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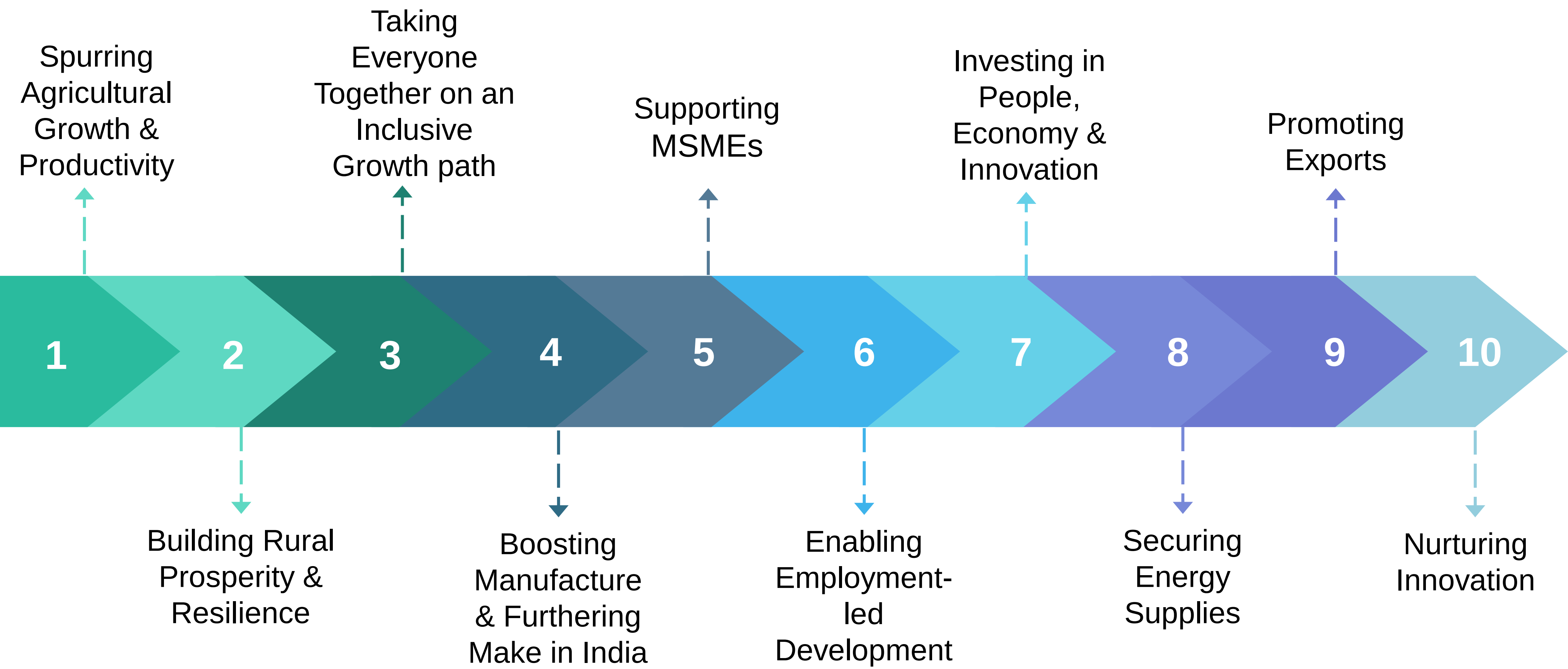
Demystifying Complexities

INDIA UNION BUDGET 2025

February 2025

Preface

Hon'ble Finance Minister Nirmala Sitharaman presented the Union Budget for Financial Year 2025-26 on 1st February 2025. The Budget is designed to drive economic growth, encourage inclusive development, stimulate private investments & enhance the spending power of India's middle class. Aimed at boosting household confidence & strengthening India's global standing, it focuses on 10 key areas to foster inclusive growth, with particular emphasis on welfare of the poor, youth, farmer & women.



Preface

The 4 engines that have been identified to mechanize the development are Agriculture, MSME, Investment & Exports. The fuel to accelerate growth are Reforms across Financial sector, Tax & Regulatory. The guiding spirit is Inclusivity & the ultimate objective is to achieve a Developed India.

On **Direct Taxes** front, the most significant move (since it impacts masses) has been to allow resident individuals zero taxability upto an annual income of INR 12 Lakh a year. A new Income-tax bill will be introduced which will be clear & direct in text & which will be almost half in size of the present law; it would be simple to understand for taxpayers & tax administration, leading to tax certainty & reduced litigation. Within international tax provisions, a scheme has been introduced in transfer pricing to determine arm's length price for a block period of 3 years. 'Significant Economic Presence' regulations have been harmonized with 'Business Connection' rule. Other proposals include tax incentives to International Finances Services Centre, introduction of presumptive scheme of taxation for non-residents providing services for electronics manufacturing facility, extension of benefits of tonnage tax scheme to inland vessels, simplification of tax provisions for charitable trusts / institutions, extension of timeline for tax benefits to start-ups & rationalization of tax at source threshold limits.

From an **Indirect Taxes** perspective, proposals have been made to rationalize Customs tariff structure, address duty inversion, support domestic manufacture & value addition, promote exports, facilitate trade & provide relief to common people. 7 tariff rates would be removed as a result of which there would remain 8 tariff rates including a zero rate. In Goods & Services tax, the proposals include imposing a pre-condition on reduction of output tax liability through credit note & rationalization of limit for pre-deposit of taxes in case of appeal (against penalty).

The masses (predominantly salaried individuals) certainly have reason to welcome the Union Budget. The Government has intelligently left the middle class with more disposable income to mobilize both, savings & consumption, which are good for the economy.

Abbreviations

AIF	Alternative Investment Fund
ALP	Arm’s Length Price
AO	Assessing Officer
AY	Assessment Year
CGST	Central Goods & Services Tax
DTA	Domestic Tariff Area
ERM	Extension, Renovation & Modernisation
FDI	Foreign Direct Investment
FII	Foreign Institutional Investor
FPO	Farmer Producer Organization
FSDC	Financial Stability & Development Council
FTWZ	Free Trade Warehousing Zone
FY	Financial Year
GCC	Global Capability Center
GIFT	Gujarat International Finance Tec-City
GST	Goods & Services Tax
HUF	Hindu Undivided Family
IFSC	International Financial Services Centre
IIS	Indian Institute of Science
IIT	Indian Institute of Technology
IMS	Invoice Management System
INR	Indian Rupees
InvIT	Infrastructure Investment Trust
ISD	Input Service Distributor
ITC	Input Tax Credit

IT Act	Income-tax Act, 1961
ITR	Income Tax Return
KCC	Kisan Credit Cards
KYC	Know Your Customer
MSME	Micro, Small & Medium Enterprises
NaBFID	National Bank for Financing Infrastructure & Development
NPS	National Pension Scheme
NSS	National Savings Scheme
PF	Pension Fund
RCM	Reverse Charge Mechanism
REIT	Real Estate Investment Trust
SEBI	Securities Exchange Board of India
SEP	Significant Economic Presence
SEZ	Special Economic Zone
SPV	Special Purpose Vehicle
SUUTI	Specified Undertaking of Unit Trust of India
SWF	Sovereign Wealth Fund
TCS	Tax Collection at Source
TDS	Tax Deduction at Source
TPO	Transfer Pricing Officer
UDAN	Ude Desh ka Aam Nagarik
UIM	Unique Identification Marking
ULIP	Unit Linked Insurance Policy
UPI	Unified Payments Interface
VDA	Virtual Digital Asset

Policy / Sectoral Announcements

Engines of Development

Agriculture

MSME

Investment

Exports

The fuel: Reforms

Guiding spirit: Inclusivity

Destination: Developed India

1st Engine: Agriculture

Spurring Agricultural Growth & Building Rural Prosperity

- **National Mission on High Yielding Seeds** - Targeted development & propagation of seeds with high yield, pest resistance & climate resilience
- **Enhanced Credit through KCC** - Facilitate short term loans for 7.7 Crore farmers, fishermen & dairy farmers with enhanced loan of INR 5 Lakh
- **Prime Minister Dhan-Dhaanya Krishi Yojana** - Developing Agri Districts Programme to cover 100 districts & likely to help 1.7 Crore farmers
- **Mission for Cotton Productivity** - 5 year mission to facilitate improvements in productivity & sustainability of cotton farming
- **Makhana Board in Bihar** - To be set up to improve production, processing, value addition & marketing & organisation of FPOs
- **Self reliance in Pulses** - Launch a 6-year Mission with special focus on ‘Tur’, ‘Urad’ & ‘Masoor’, emphasizing development & commercial availability of climate resilient seeds, enhancing protein content, increasing productivity, improving post-harvest storage & management, assuring remunerative prices to the farmers
- **India Post to act as a catalyst for Rural economy** - Rural community hub colocation; Institutional account services; Credit services to micro enterprises; Insurance; Assisted digital services

