J P Chawla & Co. LLP


# UNION BUDGET
# ANALYSIS 2025-26

One of the world's fastest-growing economies, with the Highest GDP growth in the region.


# CONTENTS

# FOREWORD

## Richa Juneja

### Managing Partner

India is buzzing with business activity despite global pressures and is expected to remain resilient in these uncertain times. India's GDP is likely to grow at the rate of 6.8% in FY 26 with steady growth in services and manufacturing in FY 26.

The global economic landscape in 2024 was marked by steady yet uneven growth, with a slowdown in manufacturing due to supply chain disruptions and weak external demand. However, the services sector demonstrated resilience, driving expansion in various economies. Against this backdrop, India continued to maintain robust economic momentum, with real GDP expected to grow by 6.4% in FY25. This growth was fueled by strong performance in agriculture and services, supported by record Kharif production and favorable rural conditions. Despite challenges in the manufacturing sector, stable private consumption, disciplined fiscal management, and a strong external balance have contributed to India's macroeconomic stability. Looking ahead, the economic outlook for FY26 remains positive, with private investment, rising consumer confidence, and corporate wage growth expected to drive expansion, supported by a stable policy environment.

Navigating global uncertainties will require strategic policy management, sustained investment, and a continued focus on domestic economic fundamentals. Global inflationary pressures are easing, but geopolitical risks and trade uncertainties persist, necessitating a cautious approach. India's infrastructure push, industrial modernization, and financial sector reforms remain crucial in sustaining long-term growth. Additionally, advancements in digitalization, employment generation, and services sector transformation will play a key role in enhancing India's global competitiveness. As the country progresses toward its goal of becoming a developed economy by 2047, a strategic blend of policy support, private sector participation, and innovation-driven growth will be essential in ensuring sustainable and inclusive economic development.

The Union Budget 2025 introduces several key amendments to direct taxation, aiming to simplify compliance, enhance clarity, and provide relief to taxpayers. One of the most significant changes is the revision of tax slabs under the new tax regime, now the default regime for individuals, Hindu Undivided Families (HUFs), Associations of Persons (AOPs), and other non-corporate entities (excluding Firms). The enhanced rebate under Section 87A, increasing the threshold from ₹7 lakh to ₹12 lakh, ensures no tax liability for individuals with income up to ₹12 lakh, excluding income taxed at special rates. The sunset clause has been extended by 5 years in respect of deductions available to IFSC units and start-ups. To further streamline tax administration, the Budget introduces revised TDS/TCS thresholds across various sections, rationalizing withholding tax obligations for businesses.

The Union Budget 2025 also introduces significant amendments in Indirect Taxation, focusing on Goods and Services Tax (GST) and Customs to streamline compliance, enhance enforcement, and support economic growth. Key GST amendments include enabling Input Service Distributors (ISD) to distribute input tax credit (ITC) on reverse charge transactions, the introduction of unique identification marking for track and trace mechanisms, and revisions to credit note adjustments to ensure proper ITC reversal by recipients. Additionally, amendments to Section 38 aim to provide a more comprehensive view of inward supplies, while proposed restrictions on return filing under Section 39 indicate stricter compliance measures. In the realm of litigation, pre-deposit requirements for appeals have been reduced from 25% to 10%, easing the burden on taxpayers. The implementation of a track-and-trace mechanism for specified goods further strengthens regulatory oversight.

In Customs, the Budget has introduced measures to improve efficiency and enhance trade facilitation. The time limit for provisional assessments has been capped at two years, ensuring quicker resolution of pending cases. A voluntary disclosure mechanism has been proposed, allowing taxpayers to correct material errors without penalties, provided no audit or investigation has commenced. The Investment Goods for Capital Requirements (IGCR) scheme has seen its input utilization timeline extended from six months to one year, while railway goods repairs under the MRO scheme now enjoy an extended duty-free period of one year. The rationalization of customs duty structure, along with exemptions and reductions in Basic Customs Duty (BCD) for critical sectors like EV batteries, mobile manufacturing, and renewable energy, is set to bolster domestic production and reduce import dependency. These measures, coupled with exemptions on life-saving drugs and revisions in excise duties, reflect the government's continued focus on ease of doing business, trade competitiveness, and economic sustainability.

There are regulatory changes aimed at enhancing the ease of doing business, boosting investment, and fostering economic growth. To accelerate corporate restructuring, the approval process for company mergers will be streamlined, expanding the scope of fast-track mergers and simplifying procedures for greater efficiency. Additionally, in a major reform for the insurance sector, the Foreign Direct Investment (FDI) limit will be raised to 100% for companies that reinvest the entire premium within India, encouraging higher capital inflows and industry expansion.

Building on the Jan Vishwas Act 2023, which decriminalized over 180 legal provisions, the Jan Vishwas Bill 2.0 will further decriminalize more than 100 provisions across various laws. This initiative is set to reduce legal complexities, promote entrepreneurial confidence, and create a more business-friendly environment. Recognizing the pivotal role of Micro, Small, and Medium Enterprises (MSMEs) in driving economic growth, the investment and turnover thresholds for MSME classification have been significantly enhanced. The revised limits—2.5 times for investment and 2 times for turnover—will enable more enterprises to qualify for MSME benefits, fostering business expansion, improving competitiveness, and strengthening domestic manufacturing. These reforms collectively reflect a progressive regulatory framework designed to spur economic activity, attract investment, and support long-term industrial growth.

Please Note:

-This budget has been prepared as a knowledge document, does not constitute an advertisement of any manner and is for private circulation only.

-Contribution of J P Chawla & Co. LLP's team members: Mr. J.P. Chawla, Mr. Ankit Vyas, Mr. Vipin Sharma and Ms. Vinita Chandra for the preparation of this comprehensive budget document is highly appreciated and acknowledged with thanks.

**Hope you enjoy reading our analysis of Final Budget 2025.**

**Happy reading!!**

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# ECONOMIC OUTLOOK

6.8% GDP GROWTH

# 01 ECONOMIC OUTLOOK

## Current State of Indian Economy

### OVERVIEW

In 2024, the global economy experienced steady but uneven growth across regions. A key trend was the slowdown in global manufacturing, particularly in Europe and parts of Asia, due to supply chain disruptions and weak external demand. In contrast, the services sector remained resilient, driving growth in many economies.

In this global context, India maintained steady economic growth. As per the first advance estimates for FY25, India's real GDP is expected to grow by 6.4%. Growth in the first half of FY25 was driven by agriculture and services, supported by record Kharif production and favorable rural conditions. However, the manufacturing sector faced headwinds due to weak global demand and seasonal domestic factors. Private consumption remained stable, reflecting steady domestic demand, while fiscal discipline and a strong external balance, bolstered by a services trade surplus and healthy remittance inflows, contributed to macroeconomic stability.

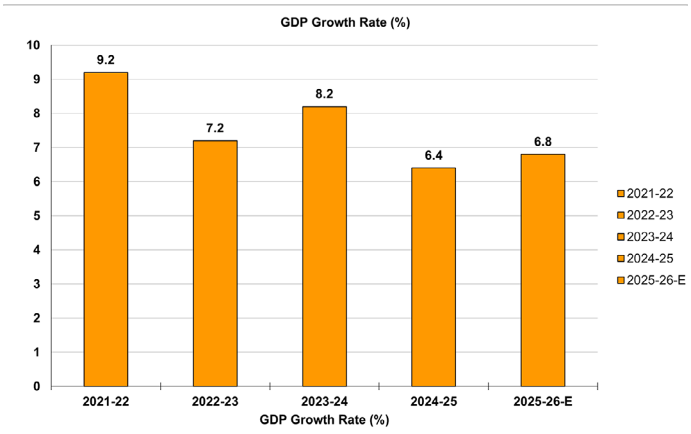
Looking ahead, India's economic outlook for FY26 remains balanced. Potential headwinds include geopolitical and trade uncertainties and possible commodity price shocks. Domestically, sustained investment in private capital goods, rising consumer confidence, and corporate wage growth will be key drivers of expansion. Additionally, rural demand, supported by a rebound in agricultural production, easing food inflation, and a stable macroeconomic environment, presents an upside for near-term growth.

### ECONOMIC GROWTH

Global inflationary pressures have been gradually easing, but the risk of synchronized price increases remains due to potential geopolitical disruptions, including tensions in the Middle East and the ongoing Russia-Ukraine conflict. In response, central banks have shifted toward more accommodative monetary policies. However, the pace of interest rate cuts varies across regions, influenced by differing growth priorities and the speed of disinflation. This divergence could lead to variations in economic recovery across economies.

On the domestic front, the revival of rural demand bodes well for overall consumption. Investment activity is expected to gain momentum, driven by increased public capital expenditure and improving business sentiment. Manufacturing capacity utilization remains above the long-term average, while private sector order books continue to expand, accompanied by a rise in investment intentions. However, these positive trends could face challenges from global excess capacities in industries like steel, which may prompt aggressive trade policies as countries compete for demand.

In summary, FY26 presents significant upsides for domestic investment, output growth, and disinflation. However, equally strong external risks could pose challenges. Despite these uncertainties, the fundamentals of the domestic economy remain solid, supported by a resilient external account, measured fiscal consolidation, and stable private consumption. Considering these factors, economic growth in FY26 is projected to range between 6.3 and 6.8 percent.




Navigating global headwinds will require strategic and prudent policy management, along with a continued focus on strengthening domestic fundamentals. The Budget 2024-25 has outlined a comprehensive, multisectoral policy agenda aimed at sustaining economic growth.

## PRICES

The RBI and IMF anticipate India's consumer price inflation to gradually align with the target in FY26. In its December 2024 Monetary Policy Committee report, the RBI revised its FY25 inflation projection from 4.5% to 4.8%, factoring in economic developments. Assuming a normal monsoon and no major external or policy shocks, the RBI expects headline inflation to ease to 4.2% in FY26. Similarly, the IMF projects India's inflation at 4.4% for FY25 and 4.1% for FY26, indicating a steady decline in inflationary pressures.

