input tax credit.

- It is proposed to provide for mandatory pre-deposit of 10 percent of the penalty amount for appeals in cases involving only a penalty demand without any demand for tax.

Should you wish to discuss any of the above issues in detail or understand the applicability to your specific situation, please feel free to reach out to us at coe@jmpadvisors.in.

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