2nd Engine: MSME

Supporting MSME & Furthering Make in India

- **Credit Cards for Micro Enterprises** - Customised Credit Cards with INR 5 Lakh limit for micro enterprises registered on Udyam portal. In the 1st year, 10 lakh such cards would be issued
- **Scheme for 1st time Entrepreneurs** - For 5 lakh 1st-time entrepreneurs, a new scheme to be launched to provide term loans up to INR 2 Crore during the next 5 years
- **Manufacturing mission** - Mandate to focus on ease & cost of doing business, future ready workforce for in-demand jobs, a vibrant & dynamic MSME sector, availability of technology, quality products, clean tech manufacturing for climate-friendly development
- **Measures for Labour Intensive Sectors**
  - ✓ Focus Product Scheme for Footwear & Leather Sectors, expected to facilitate employment for 22 Lakh persons, generate turnover of INR 4 Lakh Crore & exports > INR 1.1 Lakh Crore
  - ✓ Measures for the Toy Sector - To focus on development of clusters, skills & a manufacturing ecosystem that will create high-quality, unique, innovative & sustainable toys
  - ✓ Support for Food Processing - Establishment of a National Institute of Food Technology in Bihar, enhanced income for farmers & skilling, entrepreneurship & employment opportunities for the youth

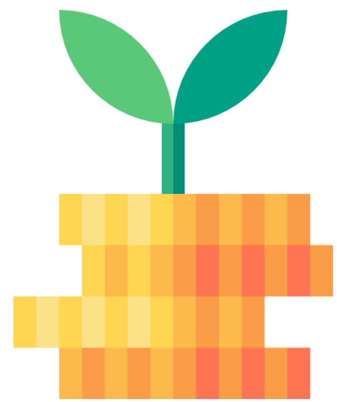
2^{nd} Engine: MSME

Enhancement of credit availability with guarantee cover for MSMEs

Enterprise	Credit Guarantee Cover	
	Current	Revised
MSEs	INR 5 Crore	INR 10 Crore
Startups	INR 10 Crore	INR 20 Crore
Exporter MSMEs	For term loans upto INR 20 Crore	

Revision in classification criteria for MSMEs

Enterprise	Investment		Turnover	
	Current	Revised	Current	Revised
Micro	INR 1 Crore	INR 2.5 Crore	INR 5 Crore	INR 10 Crore
Small	INR 10 Crore	INR 25 Crore	INR 50 Crore	INR 100 Crore
Medium	INR 50 Crore	INR 125 Crore	INR 250 Crore	INR 500 Crore



3rd Engine: Investment

Investment in

People

Economy

Innovation

3rd Engine: Investment

- **Saksham Anganwadi & Poshan 2.0** – Nutritional support to more than 8 Crore children, 1 Crore pregnant women & lactating mothers all over the country
- **Expansion of Capacity in IITs** - Additional infrastructure would be created in the 5 IITs started after 2014 to facilitate education for 6,500 more students
- **Day Care Cancer Centres in all District Hospitals** - 200 Centres to be established in 2025-26
- **Bharatiya Bhasha Pustak Scheme** – Provision of digital form of Indian language books for school & higher education
- **5 National Centres of Excellence for skilling** - To be set up with global expertise & partnerships
- **Atal Tinkering Labs** - 50,000 Labs to be set up in Government schools in next 5 years
- **Centre of Excellence in Artificial Intelligence for education** - Total outlay of INR 500 Crore
- **Broadband connectivity** - To be provided in all Government secondary schools & primary health centres in rural areas
- **Expansion of Medical Education** - 10,000 additional seats with the goal of adding 75,000 seats over the next 5 years

3^{rd} Engine: Investment

- **PM SVAN-idhi-** To be revamped with enhanced loans from banks, UPI linked credit cards & capacity building support
- **Welfare of Online Platform Workers** - Registration on e-Shram portal & healthcare under PM Jan Arogya Yojana
- **Support to States for Infrastructure** - With an outlay of INR 1.5 Lakh Crore, 50-year interest free loans to states for capital expenditure & incentives for reforms
- **Jal Jeevan Mission** - To achieve 100% coverage, the mission extended till 2028
- **Power Sector Reforms** - Incentivize distribution reforms & augmentation of intra-state transmission
- **Asset Monetization Plan 2025-30** - Launched to plough back capital of INR 10 Lakh Crore in new projects
- **Urban Challenge Fund** – INR 1 Lakh Crore to implement the proposals for ‘Cities as Growth Hubs’, ‘Creative Redevelopment of Cities’ & ‘Water & Sanitation’
- **Maritime Development Fund** - With a corpus of INR 25,000 Crore for long-term financing with upto 49% contribution by the Government
- **Nuclear Energy Mission for Developed India** - Amendments to the Atomic Energy Act & the Civil Liability for Nuclear Damage Act woud be taken up for active partnership with the private sector

3rd Engine: Investment

- **UDAN** – Regional connectivity to 120 new destinations & carry 4 Crore passengers in the next 10 years

- **Future needs of Bihar** - Greenfield airports, Financial support for the Western Koshi Canal ERM Projects

- **SWAMIH Fund-2** – INR 15,000 Crore for expeditious completion of 1 Lakh dwelling units through blended finance

- **Tourism for Employment-led Growth**

  ✓ Top 50 tourist destination sites to be developed in partnership with states

  ✓ Introducing streamlined e-visa facilities

  ✓ Intensive skill-development programmes for our youth

  ✓ Performance-linked incentives to states

  ✓ MUDRA loans for homestays

  ✓ Ease of travel & connectivity to tourist destinations

3rd Engine: Investment

- **PM Research Fellowship** - To provide 10,000 fellowships for technological research in IITs & IISc
- **Gene Bank for Crops Germplasm** - The 2nd Gene Bank with 10 Lakh germplasm lines to be set up for future food & nutritional security
- **Gyan Bharatam Mission** - Documentation & conservation of our manuscript heritage to cover > 1 Crore manuscripts. National Digital Repository of Indian knowledge systems for knowledge sharing to be set up
- **Research, Development & Innovation** - Allocating INR 20,000 Crore to implement private sector driven Research, Development & Innovation initiative
- **National Geospatial Mission** - To develop foundational geospatial infrastructure & data. Using PM Gati Shakti, facilitation of modernization of land records, urban planning & design of infrastructure projects

4th Engine: Exports

- **Export Promotion Mission** - With sectoral & ministerial targets to facilitate easy access to export credit, cross-border factoring support & support to MSMEs to tackle non-tariff measures in overseas markets

- **Bharat Trade Net** - A digital public infrastructure, 'Bharat Trade Net' for international trade will be set-up as a unified platform for trade documentation & financing solutions. Support for integration with Global Supply Chains

- **National Framework for GCC** - As guidance to states for promoting GCCs in emerging tier 2 cities

- **Warehousing facility for air cargo** - To facilitate upgradation of infrastructure & warehousing for air cargo including high value perishable horticulture

Reforms

Financial Sector Reforms & Development

- ‘Grameen Credit Score’ framework to serve credit needs of self-help group members & rural people
- NaBFID to set up a ‘Partial Credit Enhancement Facility’ for corporate bonds for infrastructure
- Revamped Central KYC registry to be rolled out in 2025
- Rationalisation of requirements & procedures for speedy approval of company mergers
- FDI limit for Insurance sector would be raised from 74% to 100%

Regulatory Reforms

- High Level Committee for Regulatory Reforms to be set up
- Investment Friendliness Index of States
- FSDC Mechanism – Evaluation of impact of current financial regulations & subsidiary instructions along with a framework to enhance responsiveness & development of the financial sector
- Jan Vishwas Bill 2.0 – Decriminialization > 100 provisions in various laws