## EXTERNAL SECTOR

India's external sector has remained resilient despite challenging geopolitical conditions. On the current account, merchandise exports have grown at a moderate pace due to a slowdown in external demand, while merchandise imports have expanded significantly, driven by strong domestic demand. However, increased net services receipts and rising remittances have helped cushion the impact of the merchandise trade deficit.

On the capital account, India has experienced net positive capital inflows. Gross FDI inflows have grown at a faster rate in the first eight months of FY25 compared to the same period in the previous year. However, a surge in repatriation has limited the expansion of net FDI. Meanwhile, FPI inflows have shown volatility in the first nine months of FY25, reflecting mixed trends in global investor sentiment.

Global trade dynamics have undergone a significant shift in recent years, moving from globalization toward rising trade protectionism and heightened uncertainty. This evolving landscape calls for a new strategic trade roadmap for India to strengthen its position in global supply chains. To remain competitive, India must reduce trade costs, enhance facilitation measures, and improve export competitiveness. While there is still much to be done to boost trade efficiency, the encouraging factor is that these improvements are within India's control. Additionally, the industry must play its part by continuously investing in quality, ensuring that Indian exports remain globally competitive.

The state drives governance, while the private sector focuses on producing goods and services. If both actors prioritize quality and efficiency, India can navigate trade tensions and rising protectionism while expanding its global market share. By doing so, the country can generate resources to support higher capital formation, laying the foundation for sustained economic growth. This approach will not only enable India to aspire for higher growth rates but also turn those aspirations into reality over the long term.

## EMPLOYMENT

India has experienced strong employment growth in recent years, with labour market indicators reflecting a robust post-pandemic recovery and increasing formalisation of the economy. This progress has been driven by advancements in entrepreneurship, skill development, regulatory transformation, and labour law reforms.

Historically, labour laws meant to protect women workers have inadvertently created barriers to their workforce participation. However, India's new Labour Codes address these challenges by allowing night shifts for women with safety provisions, extending 26 weeks of maternity leave to gig and informal workers, and mandating creche facilities in workplaces with 50 or more employees. These reforms ensure equal pay, prohibit gender-based recruitment discrimination, and allow women to work across all sectors, including hazardous roles, with necessary safeguards. By promoting gender inclusivity, workplace safety, and social security, these measures empower more women to enter and remain in the workforce.

Labour reforms have also streamlined compliance, increased labour flexibility, and improved worker welfare, creating an environment that balances ease of doing business with worker rights protection. These initiatives contribute to a 'virtuous cycle of job creation', fostering sustainable employment growth and economic inclusivity. Additionally, deregulation—whether in labour or other economic sectors—plays a crucial role in boosting employment by reducing business costs and enabling resources to be allocated toward capacity expansion, job creation, and technological advancements.

## INDUSTRY

The Economic Survey 2023-24, which had released in July 2024, highlighted key trends and challenges in India's industrial sector. Over the last decade, output shares have shifted in favor of industries such as chemicals, wood products, pharmaceuticals, automobiles, steel, and machinery. However, import dependency remains high in critical sectors like coal, capital goods, and chemicals, making India vulnerable to global uncertainties that may impact export demand and domestic production costs due to price fluctuations in import-intensive raw materials.

To advance industrialization, the focus must be on deregulation, R&D, innovation, and workforce skill enhancement. A strong commitment to R&D and innovation, independent of fiscal incentives, is crucial for global competitiveness and long-term profitability. Additionally, sectors with dispersed production units, such as textiles and MSMEs, require support systems to facilitate finance, compliance, and market access at the grassroots level.

The analysis further reinforces the connection between a challenging global environment and India's industrial performance. In H1 FY25, manufacturing growth decelerated, partly due to seasonal factors like festivities and monsoon-related disruptions. Additionally, slackening global trade and protectionist policies of major economies have impacted private sector investment and industrial growth. However, business surveys and the Purchasing Managers' Index (PMI) suggest rising optimism. Moving forward, a vigorous push toward deregulation, R&D, strategic skilling, employment generation, and targeted MSME support will boost industrial competitiveness and resilience.

A State-wise analysis reveals significant variations in industrial strengths, weaknesses, and regulatory environments. The state of business regulations and reforms directly correlates with a state's industrial progress or stagnation, emphasizing the need for grassroots-level business reforms. Given the unsupportive global climate, achieving India's manufacturing powerhouse ambition will require synchronized efforts from all levels of government, the private sector, skilling institutions, academia, R&D bodies, and financial stakeholders. These collaborative efforts will be key to navigating global challenges and driving sustainable industrial growth.

## SERVICES

The Economic Survey 2023-24 also highlighted two major transformations reshaping India's services sector: the rapid technology-driven transformation of domestic service delivery and the diversification of India's services exports. Leading this shift are financial and professional services, which accounted for 45% of total service sector GVA growth in H1 FY25, a contribution similar to their impact over the past decade. Globally, services are driving economic growth, even in countries facing manufacturing slowdowns due to weakened merchandise trade. This trend presents new opportunities for India's services exports and domestic service sector expansion.

However, emerging risks could slow IT and professional services growth, especially due to recent global policy shifts following key electoral outcomes. Regulators have expressed concerns over offshore work, particularly in audit quality, due to issues such as breakdowns in traditional apprenticeship models, lack of direct supervision, language barriers, communication gaps, confidentiality risks, and regulatory discrepancies between countries. These perceived risks may pose downside threats to export-driven services growth.

Domestically, services are becoming increasingly embedded in non-service economic activities, as reflected in National Accounts Statistics. The concept of "servicification" of manufacturing, where services play a growing role in manufacturing production and post-production value addition, underscores the interdependence between manufacturing and services growth. Additionally, digital technologies and AI are reshaping demand for embedded services in sectors such as finance, retail, telecom, and logistics.

Two key takeaways emerge from this evolving landscape. First, workers with strong digital and technical skills will benefit most from AI-driven transformations, making workforce skilling a crucial factor in advancing manufacturing and services. Second, there is an urgent need to review and simplify regulatory procedures at the grassroots level, ensuring that manufacturing and services can operate efficiently without unnecessary compliance burdens.

## INVESTMENT AND INFRASTRUCTURE

The government's focus on infrastructure development has positioned it at the core of India's fiscal and public policy agenda, with the capital expenditure for FY25 set at 3.3 times that of FY20. Despite initial challenges due to general elections and heavy monsoons in Q1 FY25, infrastructure spending gained momentum from July to November 2024. Progress in railway capacity, port handling, and power infrastructure indicates positive trends, although highway, road, and railway line expansions have been modestly slower. Overall, despite early hurdles, infrastructure development remains on track.

In addition to asset creation, the infrastructure program emphasizes sustainability, focusing on eco-friendly materials and processes in highways, waterways, power, and waste management. These sustainable practices are crucial as India commits to Net Zero emissions, necessitating the development of renewable energy capacities.

Over the next two decades, consistent infrastructure investment will be vital to sustaining high economic growth. Key priorities include multi-modal transport systems, modernization of existing assets, disaster-resilient urbanization, enhanced public transport, heritage conservation, rural infrastructure development, and expanding renewable energy capabilities.

However, public sector resources alone are insufficient to meet these vast requirements due to budget constraints across government tiers. Therefore, accelerating private sector participation is essential across program planning, financing, construction, maintenance, monetization, and impact assessment.
The government supports diverse Public-Private Partnership (PPP) models, including Build-Operate-Transfer (BOT), Design-Build-Finance-Operate-Transfer (DBFOT), Hybrid Annuity Model (HAM), and Toll-Operate-Transfer (TOT). Initiatives like the National Infrastructure Pipeline (NIP), National Monetization Pipeline (NMP), and PM-Gati Shakti have been implemented to facilitate infrastructure projects. Despite these frameworks, private sector involvement in critical sectors remains limited.

To enhance private sector participation, a coordinated strategy involving all stakeholders—including government entities, financial markets, project managers, and private firms—is imperative. Strengthening project conceptualization, sector-specific execution strategies, risk-sharing mechanisms, contract management, conflict resolution, and project closure are necessary for effective implementation. Achieving these goals requires unified efforts and a national consensus on the importance of public-private partnerships in transforming India's infrastructure landscape.

## CONCLUSION

India's economic resilience and growth trajectory continue to stand strong despite global uncertainties and evolving challenges. The country's strategic focus on infrastructure development, financial sector transformation, industrial modernization, and climate-conscious policies positions it as a global economic leader in the coming decades. With GDP growth projected between 6.3% and 6.8% in FY26, India remains among the world's fastest-growing economies, supported by robust domestic consumption, steady investment momentum, and sound macroeconomic policies.

However, geopolitical tensions, trade disruptions, financial risks, and climate-related uncertainties present significant headwinds. Successfully navigating these challenges requires prudent policy management, structural reforms, deregulation, and continued emphasis on global competitiveness. Sustained investment in infrastructure, digitalization, technological innovation, workforce skilling, and climate adaptation will be critical in ensuring long-term economic stability and growth.

# 01 ECONOMIC OUTLOOK

## Current State of Indian Economy

India's ambition of becoming a developed nation by 2047 hinges on a delicate balance between economic expansion and environmental sustainability. The transition to a low-carbon economy, renewable energy adoption, and industrial modernization, combined with a resilient and inclusive financial system, will determine the country's ability to seize new opportunities while mitigating emerging risks.

The financial sector's transformation, marked by the rise of retail lending, non-bank-based financing, and a surge in capital market participation, signals a dynamic shift in India's economic landscape. Meanwhile, reforms in agriculture, employment, manufacturing, and services ensure broad-based growth, addressing the needs of diverse sectors and populations. At the same time, India's external sector, supported by strong services exports and remittance inflows, remains resilient amid shifting global trade dynamics.

As India moves forward, it must strengthen public-private partnerships, improve regulatory frameworks, and foster innovation-driven growth. Addressing inflationary pressures, global trade uncertainties, and supply chain vulnerabilities will require a proactive and coordinated approach across all levels of governance, industry, and financial institutions.

Ultimately, India's commitment to inclusive development, financial stability, and sustainable progress will ensure long-term prosperity for its people. With a strategic, forward-looking approach, the country is well-positioned to reinforce its role as a global economic powerhouse, driving growth, innovation, and sustainability for the future.

The Fiscal Deficit (FD) represents the gap between total expenditure and total receipts (excluding Debt Capital Receipts), reflecting the government's borrowing requirement. Revenue Deficit occurs when revenue expenditure exceeds revenue receipts, while Effective Revenue Deficit accounts for Revenue Deficit minus Grants-in-Aid for Capital Asset Creation. Primary Deficit is calculated as Fiscal Deficit minus interest payments. Additionally, Effective Capital Expenditure (EffCapex) combines Capital Expenditure and Grants-in-Aid for Capital Asset Creation, indicating the actual investment in infrastructure and growth-oriented projects.

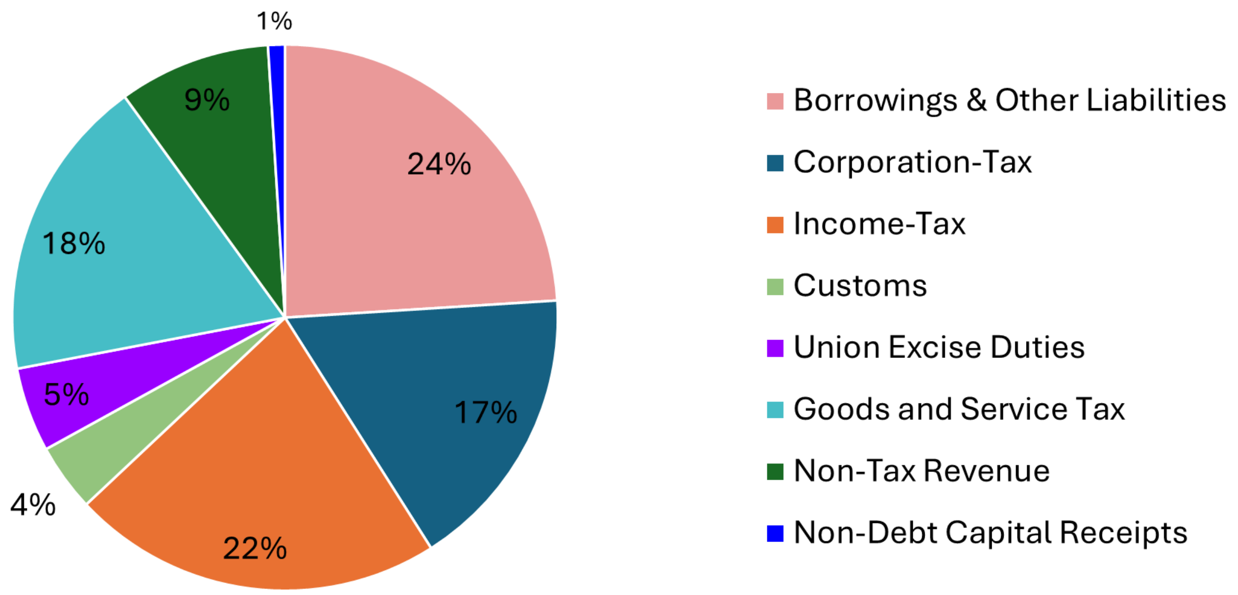
For FY 2024-25, the Revised Estimates (RE) project total expenditure at ₹47,16,487 crore, compared to ₹44,43,447 crore in FY 2023-24 Actuals. The capital expenditure in RE 2024-25 is ₹10,18,429 crore, reflecting an increase from ₹9,49,195 crore in FY 2023-24.

In the Budget Estimates (BE) for FY 2025-26, total expenditure is projected to rise to ₹50,65,345 crore, with capital expenditure at ₹11,21,090 crore and effective capital expenditure reaching ₹15,48,282 crore. This increase underscores the government's continued commitment to infrastructure development, economic expansion, and capital formation.

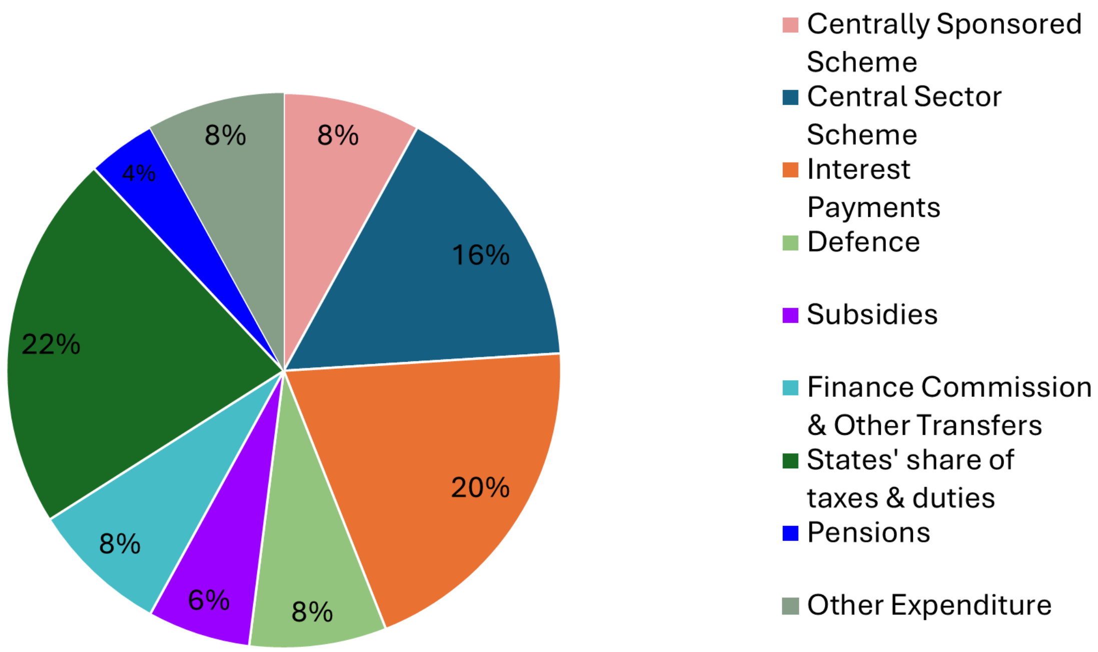
The total resources transferred to States, including State share devolution, grants, loans, and centrally sponsored schemes, are projected at ₹25,01,284 crore in BE 2025-26. This marks a ₹4,91,668 crore increase over FY 2023-24 Actuals, reinforcing fiscal federalism and ensuring greater financial support for state-level development initiatives.

These fiscal trends indicate strong capital investment priorities, a focus on infrastructure growth, and enhanced resource allocation to states, all while maintaining fiscal discipline and economic stability.

## WHERE THE RUPEE COMES FROM




## WHERE THE RUPEE GOES



## Budget at a Glance

***INR in Crores***

| S.NO | Particulars | 2023-2024 Actuals | 2024-2025 Budget Estimates | 2024-2025 Budget Estimates | 2025-2026 Budget Estimates |
|---|---|---|---|---|---|
| 1 | Revenue Receipts | 2,729,036 | 3,129,200 | 3,087,960 | 3,420,409 |
| 2 | Tax Revenue (Net to Centre) | 2,327,251 | 2,583,499 | 2,556,960 | 2,837,409 |
| 3 | Non-Tax Revenue | 401,785 | 545,701 | 531,000 | 583,000 |
| 4 | Capital Receipts | 1,714,411 | 1,691,312 | 1,628,527 | 1,644,936 |
| 5 | Recovery of Loans | 26,646 | 28,000 | 26,000 | 29,000 |
| 6 | Other Receipts | 33,122 | 50,000 | 33,000 | 47,000 |
| 7 | Borrowings and Other Liabilities | 1,654,643 | 1,613,312 | 1,569,527 | 1,568,936 |
| 8 | Total Receipts (1+4) | 4,443,447 | 4,820,512 | 4,716,487 | 5,065,345 |
| 9 | Total Expenditure (10+13) | 4,443,447 | 4,820,512 | 4,716,487 | 5,065,345 |
| 10 | On Revenue Account of which | 3,494,252 | 3,709,401 | 3,698,058 | 3,944,255 |
| 11 | Interest Payments | 1,063,872 | 1,162,940 | 1,137,940 | 1,276,338 |
| 12 | Grants in Aid for creation of Capital Assets | 303,916 | 390,778 | 299,891 | 427,192 |
| 13 | On Capital Account | 949,195 | 1,111,111 | 1,018,429 | 1,121,090 |
| 14 | Effective Capital Expenditure (12+13) | 1,253,111 | 1,501,889 | 1,318,320 | 1,548,282 |
| 15 | Revenue Deficit (10-1) | 765,216 | 580,201 | 610,098 | 523,846 |
| 16 | Effective Revenue Deficit (15-12) | 461,300 | 189,423 | 310,207 | 96,654 |
| 17 | Fiscal Deficit [9-(1+5+6)] | 1,654,643 | 1,613,312 | 1,569,527 | 1,568,936 |
| 18 | Primary Deficit (17-11) | 590,771 | 450,372 | 431,587 | 292,598 |

# DIRECT TAX PROPOSALS

Introduces tax reforms, increased exemptions, IFSC incentives, TDS/TCS changes, startup benefits, and stricter compliance measures.