Tax Reforms

- Changes in Direct Taxes
- Proposal to introduce **New Income-tax Bill**

Direct Tax Proposals

Key Pillars

Tax Rates

Effective Personal Tax Rates *

No change

<table>
<tr><th rowspan="2">Taxable income (INR)</th><th rowspan="2">New Tax Regime

[u/s 115BAC(1A)(iii) of IT Act]</th><th colspan="3">Old Tax Regime</th></tr>
<tr><th>< 60 years</th><th>Senior Citizens (60 - 80Years)</th><th>Super Senior Citizens (> 80 Years)</th></tr>
<tr><td>< 2.5 Lakh</td><td colspan="4">Nil</td></tr>
<tr><td>2.5 lakh - 3 Lakh</td><td rowspan="2">Nil</td><td>5.20%</td><td colspan="2">Nil</td></tr>
<tr><td>3 lakh - 4 Lakh</td><td colspan="2">5.20%</td><td>Nil</td></tr>
<tr><td>4 lakh - 5 Lakh</td><td colspan="3">5.20%</td><td>Nil</td></tr>
<tr><td>5 lakh - 8 Lakh</td><td>5.20%</td><td colspan="3" rowspan="2">20.80%</td></tr>
<tr><td>8 lakh - 10 Lakh</td><td rowspan="2">10.40%</td></tr>
<tr><td>10 lakh - 12 Lakh</td><td colspan="3" rowspan="5">31.20%</td></tr>
<tr><td>12 lakh - 16 Lakh</td><td>15.60%</td></tr>
<tr><td>16 lakh - 20 Lakh</td><td>20.80%</td></tr>
<tr><td>20 lakh - 24 Lakh</td><td>26%</td></tr>
<tr><td>24 lakh - 50 Lakh</td><td>31.20%</td></tr>
<tr><td>50 lakh - 1 Crore</td><td colspan="4">34.32%</td></tr>
<tr><td>1 crore - 2 Crore</td><td colspan="4">35.88%</td></tr>
<tr><td>2 crore - 5 Crore</td><td colspan="4">39%</td></tr>
<tr><td>> 5 Crore</td><td>39%</td><td colspan="3">42.74%</td></tr>
</table>

** Including Surcharge (varying between 10% to 37%) & Heath & Education Cess (4%)*

Effective Personal Tax Rates

Rebate u/s 87A

In the New Tax Regime, annual income of resident individuals upto INR 12 Lakh shall not be taxable, as a result of amendment in Rebate u/s 87A of the IT Act. Consequently, resident individuals would have tax savings as below

Annual Income (INR)	Tax Saving (INR)
12,00,000	80,000
18,00,000	70,000
25,00,000	110,000

Effective Tax Rate for Co-operative Society

Taxable income (INR)	New Manufacturing Co-operative Society entitled for Super Concessional Tax Rate u/s 115BAE	Resident Co-operative Society entitled for Concessional Tax Rate u/s 115BAD	Existing Tax Rate
Upto 10,000	17.16%	25.17%	10.40%
10,000 - 20,000			20.80%
20,000 – 1 Crore			31.20%
1 Crore – 10 Crore			33.38%
> 10 Crore			34.94%

Applicable for a co-operative society set up **on or after 1 Apr 2023**
&
commences manufacturing **on or before 31 Mar 2024**

No change

Effective Corporate Tax Rates

<table>
<tr><th rowspan="3">Legal Entity</th><th rowspan="3">New Domestic Manufacturing Company entitled for Super Concessional Tax Rate u/s 115BAB</th><th rowspan="3">Existing Domestic Company entitled for Concessional Tax Rate u/s 115BAA</th><th colspan="3">Others (Section 115BA)</th></tr>
<tr><th colspan="3">Taxable Income (INR)</th></tr>
<tr><th>< 1 Crore</th><th>1 Crore – 10 Crore</th><th>> 10 Crore</th></tr>
<tr><td>Domestic Companies:</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Turnover ≤ INR 400 crore in FY 2023-24</td><td rowspan="2">17.16%</td><td rowspan="2">25.17%</td><td>26.00%</td><td>27.82%</td><td>29.12%</td></tr>
<tr><td>Turnover > INR 400 crore in FY 2023-24</td><td rowspan="2">31.20%</td><td>33.38%</td><td rowspan="2">34.94%</td></tr>
<tr><td>LLPs, Partnership Firms</td><td rowspan="2" colspan="2">NA</td><td>34.94%</td></tr>
<tr><td>Foreign Companies</td><td>36.40%</td><td>37.12%</td><td>38.22%</td></tr>
</table>

Applicable for a company incorporated **on or after 1 Oct 2019**
&
commences manufacturing **on or before 31 Mar 2024**

No change

Key Pillars

Promotion of Investment & Employment

Key Direct Tax Proposals

Tax Incentives to IFSC

What is IFSC?

A jurisdiction that provides financial services to non-residents & residents in any currency except INR. The GIFT City in Gujarat is the first IFSC in India. In order to promote development of world-class financial infrastructure in India, several tax concessions have been provided to units located in IFSC over the past few years

Key Direct Tax Proposals

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Extension of sunset dates for several tax concessions pertaining to IFSC *Section(s) amended / inserted*: 80LA(2)(d), 10(4D), 10(4F), 10(4H), 47(viiad) *Effective from*: 1 Apr 2025 onwards	• Section 80LA(2)(d) of the IT Act allows tax deduction to a Unit of IFSC of income arising from transfer of a leased aircraft / ship, provided the Unit has commenced operation by 31 Mar 2025 • Sections 10(4D), (4F), (4H) of the IT Act provide tax exemption on certain sources of income arising to a non-resident / Unit of IFSC, provided the Unit of IFSC commences operation by 31 Mar 2025 • Section 47(viiad) of the IT Act provides capital gain tax exemption on relocation of funds to IFSC by 31 Mar 2025	The sunset date of 31 Mar 2025 has been extended to 31 Mar 2030	To incentivize operations from IFSC

Key Direct Tax Proposals

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Tax exemption on life insurance policy from IFSC Insurance offices *Section(s) amended / inserted*: 10(10D) *Effective from*: 1 Apr 2025 onwards	• Section 10(10D) of the IT Act provides tax exemption to sum received under a life insurance policy including the sum allocated by way of bonus on such policy, subject to certain conditions specified therein. The provisions are also applicable to insurance policies issued by IFSC Insurance Offices • 4^{th}, 5^{th}, 6^{th} & 7^{th} proviso to Section 10(10D) provide that the tax exemption is not available if the annual premium > INR 2.5 Lakh for ULIPs & INR 5 Lakh for other life insurance policies	Proceeds received on life insurance policy issued by IFSC insurance intermediary office shall be tax exempt without the condition related to the maximum premium payable on such policy	To provide parity to non-residents availing life insurance from insurance office in IFSC viz-a-viz other foreign jurisdictions

Key Direct Tax Proposals

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Tax exemption to capital gains & dividend for ship leasing units in IFSC *Section(s) amended / inserted*: 10(4H), 10(34B) *Effective from*: 1 Apr 2025 onwards	• Section 10(4H) of the IT Act provides tax exemption to non-resident or Unit of IFSC engaged in aircraft leasing, on capital gain tax on transfer of equity shares of domestic companies being units of IFSC, engaged in aircraft leasing • Section 10(34B) provides tax exemption on dividend paid by a company being a Unit of IFSC engaged in aircraft leasing, to another Unit of IFSC engaged in aircraft leasing	Tax exemption has been extended to Unit of IFSC engaged in ship leasing business, on following sources of income: • Capital gains on transfer of equity shares of Unit of IFSC engaged in ship leasing business • Dividend paid by a Unit of IFSC engaged in ship leasing business	Similar to aircraft leasing business, in ship leasing business, SPVs are created for 1 or more vessels to safeguard the investors

Key Direct Tax Proposals

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Rationalisation of definition of 'dividend' for treasury centres in IFSC *Section(s) amended / inserted*: 2(22) *Effective from*: 1 Apr 2025 onwards	• Section 2(22)(e) of the IT Act ('deemed dividend') provides that dividend includes any advance / loan to a shareholder paid by a closely held company, where such shareholder is the beneficial owner of ≥ 10% of the voting power, or to any concern in which such shareholder is a member or partner & in which he has a substantial interest, or any payment by such company on behalf of, or for the individual benefit, of such shareholder (to the extent to which the company possesses profits) • If money-lending constitutes a substantial part of the business of the company, then such advance / loan made in ordinary course of business does not constitute 'deemed dividend'	• An advance / loan between 2 group entities, where 1 of the group entities is a 'Finance company' or a 'Finance unit' in IFSC set up as a global or regional <u>corporate treasury centre</u> & the 'Parent entity' or 'Principal entity' of such 'Group entity' is listed on stock exchange outside India, shall not be treated as 'dividend' • Conditions for a 'Group entity', 'Principle entity' & 'Parent entity' shall be duly prescribed	To avoid possibility of borrowings by the corporate treasury centre in IFSC from any group entities triggering 'deemed dividend' provisions in the hands of shareholder

Key Direct Tax Proposals

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Simplified regime for fund managers based in IFSC *Section(s) amended / inserted*: 9A *Effective from*: 1 Apr 2025 onwards	• Section 9A of the IT Act provides that fund management activity carried out through an eligible fund manager acting on behalf of eligible investment fund shall not constitute 'business connection' in India, subject to prescribed conditions • One of the conditions is that the aggregate investment in the fund (directly or indirectly) by persons resident in India ≤ 5% of the corpus of the fund • If the eligible fund manager is located in an IFSC & has commenced operations by 31 Mar 2024, then the above condition may not apply or may apply with modification	• The condition has been rationalised for all the eligible investment funds (whether or not their eligible fund managers are based in IFSC), by determining the <u>aggregate investment in the fund as on 1 Apr & 1 Oct</u> of the previous year & in case the said condition (threshold of 5%) is not satisfied on either of the said days, it shall be provided that it will satisfy the same within 4 months of the said days • Thus, the condition regarding 5% threshold shall not be modified for any eligible investment fund & its eligible fund manager	To provide a specific simplified regime for IFSC based fund managers, managing funds situated in other jurisdiction so that fund managers in IFSC are at par with fund management entities in competing foreign jurisdiction

Key Direct Tax Proposals

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Amendment of Section 10 related to tax exempt income of non-residents *Section(s) amended / inserted*: 10(4E) *Effective from*: AY 2026-27 onwards	Section 10(4E) of the IT Act provides tax exemption on income arising to a non-resident on account of transfer of non-deliverable forward contracts or offshore derivative instruments or over the-counter derivatives, or distribution of income on offshore derivative instruments entered into with an <u>offshore banking unit of an IFSC</u> referred to in Section 80LA(1A)	Income of a non-resident on account of transfer of non-deliverable forward contracts or offshore derivative instruments or over the-counter derivatives, or distribution of income on offshore derivative instruments, entered into with <u>Foreign Portfolio Investors being an IFSC Unit</u> shall also be tax exempt (subject to conditions)	To further incentivize operations from the IFSC

Key Direct Tax Proposals

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Inclusion of retail schemes & Exchange Traded Funds in the existing relocation regime of funds of IFSC Authority *Section(s) amended / inserted*: 47(viiad) *Effective from*: AY 2026-27 onwards	Section 47(viiad) of the IT Act provides tax neutrality to capital gain arising on relocation of original funds to the 'resultant fund' in an IFSC. 'Resultant fund' for this purpose means a Category I or II or III AIF located in IFSC & subject to certain conditions	Relocation of original funds to retail schemes & Exchange Traded Funds in an IFSC would also be a tax neutral transaction	To further incentivize operations from the IFSC
Extension of date of making investment by SWFs, PFs & others & rationalisation of tax exemptions *Section(s) amended / inserted*: 10(23FE) *Effective from*: 1 Apr 2025 onwards	Section 10(23FE) of the IT Act provides tax exemption to income arising to specified SWF & PF from investments made in India by 31 Mar 2025	Given the long-term nature of infrastructure investments & the role of foreign SWFs & PFs in financing such projects, the deadline for investment has been extended to 31 Mar 2030	To provide time & stability to global investors to contribute towards India's infrastructure development

Key Direct Tax Proposals

Presumptive scheme of taxation extended to non-resident providing services for electronics manufacturing facility

- To position India as global hub for Electronics System Design & Manufacturing, a comprehensive program for the development of semiconductors & display manufacturing ecosystem in India was approved by Government of India

- The Ministry of Electronics & Information Technology has notified Schemes for setting up of such facilities in India. In this context, non-residents would be providing support in setting up of such electronics manufacturing facilities by deploying technology & providing support services

- To provide certainty & promote the said industry, a presumptive scheme of taxation has been introduced for non-residents engaged in providing services or technology, to a resident in India which is establishing or operating electronics manufacturing facility or a connected facility for manufacturing or producing electronic goods in India, under a scheme notified by the Ministry of Electronics & Information Technology

- 25% of the income earned by non-resident from providing services or technology, shall be treated as business income. This is likely to result in effective tax payable < 10% on gross receipts by a non-resident company

Section(s) amended / inserted: 44BBD

Effective from: AY 2026-27 onwards

Key Direct Tax Proposals

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Extension of benefits of tonnage tax scheme to inland vessels *Section(s) amended / inserted*: 115V, 115VB, 115VD, 115VG, 115VI, 115VK, 115VT, 115VV, 115VX, 115VZA *Effective from*: AY 2026-27 onwards	Tonnage tax scheme in Chapter XII-G of the IT Act was introduced vide Finance Act, 2004 to promote Indian shipping industry, wherein the qualifying shipping companies were given a choice to opt for the tonnage tax regime or continue to remain within the normal corporate tax regime	<u>Benefits of tonnage tax scheme has been extended to Inland Vessels</u> registered under Inland Vessels Act, 2021. Inland vessels have been included in Section 115VD for being eligible to be a qualified ship. Other corresponding amendments have been made to extend the tonnage tax scheme to inland vessels	To promote inland water transportation industry. Currently, India is short of inland water transport vessels fleet & requires higher capital-intensive investments in the sector

Key Pillars

Simplification & Rationalization

Key Direct Tax Proposals

Simplification of tax provisions for charitable trusts / institutions

Income of any trust / institution registered u/s 12AB of the IT Act is tax exempt subject to fulfilment of prescribed conditions. Section 12A provides for procedure to apply for registration of the trust / institution to claim tax exemption u/s 11 & 12. Section 12AB provides the procedure for approval & cancellation of the registration for the trust / institution applying u/s 12A. Section 13 provides that tax exemption u/s 11 & 12 shall not be available to a trust / institution if such trust / institution does not fulfill the prescribed conditions

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Rationalisation of 'specified violation' for cancellation of registration of trusts / institutions *Section(s) amended / inserted*: 12AB(4) *Effective from*: 1 Apr 2025 onwards	As per Section 12AB(4) of the IT Act, where registration of a trust / institution has been granted but subsequently there is a 'specified violation', the registration can be cancelled. 'Specified violation' for this purpose includes <u>a case where the application for registration is incomplete or contains false information</u>	'Specified violation' <u>shall not include a situation where the application for registration is incomplete</u>	To avoid situations of minor default / incompleteness in application leading to cancellation of registration of trust / institution & rendering it liable to tax

Key Direct Tax Proposals

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Period of registration of smaller trusts / institutions *Section(s) amended / inserted*: 12AB(1) *Effective from*: 1 Apr 2025 onwards	Section 12AB of the IT Act provides for registration of trust / institution for 5 years or provisional registration (where activities have not commenced at the time of filing application for registration) for 3 years. At the expiry of such registration or provisional registration, the trust / institution is required to apply for further registration	Period of validity of registration of trust / institution has been increased from 5 years to 10 years, in cases where the trust / institution has applied u/s 12A(1)(ac)(v)(i) & the total income of such trust / institution (without giving effect to Sections 11 & 12) ≤ INR 5 Crore during each of the 2 years preceding the year in which such application is made	Applying for registration after every 5 years, increases compliance burden for trusts / institutions, especially for smaller ones