## A. Personal and non-corporate taxation:

**Tax rates u/s 115BAC(New tax regime)-Default tax regime for Individuals, HUFs, AOP, BOI and AJP**

1. With effect from Assessment year 2026-27, it is proposed that the following rates provided under the clause (ii) of sub-section (1A) of section 115BAC of the Act, shall be the rates applicable for determining the income-tax payable in respect of the total income of a person, being an individual or Hindu undivided family or association of persons [other than a co-operative society], or body of individuals, whether incorporated or not, or an artificial juridical person referred to in sub-clause (vii) of clause (31) of section 2:

| Total Income | Rate of Tax |
|---|---|
| Upto INR 4,00,000 | Nil |
| From INR 4,00,001 to INR 8,00,000 | 5% |
| From INR 8,00,001 to INR 12,00,000 | 10% |
| From INR 12,00,001 to INR 16,00,000 | 15% |
| From INR 16,00,001 to INR 20,00,000 | 20% |
| From INR 20,00,001 to INR 24,00,000 | 25% |
| Above INR 24,00,000 | 30% |

2. **Income Tax Rebate u/s 87A**

The threshold limit of Section 87A has been increased from INR 7 Lakhs to INR 12 Lakhs providing the tax rebate upto the tax liabilities of INR 60,000. Further, a new proviso has been proposed to be inserted to provide clarification that the income tax rebate u/s 87A is not applicable on the income which are chargeable at special rates (i.e. short term or long term capital gain u/s 111A, 112, 112A).

**JPC Analysis:**

a. ***The limit of rebate has been increased to INR 60,000 against tax payable. However, this rebate is not available against tax on income subject to special rates, such as capital gains and lottery winnings.***
b. ***No tax liability for individuals with taxable income up to INR 12 lakh, excluding income taxed at special rates (e.g., capital gains). For salaried individuals, income up to INR 12.75 lakh is tax-free due to the enhanced standard deduction of INR 75,000.***
c. ***The rebate is not available if taxable income (excluding special rate income) exceeds INR 12 lakh. However, marginal relief is applicable for incomes up to INR 12.75 lakh (excluding special rate income).***
d. ***The old tax regime remains beneficial if total exemptions and deductions (e.g., HRA, LTA, Chapter VI-A) exceed INR 8 lakh, particularly for total incomes up to INR 5 crore.***
e. ***The revised slab rates will provide maximum tax savings of INR 1.43 lakh (including surcharge and cess) for individuals in the highest tax slab, compared to the previous year.***

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

If the exemption under section 10(10D) is not available, income from the redemption of ULIPs will now be taxed as capital gains, regardless of the premium amount.

Previously, such income was considered capital gains only for policies issued on or after 1 February 2021, where the aggregate premium exceeded INR 2.5 lakh. However, ambiguity existed regarding the taxation of ULIPs that did not meet other exemption conditions, even if the premium was below INR 2.5 lakh. This amendment clarifies that in all such cases, the income will be charged under the head of capital gains. Additionally, the definition of an equity-oriented fund has been amended accordingly.

***(This amendment will be effective from AY 2026-27).***

4. **Increase in the limits on the income of the employees for the purpose of calculating perquisites**

The Finance Bill 2025 proposes amendments to Section 17 to update the income limits for calculating perquisites, which have remained unchanged for over two to three decades. Given the evolving economic conditions and rising standards of living, there is a need to revise these thresholds.

To address this, the amendment seeks to grant the power to prescribe rules for increasing the income limit of employees. This will ensure that:

- **Amenities and benefits** received by employees up to the revised income limit will be **exempt** from being treated as perquisites.
- **Expenditure incurred by the employer** for an employee or their family member's **medical treatment abroad** will not be treated as a perquisite.

***(This amendment will be effective from Assessment Year 2026-27)***

5. **Deduction under section 80CCD for contributions made to NPS Vatsalya**

The NPS Vatsalya Scheme, officially launched on 18 September 2024, enables parents and guardians to start a National Pension Scheme (NPS) account for their children. Following amendments are proposed in relation to NPS Vatsalya.

a. The amount deposited in the minor's account is to be allowed as a deduction under Section 80CCD(1B) to the parent subject to a maximum limit of INR 50,000.

b. The total deduction for contributions made by an assessee to his own account or to the account of his minor children cannot exceed INR 50,000. The amount allowed as a deduction and interest accrued thereon would be taxable as income when it is withdrawn.

c. The amount received on the closure of the account due to the minor's death would not be regarded as income of the parent.

d. In Section 10(12BA), the parent is exempt from tax on partial withdrawals from such accounts (up to 25% of the contribution amount) in certain situations, such as education, treatment, and disability of a minor.

***(This amendment will be effective from Assessment Year 2026-27)***

6. **Exemption on withdrawals by Individuals from National Savings Scheme from taxation**

Section 80CCA, inter-alia, provides for a deduction to an individual, or a Hindu undivided family, for any amount deposited in the National Savings Scheme (NSS). It is also provided that no deduction would be allowed in relation to such amount on or after the April 01, 1992.

It is therefore proposed to amend section 80CCA to provide exemption to the withdrawals made by individuals from these deposits for which deduction was allowed, on or after August 29, 2024. This exemption is provided to the deposits, with the interest accrued thereon, made before April 01, 1992 as these are the amounts in respect of which a deduction has been allowed.

***(This amendment will be applicable retrospectively from August 29, 2024)***

7. **Annual value of the self-occupied property simplified**

Currently, the annual value of up to two house properties is taken as NIL if the property is self-occupied or cannot be occupied by the owner of the property due to his employment, business or profession at any other place. It is proposed that the annual value of up to two house properties shall be NIL if the owner occupies the house for his own residence or **cannot occupy it for any reason.**

***(This amendment will be applicable from AY 2025-26)***

## B. Amendment related to TDS/TCS

1. **Rationalization of tax deducted at source (TDS)/Tax collected at Source (TCS) rates and thresholds**

The amendment in the TDS and TCS rates along with the change in proposed thresholds has been tabulated below :

| Section | Nature of Payment | Existing threshold | Proposed threshold |
|---|---|---|---|
| 193 | Interest On Securities | NIL | INR 10,000 |
| | Interest payable to resident individual/HUF on any debenture issued by Public Company | INR 5,000 | INR 10,000 |
| 194 | Dividend | INR 5,000 | INR 10,000 |
| 194A | Interest other than interest on Securities | INR 50,000 for senior citizen | INR 1,00,000 for senior citizen |
| | | INR 40,000 in case of others if payer is a bank, cooperative society and post office | INR 50,000 in case of others if payer is a bank, cooperative society and post office |
| | | INR 5,000 in other cases | INR 10,000 in other cases |
| 194B | Winning from Lotteries, Crossword Puzzles, gambling, betting, etc. (except online games) | Aggregate of amounts exceeding INR 10,000 during the financial year | INR 10,000 in respect of a single transaction |
| 194BB | Winning from horse race | Aggregate of amounts exceeding Rs. 10,000 during the financial year | Rs. 10,000 in respect of a single transaction |
| 194D | Insurance commission | INR 15,000 | INR 20,000 |

| | | | |
|---|---|---|---|
| 194G | Commission and other payments on sale of lottery tickets. | INR 15,000 | INR 20,000 |
| 194H | Commission and Brokerage | INR 15,000 | INR 20,000 |
| 194I | Rent | INR 2,40,000 | INR 50,000 per month or part of a month |
| 194J | Royalty and fees for professional or technical services | INR 30,000 | INR 50,000 |
| 194K | Income in respect of units of mutual fund | INR 5,000 | INR 10,000 |
| 194LA | Compensation on account of compulsory acquisition of an immovable property (other than agriculture land) | INR 2,50,000 | INR 5,00,000 |
| 194LBC | Income in respect of investment in securitization trust | Individual or HUF – 25%<br>Others – 30% | 10% |
| 206C(1) | TCS on sale of good including-<br><br>Timber or any other forest produce (not being (tendu leaves) obtained under a forest lease<br><br>Timber obtained by any mode other than under a forest lease | 2.5% | 2% |
| 206C(1H) | TCS on Purchase of goods | 0.1% | Omitted |

| | | | |
|---|---|---|---|
| 206C(1G) | TCS by authorised dealer from remittance made under LRS & seller of an overseas tour program package | INR 7,00,000 | INR 10,00,000 |
| 206C(1G) | TCS by authorised dealer remittance in foreign currency from an education loan obtained under section 80E(3)(b) | 0.5% | Omitted |
| 206AB | TDS For Not Filing of Income Tax Return | Tax is to be deducted at source (TDS) at higher rates | Omitted |
| 206CCA | TCS For Not filling of Income Tax Return | Tax is to be collected at source (TCS) at higher rates | Omitted |

***(These amendments will be applicable from April 01, 2025)***

## C. Amendments related to IFSC

1. **Extension of Sunset Date for Commencing Operations to Claim Tax Exemption:** The income of non-residents or IFSC units is currently exempt under various scenarios, provided operations in the IFSC commence by specific deadlines. These include:

   - **Gains on Transfer of Aircraft or Ships:** IFSC units engaged in aircraft or ship leasing enjoy tax exemption on gains from their transfer, provided leasing activities begin on or before 31 March 2025.
   - **Interest and Royalty Income:** Non-residents earning interest or royalty from an IFSC unit engaged in aircraft or ship leasing qualify for tax exemption if the unit commences operations by 31 March 2025.
   - **Transfer of Shares of IFSC Units**: Gains on the transfer of shares of an IFSC unit engaged in aircraft or ship leasing (now included) are exempt for non-residents or other IFSC units, provided the entity whose shares are transferred starts operations by 31 March 2026. The exemption applies if the transfer occurs within 10 years of such commencement.
   - **Income from Securities:** The investment division of an offshore banking unit in IFSC is exempt from tax on income from securities issued by a non-resident, if operations commence on or before 31 March 2025.
   - **Gains from Relocation of Funds:** Shareholders or unitholders are exempt from tax on gains from the transfer of shares or units of a fund relocating from outside India to IFSC, provided the relocation takes place on or before 31 March 2025.
   - **Fund Manager Exemptions:** Relaxations regarding the business connection of overseas funds apply if the fund manager is located in IFSC and commences operations before 31 March 2024.

   The sunset date for commencing operations or relocating funds to claim these tax exemptions has now been **extended to 31 March 2030.**

2. **Removal of Premium Condition for Exemption of Life Insurance Proceeds from IFSC IIO**
   Currently, life insurance proceeds from a policy issued by an IFSC International Insurance Office (IIO) are exempt from tax, subject to the following conditions:

   - The premium must not exceed 10% of the sum assured.
   - The annual premium should not exceed INR 2.5 lakh for ULIPs and INR 5 lakh for other policies.

   The exemption will now apply even if the premium exceeds INR 2.5 lakh (for ULIPs) or INR 5 lakh (for other policies), as long as the premium remains within 10% of the sum assured.

   ***(This amendment will be effective from Assessment Year 2025-26).***

3. **Exemption of capital gains and dividend in respect of shares of ship leasing units**

Presently, gains on transfer of shares of unit of IFSC engaged in aircraft leasing by a non-resident or another IFSC unit engaged in aircraft, if the company, whose shares are transferred, has commenced operations on or before 31 March 2030 (as extended) and where the transfer takes place within 10 years of such commencement is exempt. Similarly, dividend received by an IFSC unit engaged in aircraft leasing from another IFSC unit engaged in aircraft leasing is also exempt.

Now, the exemption has been extended to IFSC units engaged in ship leasing activities as well.

***(This amendment will be effective from Assessment Year 2025-26).***

4. **Deemed dividend not to apply for IFSC treasury centres**

Under existing provisions, a loan or advance provided by a company to its shareholders or an entity in which the shareholders hold a substantial interest is treated as deemed dividend. However, an amendment effective from AY 2025-26 provides that loans or advances extended to or by a finance company located in an IFSC, which is established as a global or regional corporate treasury center, will not be considered as deemed dividends if the transaction is with:

- Its group entities, or
- Its parent/principal entity listed on an overseas stock exchange.

The specific conditions for defining a group entity, parent entity, or principal entity will be prescribed separately.

***(This amendment will be effective from Assessment Year 2025-26).***

5. **Extension of exemption of income from forward contracts and derivatives with FPI in IFSC**

Currently, income earned by a non-resident from the transfer of non-deliverable forward contracts, offshore derivative instruments, OTC derivatives, or distributions from these instruments is exempt if the transactions are conducted with an offshore banking unit of an IFSC.

Now, this exemption has been extended to cover transactions undertaken with a Foreign Portfolio Investor (FPI) that is a unit of an IFSC, further enhancing the attractiveness of IFSC as a global financial hub.

***(This amendment will be effective from Assessment Year 2026-27).***

6. **Extension of exemption on relocation of retail schemes and ETFs to IFSC**

Presently, gains arising on exchange of shares or units to a shareholder or a unitholder of an overseas fund are exempt on relocation of such fund to IFSC, if the said fund is registered as Category-I, II or III AIF. Now, the exemption is extended to shareholders and unitholders of overseas funds which are registered as retail schemes or ETF on relocation to IFSC.

***(This amendment will be effective from Assessment Year 2026-27).***

## D. Amendments related to Charitable Trust

1. **Rationalisation of 'specified violation' for cancellation of registration of trusts or institutions**

Section 12AB(4) provides that when the registration or provisional registration of a trust or institution has been granted, and the PCIT/CIT subsequently notices the occurrence of one or more specified violations during any previous year, the PCIT/CIT shall pass a written order cancelling the registration of such trust or institution if satisfied that one or more specified violations have taken place. The Explanation to Section 12AB(4) states that "specified violation", inter alia, includes cases where the application referred to in Section 12A(1)(ac) is incomplete or contains false or incorrect information.

It is proposed that the Explanation to Section 12AB(4) be amended to clarify that an incomplete application for the registration of a trust or institution shall not be considered a specified violation for the purpose of cancellation by the PCIT/CIT.

***(This amendment will be effective from April 01, 2025)***

2. **Period of registration of smaller charitable trusts or institutions**

Section 12AB grants registration to charitable trusts or institutions for a period of five years, and where activities have not commenced at the time of application, provisional registration for three years.

To ease compliance for smaller trusts or institutions **whose total income before exemption does not exceed INR 5 crores in each of the two previous years preceding the year of application, it is proposed to extend the validity of registration from five years to ten years.** However, this benefit shall not apply to trusts or institutions applying for registration for the first time, whether before or after commencing activities.

***(This amendment will be effective from April 01, 2025)***

**3. Relaxation in the classification of specified persons**

Section 13 of the Income Tax Act provides that Section 11 or Section 12 shall not apply to exclude any income from the total income of a trust or institution if such income enures to, or if any income or property of the trust or institution is used or applied, directly or indirectly, for the benefit of any person referred to in Section 13(3). Any person who has made a contribution to the trust or institution of more than Rs. 50,000 up to the end of the relevant previous year is regarded as a specified person. Additionally, the relatives of such substantial contributors and concerns in which they have a substantial interest are also considered specified persons.

It is proposed to amend the definition of specified persons as follows:

***"a person is to be treated as a substantial contributor under Section 13(3)(b) if his contribution during the previous year exceeds INR 1 lakh or his total contribution during the lifetime of the trust exceeds INR 10 lakhs."***

The relatives of substantial contributors shall no longer be treated as specified persons for the purposes of Section 13(3). Further, any concern in which a substantial contributor has a substantial interest shall no longer be included in the category of specified persons under Section 13(3).

***(This amendment will be effective from April 01, 2025).***

**4. Rationalization in taxation of Business trusts**

Section 115UA of the ITA grants a pass-through status to business trusts for interest income, dividend income received by it from a special purpose vehicle (in the case of both REITs and InvITs), and rental income (for REITs). The remaining income of the business trust is taxed under Section 115UA(2). The total income of a business trust is charged to tax at the maximum marginal rate, subject to the provisions of Sections 111A and 112.

It is proposed that Section 115UA be amended to include a reference to Section 112A. Following this proposed amendment, the total income of a business trust will be taxed at the maximum marginal rate, subject to the provisions of Sections 111A, 112, and 112A.

***(This amendment will be effective from AY 2026-27)***

## E. Amendment related to Updated return

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

   Presently, a taxpayer can file an updated return up to 24 months from the end of the relevant AY on payment of additional income tax as follows:

| Time limit from the end of AY | Additional Tax Payable |
|---|---|
| Upto 12 months | 25% |
| 12 months -24 months | 50% |

Now, updated return can be filed up to 48 months from the end of the relevant AY in which the original return was due, on payment of additional income tax as follows:

| Time limit from the end of AY | Additional Tax Payable |
|---|---|
| Upto 12 months | 25% |
| 12 months -24 months | 50% |
| 24 months -36 months | 60% |
| 36 months -48 months | 70% |

Updated return now cannot be filed where any show-cause notice is issued under section 148A after 36 months from the end of the relevant AY. However, where subsequently an order is passed under section 148A(3) determining that it is not a fit case to issue notice under section 148, an updated return may be filed up to 48 months from the end of the relevant AY.

***(This amendment will be effective from AY 2025-26)***

## F. Amendment related to Assessment proceedings

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

   Significant amendments have been proposed to streamline block assessment procedures, enhance clarity, and expand the scope of undisclosed income. The definition of “undisclosed income” has been expanded to include Virtual Digital Assets (VDAs) in addition to money, bullion, jewellery, and other valuables, as well as income based on entries in books, documents, or transactions.

Changes have also been introduced in the handling of multiple search and requisition cases under Section 158BA(4). Currently, a subsequent search or requisition is allowed only if the previous block assessment is pending. The amendment replaces the term "pending" with "required to be made", effective from February 1, 2025. This ensures that a fresh block assessment cannot be initiated merely because the previous assessment is yet to be completed, unless a court or tribunal has invalidated the search and nullified the previous assessment.

Further, to align the treatment of reassessment and transfer pricing (TP) references under Section 158BA(5), the amendment ensures that if a block assessment is annulled, all related actions—including assessment, reassessment, recomputation, and TP references—can be revived. This corrects the current gap where only assessment and reassessment are revived, leaving recomputation and TP matters unaddressed.

To simplify the computation of undisclosed income under Section 158BB, a new mechanism will replace the existing complex method, which currently involves deducting disclosed income from the total income of the block period. This change will take effect from February 1, 2025.

Additionally, the time limit for block assessment under Section 158BE has been rationalized. Currently, assessments must be completed within 12 months from the end of the month in which the last search or requisition was executed. The amendment revises this to 12 months from the end of the quarter in which the last search or requisition was executed. This ensures a more structured timeline and prevents multiple time-barring dates.

Lastly, amendments to Sections 158BE(4)(i) and 158BFA clarify the exclusion period for assessment completion when a stay order is in place. Under the revised provision, the exclusion period begins when the stay order is issued and ends when the jurisdictional Principal CIT or CIT receives a certified copy of the order vacating the stay. A corresponding change is also made in Section 158BFA concerning the imposition of interest and penalties in block assessments.

***(These amendments will be effective from February 01, 2025)***

2. **Non-applicability of Section 271AAB of the Act**

The provisions of 'Block Assessment' (Chapter XIV-B) were introduced for searches initiated under section 132 of the Act on or after the 1st day of September, 2024. Although section 271AAB of the Act is clear that its provisions are not applicable to proceedings conducted under section 158BC of the Act, it is proposed to remove any ambiguous interpretation of its applicability to searches conducted on or after 01.09.2024.

Therefore, it is proposed to amend section 271AAB of the Act to provide that its provisions shall not be applicable to the assessee in whose case search has been initiated under section 132 on or after September 01, 2024.

***(This amendment will be applicable retrospectively from September 01, 2024)***

## G. Amendment related to Changes in Time limit

1. **Time limit to impose penalties rationalized**

The existing provisions of section 275 of the Act, inter-alia, provide for the bar of limitation for imposing penalties. Section 275 of the Act is having multiple timelines for imposition of penalties in various cases.

It proposed to amend section 275 of the Act to provide that any order imposing a penalty under Chapter XXI shall not be passed **after the expiry of six months from the end of the quarter 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.** Consequential amendment is also proposed in section 246A of the Act to update reference of the amended section 275 of the Act.

***(This amendment will be applicable from April 01, 2025).***

2. **Clarification regarding commencement date and the end date of the period stayed by the Court**

There was an ambiguity regarding the commencement date and the end date of the period stayed by an order or injunction of any court which was required to be excluded.