Key Direct Tax Proposals

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Rationalization of persons specified u/s 13(3) for trusts / institutions *Section(s) amended / inserted*: 13(3) *Effective from*: 1 Apr 2025 onwards	As per Section 13(3) of the IT Act, tax exemption is not applicable to an income of a trust / institution, if the beneficiary of such income is: • A person who has made substantial contribution to the trust / institution (i.e., whose total contribution up to the end of the relevant year > INR 50,000), or • Relative of such person, or • Any concern in which any such person has substantial interest	• Tax exemption will not be applicable to an income, of which the beneficiary is any person whose total contribution to the trust / institution during the relevant year > INR 1 Lakh, or in aggregate upto the end of relevant year > INR 10 Lakh • Relative of above person or any concern in which above person has substantial interest, shall not be included within the list of disqualifications / ineligible beneficiaries	There are difficulties in furnishing details of persons (other than author, founder, trustees, manager, etc.) who have contributed > INR 50,000 to the trust / institution

Key Direct Tax Proposals

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Rationalisation in taxation of Business trusts *Section(s) amended / inserted*: 115UA(2) *Effective from*: AY 2026-27 onwards	• Section 115UA of the IT Act accords pass-through status to a business trust (REIT & InvIT) in respect of interest & dividend income received by it from an SPV. Such income is taxable in the hands of unit holder • Section 115UA(2) requires taxable income of a business trust to be taxable at maximum marginal rate, <u>subject to Sections 111A &112</u>	Taxable income of a business trust shall be taxable at maximum marginal rate, <u>subject to Sections 111A, 112 & 112A</u>. Section 112A provides for long-term capital gain tax on transfer of equity share in a company / unit of an equity oriented fund / unit of a business trust	Reference of Section 112A is not mentioned in 115UA(2)

Key Direct Tax Proposals

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Harmonisation of SEP applicability with Business Connection *Section(s) amended / inserted*: 9 Explanation 2A *Effective from*: AY 2026-27 onwards	• As per Section 9(1)(i) Explanation 1(b) of the IT Act, in the case of a non-resident, no income shall be considered to accrue or arise in India through or from <u>operations confined to purchase of goods in India for the purpose of export</u>. As per Explanation 2A, SEP of a non-resident in India shall constitute 'business connection' in India (even if the non-resident does have physical presence in India) • SEP for this purpose shall mean transaction in respect of any goods carried out by a non-resident with any person in India	Transactions / activities of a non-resident in India confined to the <u>purchase of goods in India for the purpose of export shall not constitute SEP</u> of such non-resident in India	Owing to the definition of SEP, the specific exclusion provided for income arising through or from operations confined to purchase of goods in India for the purpose of export, may be denied & such income may also be treated as income considered to accrue or arise in India

Key Direct Tax Proposals

Budget Proposal	Existing Provision	Proposed Amendment
Bringing clarity in income on redemption of ULIP *Section(s) amended / inserted*: 2(14)(c), 45(1B), 112A Explanation (a) *Effective from*: AY 2026-27 onwards	• ULIP is a capital asset only when tax exemption u/s 10(10D) of the IT Act does not apply on such policies due to applicability of the 4th & 5th proviso & accordingly, taxation as capital gain arises in case of such ULIPs only. However, in case of life insurance policy (other than ULIP), the sum received is taxable as 'Income from other sources' for any such policy to which tax exemption u/s 10(10D) does not apply • Further, any sum received under an insurance policy as provided in sub-clauses (a) to (d) read with the provisos to Section 10(10D) are not eligible for tax exemption. Such sub-clauses are applicable to ULIP as well	Provisions for ULIPs have been rationalized to provide that: • ULIPs to which tax exemption u/s 10(10D) does not apply, is a capital asset within the meaning of Section 2(14) • Gains on redemption of ULIPs to which tax exemption u/s 10(10D) does not apply, shall be taxable as capital gains as per Section 45(1B); & • ULIPs to which tax exemption u/s 10(10D) does not apply, shall be included in the definition of equity oriented fund as per Section 112A Explanation (a)

Key Direct Tax Proposals

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Amendment of definition of ‘Capital Asset’ *Section(s) amended / inserted*: 2(14)(b) *Effective from*: AY 2026-27 onwards	Securities held by an FII in accordance with SEBI regulations qualify as ‘capital asset’ within the meaning of Section 2(14) of IT Act	Security held by investment funds referred to in Section 115UB in accordance SEBI regulations would be treated as capital asset only so that any income arising from transfer thereof would be in the nature of capital gain	To provide certainty in respect of characterization of income arising from transaction in securities as to whether it is capital gain or business income for investment funds

Key Direct Tax Proposals

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Extension of timeline for tax benefits to start-ups *Section(s) amended / inserted*: 80IAC Explanation (ii)(a) *Effective from*: 1 Apr 2025 onwards	Section 80IAC allows tax deduction to start-ups which fulfill the below conditions: • Total turnover ≤ INR 100 Crore • It holds a certificate of eligible business from the Inter-Ministerial Board of Certification, & • It is incorporated before 1 Apr 2025	The sunset date of 1 Apr 2025 has been extended to 1 Apr 2030	To extend benefit to start-ups for another 5 years

Key Direct Tax Proposals

Budget Proposal	Existing Provision	Proposed Amendment
Rationalisation of taxation of capital gains on transfer of capital assets by non-residents *Section(s) amended / inserted*: 115AD(1)(iii) *Effective from*: AY 2026-27 onwards	Tax rate on long-term capital gain earned by non-resident on transfer of securities (other than units referred to in Section 115AB) not referred to in Section 112A of the IT Act, is 10% [as a result of amendment vide Finance (No.2) Act, 2024]	Tax rate on such long-term capital gain earned by non-resident shall be 12.5%

Key Direct Tax Proposals

TDS - Rationalization, Change in Rates & Threshold Limits

Effective from: 1 Apr 2025 onwards

Section of IT Act	Nature of Payment	Existing Rate	Proposed Rate	Reason for Amendment
194LBC	Income payable by a securitization trust to a resident investor on investment	• 25% (if the payee is an individual or HUF) • 30% (if payee is any other person)	10%	Since the sector is sufficiently organized & regulated
206C(1H)	TCS on sale of goods > INR 50 Lakh in a year	0.1% of sales consideration	The provision will become redundant	To facilitate ease of doing business & reduce compliance burden on taxpayers
206AB 206CCA	Requirement to deduct / collect tax at higher rate if deductee / collectee is a non-filer of ITR		The provisions will be omitted	

Section of IT Act	Nature of Payment	Existing Threshold Limit	Proposed Threshold Limit
193	Interest on Securities	Nil	INR 10,000
194	Dividend for an individual shareholder	INR 5,000	INR 10,000

Key Direct Tax Proposals

Section of IT Act	Nature of Payment	Existing Threshold Limit	Proposed Threshold Limit
194A	Interest other than Interest on securities	• INR 50,000 for senior citizen • INR 40,000 in case of others when payer is bank, cooperative society & post office • INR 5,000 in other cases	• INR 1,00,000 for senior citizen • INR 50,000 in case of others when payer is bank, cooperative society & post office • INR 10,000 in other cases
194B	Winnings from lottery, crossword puzzle, etc.	Aggregate amount > INR 10,000 during the year	INR 10,000 in respect of single transaction
194BB	Winnings from horse race		
194D	Insurance commission	INR 15,000	INR 20,000
194G	Income by way of commission, prize, etc. on lottery tickets	INR 15,000	INR 20,000
194H	Commission or brokerage	INR 15,000	INR 20,000

Key Direct Tax Proposals

Section of IT Act	Nature of Payment	Existing Threshold Limit	Proposed Threshold Limit
194I	Rent	INR 2,40,000 during the year	INR 50,000 per month or part of the month
194J	Fee for professional or technical services	INR 30,000	INR 50,000
194K	Income in respect of units of a mutual fund or specified company or undertaking	INR 5000	INR 10,000
194LA	Income by way of enhanced compensation	INR 2,50,000	INR 5,00,000

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Definition of 'forest produce' rationalized for TCS purposes *Section(s) amended / inserted*: 206C(1) *Effective from*: 1 Apr 2025 onwards	Section 206C(1) of the IT Act requires TCS on • Timber obtained under a forest lease • Timber obtained by any mode other than forest lease • Any other forest produce not being timber or tendu leaves	'Forest produce' will have the same meaning as defined in any State Act for the time being in force or in the Indian Forest Act,1927	No definition has been provided in IT Act for 'forest produce' which is creating difficulties