With a view to removing any ambiguity, it is proposed to amend the said provisions of the Act so as to exclude the period commencing on the date on which stay was granted by an order or injunction of any court and ending on the date on which certified copy of the order vacating the stay was received by the jurisdictional Principal Commissioner or Commissioner (Approving panel in case of section 144BA of the Act).

***(This amendment will be applicable from April 01, 2025).***

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

   The time limit for the Joint Commissioner to pass an order under Section 115VP(4) has been proposed to be increased to **three months from the end of the quarter in which a qualifying company makes an application to opt for a tonnage tax scheme. Presently, the time limit is expiry of one month from the end of the month in which the application was made.**

   ***(This amendment will be applicable from April 01, 2025).***

4. **Excluding the period such as court stay etc. for calculating time limit to pass an order**

   Section 206C(7A) of the Act provides that no order shall be made deeming a person to be an assessee in default for failure to collect the whole or any part of the tax from any person, after the expiry of six years from the end of the financial year in which tax was collectible or two years from the end of the financial year in which the correction statement is delivered section 206C(3B) of the Act, whichever is later. While computing the time limit under section 206C(7A) of the Act, exclusion of the time period such as period for which proceedings were stayed by an order of any court, etc. is required to be provided.

   It is proposed that section 206C(7A) of the Act is to be amended to provide that relevant provisions of section 153 of the Act would apply to the time limit prescribed in sub-section (7A) of section 206C of the Act.

   ***(This amendment will be applicable from April 01, 2025).***

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

   Section 276BB of the Act provides for prosecution in case of failure to pay the tax collected at source to the credit of Central Government.

   It is proposed to amend section 276BB of the Act to provide that the prosecution shall not be instituted against a person covered under the said section, if the payment of the tax collected at source has been made to the credit of the Central Government at any time on or before the due date of filing of quarterly statement.

   ***(This amendment will be applicable from April 01, 2025).***

6. **Certain penalties to be imposed by the Assessing Officer**

   In order to rationalize the process of levying penalty, it is proposed to amend sections 271C, 271CA, 271D, 271DA, 271DB and 271E of the Act so that penalties under these sections shall be levied by the Assessing Officer in place of Joint Commissioner, subject to the provisions of sub-section (2) of section 274 of the Act. Thus, Assessing Officer shall take the prior approval of Joint Commissioner for the passing of penalty order, where penalty amount exceeds the limit specified in sub-section (2) of section 274 of the Act.

   ***(This amendment will be applicable from April 01, 2025).***

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

   Section 270AA of the Act provides, inter-alia, procedure of granting immunity by the Assessing Officer from imposition of penalty or prosecution, subject to fulfillment of certain conditions as mentioned therein.

   In view of the same, it is proposed to amend the sub-section (4) of section 270AA of the Act so as to extend the processing period to three months from the end of the month in which application for immunity is received by the Assessing Officer.

   ***(This amendment will be applicable from April 01, 2025).***

8. **Extension of timeline for tax benefits to start-ups**

   Section 80-IAC provides that an eligible start-up can claim a deduction for the profits and gains arising from an eligible business under this provision. The deduction can be claimed for up to 100% of the profits and gains derived in three consecutive years out of the ten assessment years, beginning from the year of incorporation.

   However, one of the conditions is that the start-up must be incorporated on or after April 01, 2016 and before April 01, 2025. It is now proposed to extend the benefit of the exemption under Section 80-IAC for an additional five years, making it available to eligible start-ups incorporated before April 01, 2030.

   ***(This amendment will be applicable from April 01, 2025).***

## H. International and Transfer Pricing

1. **Harmonisation of Significant Economic Presence applicability with Business Connection**

   Section 9 of the Income Tax Act specifies the provisions related to income deemed to accrue or arise in India. Section 9(1)(i) states that all income accruing or arising, whether directly or indirectly, through or from any business connection in India shall be deemed to accrue or arise in India. **Clause (b) of Explanation 1 Section 9(1) clarifies that, in the case of a non-resident, no income shall be deemed to accrue or arise in India if it is derived solely from operations confined to the purchase of goods in India for export.**

   It is proposed that Explanation 2A of Section 9 be amended so that the transactions or activities of a non-resident in India, which are confined to the **purchase of goods in India for the purpose of export, shall not constitute a significant economic presence of such non-resident in India. This amendment will align it with Explanation 1 to Section 9(1)(i) concerning business connections.**

   ***(This amendment will be applicable from AY 2026-27).***

2. **Rationalisation of taxation of capital gains on transfer of capital assets by non-residents.**

   Section 115AD of the ITA provides that long-term capital gains from the transfer of securities (other than units referred to in Section 115AB) shall be taxed at 10% in the hands of specified fund or Foreign Institutional Investor (FIIs). However, the Finance (No. 2) Act, 2024, changed the rate of taxation on long-term gains arising from the transfer of capital assets to 12.5% for all assessees, whether resident or non-resident, with effect from 23-07-2024.

   The tax rates for specified funds or FIIs on long-term gains referred to in Section 112A have been brought to parity with the new tax rates, i.e., 12.5%. However, the tax rates on long-term capital gains not referred to in Section 112A were retained at 10%.

   Section 115AD is proposed to be amended to provide that income tax on long-term capital gains from the transfer of securities (other than units referred to in Section 115AB) not referred to in Section 112A, if included in the total income, shall also be calculated at a rate of 12.5%.

   ***(This amendment will be applicable from AY 2026-27).***

3. **Rationalisation of transfer pricing provisions for carrying out multi-year arm's length price determination**

The Finance Bill 2025 proposes rationalizing transfer pricing (TP) provisions by allowing multi-year arm's length price (ALP) determination for specified domestic and international transactions. Currently, the ALP is determined annually by the Transfer Pricing Officer (TPO) based on a reference from the Assessing Officer (AO). However, many such transactions are repetitive across multiple years, involving the same enterprises, functions, assets, risk analysis (FAR), and ALP determination, leading to unnecessary compliance and administrative burdens.

To streamline this process, the amendment introduces an option for taxpayers to apply TP analysis over a **three-year block,** covering the financial year under assessment (first year) and the two immediately following years. The assessee must opt for this scheme in the prescribed form and manner. The TPO is required to validate the option within one month from the end of the month in which it is exercised. Once validated, the ALP determined for transactions in the first year will apply to similar transactions in the subsequent two years, and the AO will recompute the assessee's total income accordingly. No separate reference to the TPO will be required for these transactions in the later years. However, this option will not be available for cases involving search proceedings.

To implement this, a new sub-section (21) will be inserted in **Section 155,** allowing the ALP determined in the first year to apply to similar transactions in the following two years if the TPO has validated the option.

***(These amendments will be effective from Assessment Year 2026-27).***

## I. Miscellaneous Amendments

1. **Extension of date of making investment by Sovereign Wealth Funds, Pension Funds & others and rationalisation of tax exemptions**

   The deadline for investing by foreign Sovereign Wealth Funds, Pension Funds, and other funds for claiming exemption under section 10(23FE) has been proposed to be extended from March 31st, 2025 to March 31st, 2030.

   Further, the long-term capital gains arising from investments made by these entities are proposed to be exempt under Section 10(23FE) even if they are deemed short-term capital gains under section 50AA.

   ***(This amendment will be applicable from April 01, 2025).***

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

   It is proposed to provide a presumptive taxation regime for **non-residents engaged in the business of providing services or technology, to a resident company** which are establishing or operating electronics manufacturing facility or a connected facility for manufacturing or producing electronic goods, article or thing in India, under a scheme notified by the Central Government in the Ministry of Electronics and Information Technology and satisfies such conditions as prescribed in the rules.

   A new presumptive tax scheme has been proposed in Section 44BBD under which 25% of the total amount paid or payable to the non-resident for such services or technology would be deemed presumptive income. This will result in an effective tax payable of less than 10% on gross receipts, by a non-resident company.

   ***(This amendment will be applicable from AY 2026-27).***

3. **Extension of benefits of tonnage tax scheme to inland vessels**

   To promote inland water transportation in the country and to attract investments in the sector, the benefits of the tonnage tax scheme are proposed to be extended to Inland Vessels registered under the Inland Vessels Act of 2021.

   ***(This amendment will be applicable from AY 2026-27).***

4. **Amendment of Definition of 'Capital Asset'**

There is some uncertainty in characterization of income arising from transaction in securities as to whether it is capital gain or business income for investment funds (specified in clause (a) of Explanation 1 to section 115UB in the Act).

With a view of providing certainty in respect of the above, it is proposed to amend the Act to provide that any security held by investment funds referred to in Section 115UB which has invested in such security in accordance with the regulations made under the Securities and Exchange Board of India Act, 1992 would be treated as capital asset only so that any income arising from transfer of such security would be in the nature of capital gain.

***(This amendment will be applicable from AY 2026-27).***

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

In order to bring clarity and parity with the provisions of section 72 of the Act, it is proposed to amend section 72A and section 72AA of the Act to provide that any 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 eight assessment years immediately succeeding the assessment year for which such loss was first computed for original predecessor entity.

The proposed amendment is aimed to prevent evergreening of the losses of the predecessor entity resulting from successive amalgamations and also to ensure that no carry forward and set off of accumulated loss is allowed after eight assessment years from the immediately succeeding the assessment year for which such loss was first computed for original predecessor entity.

The aforesaid amendments shall apply to any amalgamation or business re-organisation which is effected on or after 01.04.2025.

***(These amendments will be applicable from AY 2026-27).***

6. **Obligation to furnish information in respect of crypto-asset**

A new Section 285BAA is proposed to be introduced regarding the obligation to file information on crypto assets. The prescribed reporting entity (crypto exchanges) would be required to furnish information regarding transactions in crypto assets.

***(These amendments will be applicable from April 01, 2026)***

# INDIRECT TAX CHANGES

Introduces key GST and customs amendments, including ITC distribution, compliance enhancements, tax rate adjustments, and duty exemptions.

## Indirect tax analysis consists of analysis of Goods and Service tax & Customs.

## Goods and Service Tax Amendments

### Impact on ISD

**Section 2(61)**

*insert after the word of Section 9* ***"of this Act or under subsection (3) or sub-section (4) of section 5 of the Integrated Goods and Services Tax Act, 2017"***

***Analysis***

By proposal for amendment in Clause 61 of the CGST Act 2017 allows distribution of input tax credit in respect of inter-state supply on which tax is to be paid under reverse charge, effective from **01st April 2025.** This will enable ISD distributor to distribute ITC paid on reverse charge.

### Unique Identification Marking for enforcement

**Insert Section 2(116A)**

*unique identification marking means the unique identification marking referred to in clause (b) of sub-section (2) of section 148A and includes a digital stamp, digital mark or any other similar marking, which is unique, secure and non-removable*

**Analysis**

Proposal to insert this clause to define the meaning of "unique identification marking" for the implementation of Track and Trace Mechanism

### Blocked Input Tax Credit

**Section 17(5)**

(i) for the words "plant or machinery", the words "plant and machinery" shall be substituted and shall be deemed to have been substituted with effect from the 1st day of July, 2017;

(ii) the Explanation shall be numbered as Explanation 1 thereof, and after Explanation 1 as so numbered, the following Explanation shall be inserted, namely:—

Explanation 2.—For the purposes of clause (d), it is hereby clarified that notwithstanding anything to the contrary contained in any judgment, decree or order of any court, tribunal, or other authority, any reference to "plant or machinery" shall be construed and shall always be deemed to have been construed as a reference to "plant and machinery"

**Analysis**

The proposal of amendment was made in the recommendation of 55th GST Council meetings, intent of the recommendation is to replace the phrase "plant or machinery" with "plant and machinery". As per the given explanation it is construed that judgment given by Supreme Court in **Safari Retreat -2024 (10) TMI 286** would be nullified.

### Manner of distribution of credit by Input Service Distributor

**Section 20**

*(i) in sub-section (1), after the word and figure "section 9", the words, brackets and figures "of this Act or under subsection (3) or sub-section (4) of section 5 of the Integrated Goods and Services Tax Act, 2017" shall be inserted;*

*(ii) in sub-section (2), after the word and figure "section 9", the words, brackets and figures "of this Act or under subsection (3) or sub-section (4) of section 5 of the Integrated Goods and Services Tax Act, 2017," shall be inserted.*

**Analysis**

Proposal for the above clause provides explicitly for distribution of input service by input service distributor in respect of inter-state inward supply on which tax is to be paid under reverse charge. These changes are effective from 01st April -2025.

### Credit & Debit Notes

**Section 34**

In section 34 of the Central Goods and Services Tax Act, in sub-section (2), for the proviso, the following proviso shall be substituted, namely:—

"Provided that no reduction in output tax liability of the supplier shall be permitted, if the–

(i) input tax credit as is attributable to such a credit note, if availed, has not been reversed by the recipient, where such recipient is a registered person; or

(ii) incidence of tax on such supply has been passed on to any other person, in other cases."

**Analysis**

As per the new proposed proviso, a supplier who has issued the credit note in respect to outward supply to reduce his output tax liability shall have to make sure that recipient has reversed his input tax credit in respect of such credit note.

### Furnishing Details of Inward Supplies

**Section 38**

*(i) in sub-section (1), for the words "an auto-generated statement", the words "a statement" shall be substituted;*

*(ii) in sub-section (2),—*

*(a) for the words "auto-generated statement under", the words "statement referred in" shall be substituted;*

*(b) in clause (a), the word "and" shall be omitted;*

*(c) in clause (b), after the words "by the recipient,", the word "including" shall be inserted;*

*(d) after clause (b), the following clause shall be*

*inserted, namely:—*

*"(c) such other details as may be prescribed."*

**Analysis**

The purpose of the amendment is to provide comprehensive and inclusive details. Expecting other details will be available for taxpayers in respect of input tax credit.

## Furnishing of returns

**Section 39**

in sub-section (1), for the words “and within such time”, the words “within such time, and subject to such conditions and restrictions” shall be substituted.

**Analysis**

It is apparent that with the proposed amendment in the section more restrictions shall be imposed in filing of return, like hard locking of auto-populated liability in return.

## Appeals to appellate Authority

**Section 107**

*“Provided that in case of any order demanding penalty without involving demand of any tax, no appeal shall be filed against such order unless a sum equal to ten per cent. of the said penalty has been paid by the appellant.”*

**Analysis**

*Proposed Pre-deposit amount to reduce to 10% from 25% in case where the appeal shall be filed before Appellate Authority against an order demanding penalty without demand of tax. The amendment is recommended in the 55th GST Council Meeting.*

## Appeals to Appellate Tribunal

**Section 112**

*“Provided that in case of any order demanding penalty without involving demand of any tax, no appeal shall be filed against such order unless a sum equal to ten per cent. of the said penalty, in addition to the amount payable under the proviso to sub-section (6) of section 107 has been paid by the appellant.”*

**Analysis**

Proposed Pre-deposit amount to reduce to 10% from 25% in case where the appeal shall be filed before Appellate Tribunal against an order demanding penalty without demand of tax. The amendment is recommended in the 55th GST Council Meeting.

## Penalty for failure to Comply with track and trace mechanism

**Section 122B**

*“122B. Notwithstanding anything contained in this Act, where any person referred to in clause (b) of sub-section (1) of section 148A acts in contravention of the provisions of the said section, he shall, in addition to any penalty under Chapter XV or the provisions of this Chapter, be liable to pay a penalty equal to an amount of one lakh rupees or ten per cent. of the tax payable on such goods, whichever is higher.”*

### Analysis

Proposed penalty under the newly inserted section for contravention of provisions in respect of Track and Trace Mechanism provided under Section 148A.

### Track and trace mechanism for certain goods.

**Section 148A**

"148A. (1) The Government may, on the recommendations of the Council, by notification, specify,–

(a) the goods;

(b) persons or class of persons who are in possession or deal with such goods, to which the provisions of this section shall apply.

(2) The Government may, in respect of the goods referred to in clause (a) of sub-section (1),—

(a) provide a system for enabling affixation of unique identification marking and for electronic storage and access of information contained therein, through such persons, as may be prescribed; and

(b) prescribe the unique identification marking for such goods, including the information to be recorded therein.

(3) The persons referred to in sub-section (1), shall,—

(a) affix on the said goods or packages thereof, a unique identification marking, containing such information and in such manner;

(b) furnish such information and details within such time and maintain such records or documents, in such form and manner;

(c) furnish details of the machinery installed in the place of business of manufacture of such goods, including the identification, capacity, duration of operation and such other details or information, within such time and in such form and manner;

(d) pay such amount in relation to the system referred to in sub-section (2), as may be prescribed."

### Analysis

New Section 148A is proposed to be inserted to provide mechanisms and enabling Track and Trace Mechanisms for specified goods. The goods and category of person are prescribed separately through notifications.

### Activities or Transactions Which Shall Be Treated Neither as A Supply of Goods nor a Supply of Services Schedule-III

(i) in paragraph 8, after clause (a), the following clause shall be inserted and shall be deemed to have been inserted with effect from the 1st day of July, 2017, namely:—

"(aa) Supply of goods warehoused in a Special Economic Zone or in a Free Trade Warehousing Zone to any person before clearance for exports or to the Domestic Tariff Area;";

(ii) in Explanation 2, after the words “For the purposes of”, the words, brackets and letter “clause (a) of” shall be inserted and shall be deemed to have been inserted with effect from the 1st day of July, 2017;

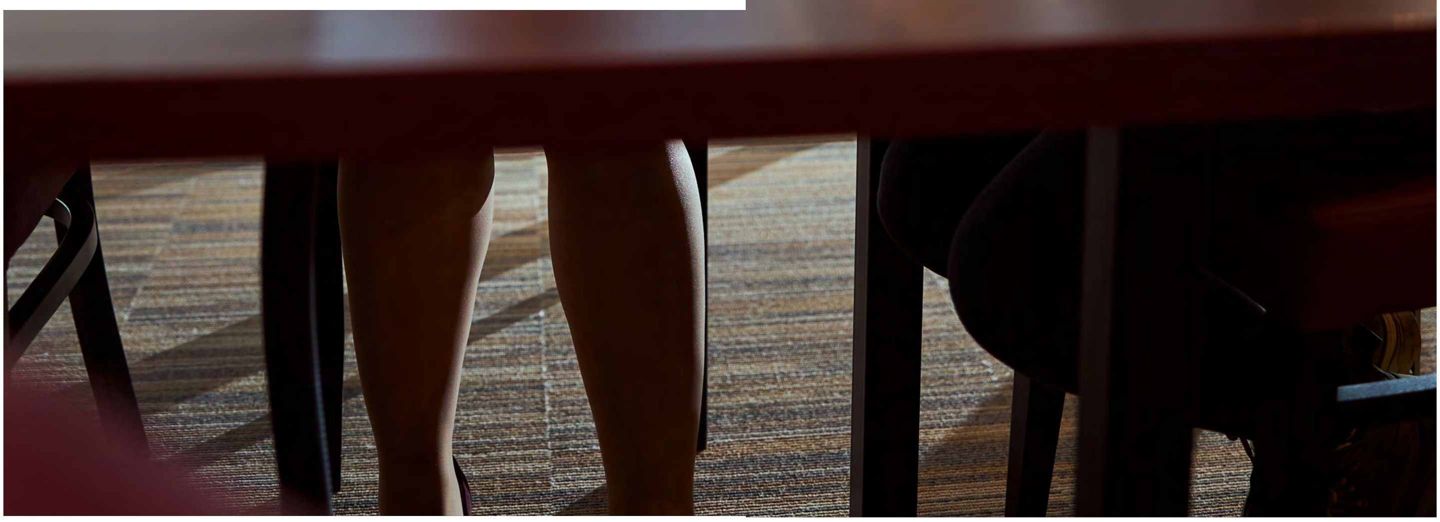
(iii) after Explanation 2, the following Explanation shall be inserted and shall be deemed to have been inserted with effect from the 1st day of July, 2017, namely:—

“Explanation 3.— For the purposes of clause (aa) of paragraph 8, the expressions “Special Economic Zone”, “Free Trade Warehousing Zone” and “Domestic Tariff Area” shall have the same meanings respectively as assigned to them in section 2 of the Special Economic Zones Act, 2005.”