Key Direct Tax Proposals

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Amendments proposed in Sections 132 & 132B for rationalising provisions *Section(s) amended / inserted*: 132(8) & Explanation 1(a) *Effective from*: 1 Apr 2025 onwards	• Section 132 of the IT Act relates to search & seizure. As per Section 132(8), the last date for taking approval for retention of seized books of account / other documents is 30 days from the date of assessment / reassessment / recomputation order • Explanation 1 defines the circumstances in which last of the authorisations for search is considered to be executed	• Time limit of 30 days from date of order has been increased to 1 month from end of the quarter in which the assessment / reassessment / recomputation order is made • For the purpose of alignment with other provisions of the IT Act the word 'authorization' would be substituted with 'authorisations'	• In course of search assessment in group cases, assessment order of 1 taxpayer may be passed earlier than assessment orders of others • Segregation of seized books of account pertaining to various taxpayers is difficult in case the searched premise is same • Seized books of accounts pertaining to the completed assessment cases may be required for assessment of ongoing cases • Since the time limit of taking approval for retention will be different for different cases, the AOs are required to have constant vigil on the floating time-barring dates which is burdensome

Key Direct Tax Proposals

Budget Proposal	Existing Provision	Proposed Amendment
Time limit to impose penalties rationalised *Section(s) amended / inserted*: 275 *Effective from*: 1 Apr 2025 onwards	Section 275 of the IT Act provides bar of limitation for imposing penalties. It has multiple timelines for imposition of penalties in various cases, which makes it difficult to keep track of the time barring dates	An order imposing penalty under Chapter XXI shall not be passed after expiry of <u>6 months from end of the quarter</u> in which: • The connected proceedings are completed, or • The order of appeal is received by the jurisdictional Principal Commissioner or Commissioner, or • The order of revision is passed, or • The notice for imposition of penalty is issued as the case maybe

Key Direct Tax Proposals

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Clarification regarding commencement date & end date of the period stayed by the Court *Section(s) amended / inserted*: 144BA, 153, 153B, 158BE, 158BFA, 263, 264 & Rule 68B *Effective from*: 1 Apr 2025 onwards	• While calculating time limit under the IT Act in relation to various proceedings (such as assessment, reassessment, recomputation, block assessment, revision of prejudicial orders, etc), period during which the proceedings are stayed by an order / injunction of any court is excluded • However, there is ambiguity regarding the commencement date & end date of the period stayed by an order / injunction of any court which is required to be excluded	It has been clarified that the following period shall be excluded in computing the time limit for conclusion of proceedings – Period commencing on the date on which stay was granted by an order / injunction of any court & ending on the date on which certified copy of the order vacating the stay is received by the Principal Commissioner or Commissioner	To remove ambiguity regarding commencement date & end date of the period stayed by an order / injunction of any court which is required to be excluded while calculating time limit for conclusion of proceedings

Key Direct Tax Proposals

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Rationalisation of provisions related to carry forward of losses in case of amalgamation *Section(s) amended / inserted*: 72A, 72AA *Effective from*: 1 Apr 2026 onwards	• Sections 72A & 72AA of the IT Act provide provisions relating to carry forward & set-off of accumulated loss & unabsorbed depreciation in cases of amalgamation or business reorganization • They provide that accumulated loss of the amalgamating entity / predecessor entity shall be deemed to be loss of the amalgamated entity / successor entity for the year in which amalgamation / business reorganisation has been effected • Further, Section 72 provides that no business loss shall be carried forward for more than 8 years immediately succeeding the year for which the loss was 1st computed	Loss forming part of the accumulated loss of the predecessor entity, which is deemed to be the loss of the successor entity, shall be eligible to be carried forward for not more than 8 years immediately succeeding the year for which such loss was 1st computed for original predecessor entity	To prevent evergreening of losses of the predecessor entity resulting from successive amalgamations

Key Direct Tax Proposals

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Rationalisation of Transfer Pricing provisions for carrying out multi-year ALP determination *Section(s) amended / inserted*: 92CA, 155(21) *Effective from*: AY 2026-27 onwards	• Section 92CA of the IT Act provides procedure for reference of an international transaction / specified domestic transaction to the TPO, for computation of ALP. The procedure for reference to TPO & thereafter assessment by AO after receiving ALP analysis from the TPO, is a detailed exercise • In many cases, the transactions / facts are similar for various years (leading to same ALP analysis), creating compliance burden on both taxpayer as well as TPOs due to the reason that <u>transfer pricing assessment is required to be done separately for each year</u>	Transfer pricing assessments would be carried out in block. ALP determined in relation to a transaction for any year shall apply to the <u>similar transaction for 2 consecutive years immediately following such year</u>	To reduce compliance & administrative burden

Key Pillars

Socio Economic Welfare

Key Direct Tax Proposals

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Increase in limit on income of employees for the purpose of calculating perquisites *Section(s) amended / inserted*: 17(2) *Effective from*: AY 2026-27 onwards	• 'Perquisite' in relation to salary income includes value of any benefit / amenity provided free of cost or at concessional rate by an employer to an employee whose salary income > INR 50,000. This upper limit was determined in 2001 • Expenditure incurred by an employer for travel outside India on medical treatment of an employee shall not be included in 'perquisite', provided that the gross total income of such employee ≤ INR 200,000. This upper limit was determined in 1993	The power to prescribe rules may be obtained to increase the limit on gross total income of employees so that: • Amenities & benefits received by employees would be tax exempt from being treated as perquisites • Expenditure incurred by the employer for travel outside India on medical treatment of employee would not be treated as a perquisite	To adjust age-old monetary limits considering changes in standard of living & economic conditions

Key Direct Tax Proposals

Deduction u/s 80CCD for contributions made to NPS Vatsalya Scheme

What is NPS Vatsalya Scheme?

The NPS Vatsalya Scheme, officially launched in Sep 2024, enables parents / guardians to start an NPS account for their children. The Scheme is designed exclusively for minors & will be operated by the guardian for till the minor attains majority. When a minor attains 18 years of age, the account will continue to be operational & transferred to the child's name with the accumulated corpus

Extension of tax benefits available to NPS u/s 80CCD to contributions made to NPS Vatsalya account

Tax deduction to be allowed to parent / guardian, of amount deposited in the account of minor upto a maximum of INR 50,000. Amount on which tax deduction has been allowed or any amount accrued thereon, would be taxable when such amount is withdrawn. Amount on which deduction has been allowed & is received on closure of the account due to death of the minor shall not be taxed

Partial withdrawal from minor’s account to address contingency to be tax exempt

Any income arising on partial withdrawal from the minor’s account to address contingency situations (such as education, treatment of specified illnesses, disability, etc.), shall be tax exempt in hands of parent / guardian provided it does not exceed 25% of the total contribution

Section(s) amended / inserted: 10(12BA), 80CCD   *Effective from*: AY 2026-27 onwards

Key Direct Tax Proposals

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Tax exemption on withdrawals by individuals from NSS *Section(s) amended / inserted*: 80CCA(2) *Effective from*: 29 Aug 2024 onwards	• Section 80CCA of the IT Act provides tax deduction to an individual / HUF for amount deposited in NSS. No deduction is allowable on or after 1 Apr 1992. Withdrawals from the scheme (including interest) is taxable • Since the provision has been sunset from 1 Apr 1992, the amounts taxable on withdrawal are those which were deposited before 31 Mar 1992 & on which tax deduction had been claimed • Further, Circular no. 532 issued on 17 Mar 1989 provided that the withdrawal on closure of account due to death of depositor was not taxable in the hands of legal heirs • Department of Economic Affairs has issued a Notification dated 29 Aug 2024 providing that no interest would be paid on the balances in the NSS after 1 Oct 2024	• Tax would be exempt on withdrawals made by individuals for which deduction was allowed, on or after 29 Aug 2024 • Exemption would be provided to the deposits (along with interest thereon), made before 1 Apr 1992 as these are the amounts in respect of which tax deduction has been allowed	To provide relief to individuals facing hardship who were compelled to withdraw as a result of Notification dated 29 Aug 2024

Key Direct Tax Proposals

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Annual value of self-occupied house property simplified *Section(s) amended / inserted*: 23(2) *Effective from*: AY 2025-26 onwards	Annual value of 'self occupied' property for the purpose of 'income from house property' is considered as Nil u/s 23(2) of the IT Act. A house property is considered as 'self occupied' if: • It is in the occupation of the owner for the purposes of his residence, or • Owner cannot actually occupy it <u>due to his employment, business or profession carried on at any other place</u>	Restriction for owner being unable to occupy the property <u>due to employment, business or profession carried on at any other place</u>, has been done away with. In other words, if owner is unable to occupy the property himself <u>due to any reason</u>, he is entitled to consider the property as 'self occupied' & hence annual value would be considered as Nil	Simplification of provision

Key Pillars

Tax Administration

Key Direct Tax Proposals

Obligation to furnish information in respect of crypto-asset

Taxation of transfer of VDA

Vide Finance Act 2022, taxation of VDA was introduced in the IT Act. As per Section 115BBH, transfer of VDA is taxable @ 30% with no deduction in respect of expenditure (except cost of acquisition). Section 2(47A) defines VDA. Section 194S has been inserted to provide for TDS on transfer of VDA @ 1% of transaction value

Reporting on Information in respect of transaction in crypto asset

A new Section 285BAA would be inserted requiring a reporting entity to furnish information in respect of a transaction in crypto asset in the prescribed form. If the tax authority considers the form / information to be defective, an opportunity would be given to rectify the defect. Further, new Section 2(47A)(d) would be inserted which states that the definition of VDA 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 & secure transactions

Section(s) amended / inserted: 285BAA, 2(47A)(d) *Effective from*: 1 Apr 2026 onwards

Key Direct Tax Proposals

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Increase in time limit available to pass order u/s 115VP approving / rejecting application to opt for tonnage tax scheme *Section(s) amended / inserted*: 115VP *Effective from*: 1 Apr 2025 onwards	A qualifying company that wishes to opt for tonnage tax scheme under the IT Act, needs to file an application before the Joint Commissioner. U/s 115VP(4) of the IT Act, the Joint Commissioner has time until <u>1 month from the end of the month</u> in which application is received by him, to pass an order accepting or rejecting the application of the taxpayer / qualifying company	For an application received on or after 1 Apr 2025, the time limit to pass the order has been increased to <u>3 months from the end of the quarter</u> in which the application is received	Very less time is available with the Joint Commissioner for verification of information, including physical inspection of the ships if necessary, providing an opportunity of being heard & then passing a reasoned order approving or rejecting the application

Key Direct Tax Proposals

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Exemption from prosecution for delayed payment of TCS in certain cases *Section(s) amended / inserted*: 276BB *Effective from*: 1 Apr 2025 onwards	If a taxpayer fails to deposit TCS with the Government in accordance with Section 206C of the IT Act, he is liable to imprisonment which may stretch from 3 months to 7 years	Prosecution proceedings shall not be initiated if TCS is deposited with the Government <u>on or before the due date of filing quarterly TCS return</u>	To relax the stringent provision relating to imprisonment arising due to delay in deposit of TCS
Certain penalties to be imposed by the AO *Section(s) amended / inserted*: 246A, 271BB, 271C(2), 271CA(2), 271D(2), 271DA(2), 271DB(2), 271E(2), *Effective from*: 1 Apr 2025 onwards	Sections 271C, 271CA, 271D, 271DA, 271DB, 271E of the IT Act provide that penalty under these provisions shall be imposed by <u>Joint Commissioner</u> (even though assessment in such cases are being made by AO)	Penalties under these provisions shall be levied by <u>AO in place of Joint Commissioner</u>. AO shall take prior approval of Joint Commissioner for passing penalty order, where penalty amount > INR 10,000 / INR 20,000 as specified u/s 274(2) of the IT Act	To rationalize the process relating to levy of penalty

Key Direct Tax Proposals

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Extension of processing period of application seeking immunity from penalty & prosecution *Section(s) amended / inserted*: 270AA(4) *Effective from*: 1 Apr 2025 onwards	Section 270AA of the IT Act provides the procedure for grant of immunity by AO from imposition of penalty / prosecution. For this purpose, an application for grant of immunity has to be made by the taxpayer. The AO is required to pass an order accepting or rejecting the application, within 1 month from end of the month in which the application is received	Time limit to pass an order accepting or rejecting application for grant of immunity, has been increased to 3 months from end of the month in which application for grant of immunity is received by the AO	Taxpayers are facing challenges to represent their case within the limited time period of 1 month

Key Direct Tax Proposals

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Extension of time limit to submit Updated ITR u/s 139(8A) *Section(s) amended / inserted*: 139(8A), 140B(3) *Effective from*: 1 Apr 2025 onwards	Updated ITR u/s 139(8A) of the IT Act can be submitted upto 24 months from the end of relevant AY, against payment of additional tax of: • 25% of aggregate tax & interest (in case Updated ITR is submitted within 12 months from end of AY) • 50% of aggregate tax & interest (in case Updated ITR is submitted after 12 months but before 24 months from end of AY)	Time limit to submit Updated ITR has been increased from 24 months to 48 months from end of relevant AY. Additional tax to be paid is: • 60% of aggregate tax & interest (in case Updated ITR is submitted within after 24 months but before 36 months from end of AY) • 70% of aggregate tax & interest (in case Updated ITR is submitted within after 36 months but before 48 months from end of AY)	To further nudge voluntary compliance

Key Direct Tax Proposals

Other Amendments

Non-applicability of Section 271AAB of the IT Act

Section 271AAB(1A) of the IT Act relates to penalty in respect of searches initiated after 15 Dec 2016. The provision shall not be applicable to a taxpayer in whose case search has been initiated u/s 132 on or after the 1 Sep 2024.

Section(s) amended / inserted: 271AAB(1A) *Effective from*: 1 Sep 2024 onwards

Removing date restrictions on framing the schemes in certain cases

Currently the end date prescribed for notifying faceless schemes u/s 92CA, 144C, 253 & 255 of the IT Act is 31 Mar 2025. The end date would be omitted to enable Central Government issue necessary directions even beyond 31 Mar 2025.

Section(s) amended / inserted: 92CA(9), 144C(14C), 253(9), 255(8) *Effective from*: 1 Apr 2025 onwards

Extension of exemption to SUUTI

Currently SUUTI is exempted from payment of Income-tax up to 31 Mar 2025. The said date has been extended to 31 Mar 2027

Section(s) amended / inserted: 13(1) of UTI Repeal Act, 2002 *Effective from*: 1 Apr 2025 onwards

Indirect Tax Proposals

GST - Taxability

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Pre-condition for ITC reversal on Credit Notes *Section(s) amended / inserted*: 34(2) of CGST Act	The supplier of goods / services can reduce output tax liability upon issue of credit notes subject to prescribed conditions	The supplier cannot reduce its output tax liability basis credit notes issued <u>unless the recipient has reversed the corresponding ITC</u>	To curb undue tax benefits. However, it imposes compliance burden on suppliers beyond their control
Taxability of Vouchers *Section(s) amended / inserted*: 12(4) & 13(4) of CGST Act	Section 12(4) & 13(4) of the CGST Act provides time of supply provisions for vouchers	Provisions would be <u>omitted</u> removing time of supply rules for vouchers	To give effect to 55^{th} GST Council meeting recommendations & Circular no. 243/37/2024-GST dated 31 Dec 2024

GST - Taxability

Budget Proposal	Proposed Amendment	Reason for Amendment
Transactions not treated as 'Supply' of goods / services *Section(s) amended / inserted*: Schedule III of CGST Act *Effective from:* 1 Jul 2017 onwards	• Supply of goods warehoused in an SEZ or FTWZ before clearance for export / DTA deemed not be supply under Schedule III • No refund of tax already paid on the aforesaid transaction • The terms SEZ, FTWZ & DTA will have the same meanings as defined u/s 2 of the SEZ Act	To avoid GST on goods stored in prescribed warehouses
Clarification on Local Authority *Section(s) amended / inserted*: 2(69) of CGST Act	• The phrase 'Municipal or Local Fund' replaced with 'Municipal Fund or Local Fund' • Definition of 'Local Fund' & 'Municipal Fund' to be added to define 'Local Authority'	To provide clarity on local authority finances