**Analysis**

Proposed amendments in Schedule III of CGST Act 2017 where the goods or services specified under the schedule are neither good nor services.

Clause (aa) is inserted, to exempt Supply of goods warehoused in a Special Economic Zone or in a Free Trade Warehousing Zone to any person before clearance for exports or to the Domestic Tariff Area



## Amendments in Excise Duty, Customs and Service Tax

1. **Postponement of Higher Tax Rate on Unblended Diesel**

   The increase in excise duty on the sale of unblended diesel has been postponed until **31st March 2026.**

2. **Discontinuation of Settlement Commission**

   The **Central Excise, Customs, and Service Tax Settlement Commission (CCESC)** will be discontinued effective **1st April 2025.** A new interim board has been established to handle the settlement of all pending applications, if any.

3. **Service Tax Exemption on Reinsurance Services**

   A **retrospective exemption** on service tax has been granted for reinsurance services provided under the **Weather-Based Crop Insurance Scheme** and the **Modified National Agricultural Insurance Scheme** for the period **1st April 2011 to 30th June 2017.**

## Customs Amendments

Customs Updates and Rate Revisions

1. **Time Limit for Provisional Assessments**
   - A **time limit of two years** has been proposed for the finalization of **provisional Bills of Entry (BOE)**, with a possible extension of one additional year.
   - Previously, provisional assessments had no fixed timeline.

2. **Introduction of Voluntary Disclosure Provisions**
   - A new provision will allow voluntary disclosure of material facts without incurring penalties.
   - Post-clearance revision of entries will be permitted within a specified timeframe, to be announced later.
   - Revised entries will enable refund claims within one year, if applicable.
   - However, this provision will not apply if an audit or investigation has already been initiated by Customs authorities.

3. **Extended Time Limit for Input Utilization Under IGCR Scheme**
   - The time limit for utilizing inputs under the IGCR scheme, used across **18+ sectors,** has been **extended from 6 months to 1 year.**
   - The **requirement to file monthly consumption statements** has been removed, and businesses will now submit **quarterly returns** instead.

4. **Extended Repair Period for Railway Goods Under MRO Scheme**
   - As a **trade facilitation measure,** the period for repairing railway goods under the MRO scheme without incurring customs duty has been **extended from 6 months to 1 year.**

## Customs Updates and Rate Revisions

5. **Rationalization of Customs Duty to Boost Domestic Manufacturing**
   - Seven tariff rates have been removed, simplifying the structure.
   - Only eight tariff rates will remain, including a zero-duty category.

6. **Changes in Cess and Surcharge Applicability**
   - Cess and surcharge will no longer be applied simultaneously to any goods.
   - The Social Welfare Surcharge (10%) has been exempted on 82 tariff line items.

7. **Support for EV Battery Manufacturing**
   - Basic Customs Duty (BCD) exemptions granted on Cobalt powder & waste, Lead, Zinc, and Lithium-ion battery scrap, along with 12 critical minerals.
   - BCD reduction on capital goods used in manufacturing EVs, Lithium-ion batteries, and mobile devices.
   - BCD exemption extended to 35 additional goods for EV manufacturing.

8. **Expansion of Exempted Items for Mobile Battery Manufacturing**
   - 28 additional goods added to the list of exempted items for mobile battery production.

9. **BCD Exemption for Open Cell Components**
   - Components used in open cell manufacturing are now fully exempted from BCD.

10. **Reduced BCD on Carrier Grade Ethernet Switches**
    - BCD lowered from 20% to 10% on carrier-grade Ethernet switches.

11. **Customs Duty Exemptions on Life-Saving Drugs**
    - 36 life-saving drugs fully exempted from BCD.
    - Six additional life-saving drugs added to the 5% BCD category.

12. **Reduced BCD on Solar Cells & Solar Modules**
    - BCD reduced to support solar energy sector growth.

13. **Adjustments in BCD for Display Panels**
    - BCD on open cells for manufacturing LED/LCD & Interactive Flat Panel Displays reduced to 5%.
    - BCD on imported Interactive Flat Panel Displays increased from 10% to 20%.

# REGULATORY CHANGES

Streamlines mergers, raises insurance FDI to 100%, decriminalizes laws, and expands MSME classification for growth.

# 04 REGULATORY CHANGES

Ease of doing business

## EASE OF DOING BUSINESS

### Speedy approval of Company mergers

The requirements and procedures for the approval of Company mergers will be streamlined to enable faster processing. Additionally, the scope for fast-track mergers will be expanded, and the overall process will be simplified for greater efficiency.

### FDI limit for the insurance sector

The Foreign Direct Investment (FDI) limit for the insurance sector will be increased from 74% to 100% for companies that invest the entire premium in India.

### Jan Vishwas Bill 2.0 to decriminalize more than 100 provisions in various laws

Following the Jan Vishwas Act 2023, which decriminalized over 180 legal provisions, the Government will introduce the Jan Vishwas Bill 2.0 to further decriminalize more than 100 provisions across various laws. This marks a significant step toward reduction of legal uncertainties for entrepreneurs and promoting a more conducive business climate.

### MSME

With a view to bringing more enterprises under the ambit of the MSME sector, the new classification criteria for MSME has been announced under Union Budget. The new investment and turnover limits for classification of all MSMEs has been enhanced to 2.5 and 2 times respectively. The revised limits are as follows:

| | Investment (INR in Crore) | | Turnover (INR in Crore) | |
|---|---|---|---|---|
| | Current | Revised | Current | Revised |
| Micro Enterprises | 1 | 2.5 | 5 | 10 |
| Small Enterprises | 10 | 25 | 50 | 100 |
| Medium Enterprises | 50 | 125 | 250 | 500 |

These changes aim to support business growth, improve competitiveness, and promote investment in key sectors.

# GLOSSARY

**AIF:** Alternative Investment Funds
**AJP:** Artificial Juridical Person
**ALP:** Arm Length Price
**AMT:** Alternate Minimum Tax
**AO:** Assessing Officer
**AOP:** Association of Persons
**AY:** Assessment Year
**BE:** Budget Estimates
**BOI:** Body of Individuals
**CAD:** Current Account Deficit
**CBDT:** Central Board of Direct Taxes
**CBIC:** Central Board for Indirect Taxes and Customs
**CGST:** Central Goods and Services Tax
**CIT:** Commissioner of Income Tax
**COVID-19:** Coronavirus disease-19
**CPI:** Consumer Price Index
**Crore:** One Crore INR is equivalent to INR 10 Million / 0.15 Million US dollars
**CSO:** Central Statistics Organisation
**DDT:** Dividend Distribution Tax
**DRI:** Directorate of Revenue Intelligence
**DRP:** Dispute Resolution Panel
**EC:** Education Cess
**FAR:** Function, asset, risk analysis
**FDI:** Foreign Direct Investment
**FII:** Foreign Institutional Investor
**FIPB:** Foreign Investment Promotion Board
**FPI:** Foreign Portfolio Investor
**FY:** Financial Year
**GDP:** Gross Domestic Product
**GFCE:** Government Final Consumption Expenditure
**GST:** Goods & Service Tax
**GVA:** Gross Value Added
**HUF:** Hindu Undivided Family
**HUFs:** Hindu undivided family
**IFSC:** International Financial Services Centre
**IGST:** Integrated Goods and Services Tax
**IIO:** International Insurance Office
**INR:** Indian Rupee
**ITC:** Input tax credit
**MSME:** Medium small scale enterprises
**NBFC:** Non Banking Finance Company
**NPS:** National Pension Scheme
**NSS:** National Savings Scheme
**PE:** Permanent Establishment
**PFCE:** Private Final Consumption Expenditure
**R&D:** Research & Development
**RBI:** Reserve Bank of India
**RE:** Revised Estimates
**SEBI:** Security Exchange Board of India
**SEZ:** Special Economic Zone
**SGST:** State Goods and Services Tax
**SHE:** Secondary Higher Education Cess
**TCS:** Tax collected at Source
**TDS:** Tax deducted at source
**TP:** Transfer Pricing
**TPO:** Transfer Pricing Officer
**ULIPs:** Unit Linked Insurance Policy
**UTGST:** Union Territory Goods and Services Tax
**UTs:** Union Territories
**VDA:** Virtual Digital Assets
**WHT:** Withholding Taxes
**WPI:** Whole sale Price Index

**Dear Valuable Client / Colleague,**

In case you require any further detailed analysis on above mentioned proposals, please do get back to us and we shall be happy to provide you the same.

**With Best Regards,**
**Team JPC**

## About JPC.

Our journey started in the year 1974 as a Tax, Assurance, and Accounting Firm in the India's capital New Delhi. We became a partnership in the year 1981 and a Limited Liability Partnership in the year 2015. We have three offices currently, i.e. Gurugram, New Delhi and Noida (National Capital Region).

We are a team of Chartered Accountants, Company Secretaries, Management Accountants, Corporate Financial Advisors, Management Consultants, Technology Consultants and Forensic Professionals. Our team has the requisite skills to provide business & management advice, financial, assurance, tax, technology and regulatory services to our clients. Our strength lies in our timely performance-based, industry-tailored and technology-enabled services which are delivered by some of the most talented professionals in the country.

We are regulated by The Institute of Chartered Accountants of India. We are also empaneled with Comptroller and Auditor General of India (CAG).

Through our resources and connections, we serve major business destinations all over India.

Our business values include integrity, innovation, ethics, equality, economic growth and continuous learning; we believe our values are drivers for economic growth for each stake holder of our organization.

**In this document, "JPC" refers to J P Chawla & Co. LLP Chartered Accountants (a limited liability partnership firm regulated by the Institute of Chartered Accountants of India, FRN : 001875N/ N500025).**

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