GST - Input Tax Credit

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Substitution of ‘Plant *or* Machinery’ with ‘Plant *and* Machinery’ *Section(s) amended / inserted*: 17(5)(d) of CGST Act *Effective from:* 1 Jul 2017 onwards	ITC is not allowed on goods / services received for construction of an immovable property (other than plant *or* machinery) on own account even if used for furtherance of business	The phrase ‘Plant *or* Machinery’ to be replaced with ‘Plant *and* Machinery’	To give effect to 55th GST Council meeting recommendations to overcome Supreme Court judgement in Safari Retreats case
Allow ITC distribution by ISD for inter-state supplies under reverse charge *Section(s) amended / inserted*: 2(61) & 20 of CGST Act *Effective from:* 1 Apr 2025 onwards	-	ISD definition amended to provide for distribution of ITC by ISD on account of GST paid under RCM on inter-state supplies	To ensure uniformity in ISD distribution process across inter-state transactions

GST - Input Tax Credit

Budget Proposal	Proposed Amendment	Reason for Amendment
ITC Statement *Section(s) amended / inserted*: 38 of CGST Act	The provisions of ITC Statement to remove reference of auto-generated ITC Statement since it will be generated basis actions taken by recipient through IMS	To align with the new IMS functionality
Restrictions & conditions for filing monthly GST Returns *Section(s) amended / inserted*: 39(1) of CGST Act	Government empowered to prescribe conditions & restrictions for filing of monthly GST Returns in line with the advisory on auto-populated liability locking in Form GSTR-3B (summary return)	For ease of filing monthly GST Returns

GST - Appeals

Budget Proposal	Existing Provision	Proposed Amendment	Reason for Amendment
Pre-deposit for Appeals in cases where only penalty is demanded *Section(s) amended / inserted*: 107(6) of CGST Act	• In case of detention / seizure of goods - <u>25%</u> of penalty amount • In other cases – <u>NIL</u>	• Reduced from 25% to <u>10%</u> • Increased to <u>10%</u> of penalty amount	• To provide relief to genuine taxpayers • To discourage frivolous appeals
Pre-deposit for Appeals before Appellate Tribunal in cases where only penalty is demanded *Section(s) amended / inserted*: 112 of CGST Act	No pre-deposit required	Increased to <u>10%</u> of penalty amount in all cases	Aligned with pre-deposit rules for GST Appeals

GST - Track & Trace Mechanism

Budget Proposal	Proposed Amendment	Reason for Amendment
Track & Trace Mechanism *Section(s) amended / inserted*: 2(116), 148A & 122B of CGST Act	• Government to notify specified goods & persons for implementing 'Track & Trace Mechanism' using UIM on goods or their packages • UIM to refer a mark including a digital stamp / mark / other similar marking which is unique, secure & non-removable • Penalty (higher of INR 1 Lakh or 10% of the tax payable on the goods) in case of non-compliance with the UIM mechanism	To control & monitor supply of specified goods

Customs - Key Amendments

- Structured time limit of 2 years for finalization of provisional assessments (extendable by 1 year with the approval of Principal Commissioner / Commissioner of Customs) subject to conditions & exceptions
- Importers & exporters may voluntarily revise Bill of Entry / Shipping Bill after the clearance of goods subject to prescribed conditions. The Customs authorities may re-assess the revision based on risk-based approach
- Existing Settlement Commission to be phased out by 31 Mar 2025. Pending applications would be handled by an Interim Board for settlement to be constituted
- Relaxation in 'Import of Goods at Concessional Rate of Duty' compliances
- Tariff rate adjustments - Removal of 7 Tariff rates. Consequently, Tariff rates of 25%, 30%, 35%, 40% rationalised to 20%. Further, tariff rates of 150%, 125%, 100% rationalised to 70%. There will remain 8 tariff rates including a zero rate
- Only one cess or surcharge to be levied on imports

Please refer Finance (No. 14) Bill 2025 for schedule of Customs Duty rate changes

About Us

KrayMan Consultants LLP (KrayMan) is an accounting & consulting Firm headquartered in Gurugram & serving Clients across India for more than 13 years.

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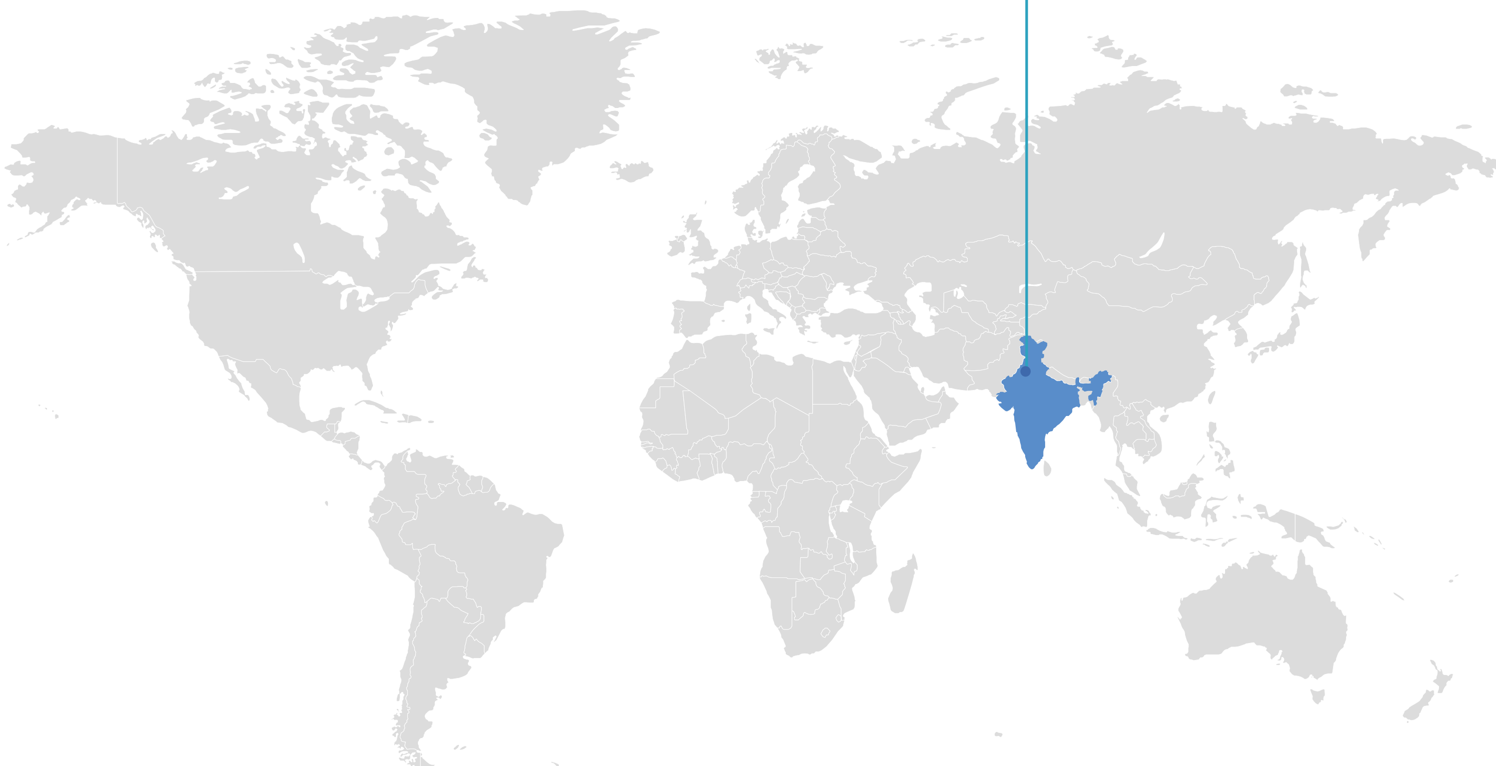

Disclaimer

The intention of the newsletter is to cover highlights of the Union Budget 2025. Attempt has been made to cover key announcements. No claim is made to cover each & every proposal introduced in the Union Budget. The newsletter contains information of general nature & is not meant to be a substitute for professional advice in any manner. In case the reader requires any specific inputs / suggestions / advice from our end, please contact us separately.