BUDGET ANALYSIS 2025

FINACT Professional Services Private Limited

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FINACT Professional Services Pvt Ltd

BUDGET ANALYSIS

Dear Esteemed Reader,

The economic context in which the FM Nirmala Sitharaman rose to present the Union Budget FY 2025-26, (her 8th) had suddenly taken a turn, from the euphoria earlier, of India being one of the fastest growing economies, which undoubtedly it is. The slowdown of the economy manifest in the revised GDP growth numbers of 6.4% against RBI"s expectation of 6.6% growth (and on the back of 8.2% growth in FY24), sluggish demand, capital expenditure slowing down, disappointing FDI and job creation, not to forget the geopolitics adding uncertainty, had all the economist pundits concerned-taking away some of the shine from the India shining narrative of the economy which the markets also reacted to. The other two most recent developments which have grabbed attention and speculation are Artificial Intelligence as well as Trumponomics, with trade tariffs (to make America great again) threatening to hurt the make in India theme of the Indian Government apart from many other ramifications which we will have to wait and watch. Deepseek certainly doesn"t have an answer on this one or how much the rupee will depreciate!

Given this background, the expectation of the Budget was to restore investor confidence and stimulate investment growth and demand. Some of the expected measures were a reduction in personal income tax rates, afforded by the buoyancy in tax collections, continued focus on infra spending and make in India to stimulate investment demand and growth, and of course reforms to enable ease of doing business in India. In sum, the Budget was expected to be a catalyst for revitalizing India"s growth trajectory and announce schemes that would help the country navigate the highly uncertain environment. Expectations of a growth Budget saw a rise in the markets ahead of the Budget announcement.

These expectations were not belied by the Economic Survey, which did dwell on all these themes. The Economic Survey has predicted economic growth to be between 6.3% to 6.8% in FY 2025-26 and based on the numbers for December has put the GDP number for FY 2024-25 at 6.4%. The Survey has prescribed de-regulation – getting out of the way and allowing businesses to grow, to quote, augmentation of capacities, private sector participation and energy transition as the four pillars of growth strategy in the new playing field. The Survey while tempering expectations of growth in FY 2025-26 and warning of market corrections in 2025, reinforced confidence in India"s robust economic fundamentals. The Survey has strongly advocated de-regulation and reforms including labor reforms with flexibility of working hours (balanced with worker rights) and that it would lower the cost of doing business, bring efficiency in use of resources and boost output and employment. It stresses on this de-regulation as the need of the hour, and focusses on review and amendment of complicated procedures at the grass root level. The Survey has interestingly called out the profit-wage gap, highlighting the gap between wages and profits of companies. It argues for creation of Indian „Mittelstand" to drive innovation for high quality manufacturing and to create a robust export economy. The Survey also mentions China"s dominance being the dominant source of supply and the need to address this concentration. On the contradiction between the use of AI and employment, the Survey states that AI would help create jobs rather than replace them. The Survey also re-iterates the need for a continued step up of infrastructure investments, higher private participation in it and responsibility of the private sector in finding the right balance between Capital and Labor deployment. The private sector stepping up R&D investment and the need to achieve sustainable growth through measures such as green energy has also been emphasized.

The Budget for FY 2025-26, which the FM presented, largely delivered on expectations from all stakeholders, exceeding some, treading a path of fiscal prudence with a declaration of estimates of fiscal deficit of 4.8% of GDP for FY 2024-25 and projected a number of 4.4% of GDP for FY 2025-26. This opens an opportunity for RBI to ease liquidity conditions (some measures were already taken ahead of the Budget) and potentially cut rates. The announcements for reforms and stimulus growth were based on the four engines of growth: Agriculture, MSME, Investment, and Exports.

The Budget intricately weaved together strategic initiatives across multiple sectors, underscoring the government"s commitment to bolster India"s agricultural and MSME landscapes, essential for sustainable growth and self-reliance. The measures for rural development aim to generate ample opportunities in these areas so that migration is an option, but not a necessity. In agriculture, the Prime Minister Dhan-Dhaanya Krishi Yojana targets 100 districts to uplift productivity. The extended Kisan Credit Card scheme facilitates financial support for farmers, fishermen, and dairy workers. Concurrently, the Budget acknowledged MSMEs" pivotal role in development by revising classification criteria with increased investment and turnover limits by 2.5 and 2 times, respectively, aimed at enhancing the operational scale, technology upgrades, and capital access for over 1 crore registered MSMEs, which account for 45% of exports. To address credit access challenges, the Budget enhanced credit guarantee cover for micro, small enterprises, and startups and introduced customized Credit Cards with a INR 5 lakh limit for micro enterprises. It also focused on first-time entrepreneurs, especially women and those from Scheduled Castes and Tribes, offering term loans up to INR 2 crore over five years. Emphasis on sectors like food processing and clean tech manufacturing will ensure that MSMEs benefit from these advancements.

Complementing these efforts, the Budget strategically focused on investment as a multi-dimensional growth engine, particularly emphasizing people, economy, and innovation. By investing in human capital through nutritional programs like Saksham Anganwadi and expansive educational initiatives, including 50,000 Atal Tinkering Labs and extended broadband connectivity, the government prioritized skill development and health. Infrastructure received a significant boost through Public-Private Partnerships and initiatives like the Jal Jeevan Mission and Urban Challenge Fund, propelling cities into growth hubs and enhancing regional connectivity via the expanded UDAN scheme. On the innovation front, INR 20,000 crore investment supports a Research, Development, and Innovation initiative to foster cutting-edge technology and next-generation startups. The Budget"s export strategy mitigates supply chain disruptions by boosting domestic manufacturing within Industry 4.0, spearheaded by an Export Promotion Mission and the upcoming BharatTradeNet platform. This comprehensive framework, incorporating a National Framework for Global Capability Centers, aims to elevate India"s economic footprint and global standards amidst evolving global challenges.

The measures announced were aligned to the suggestions made in the Economic survey, addressing the issues highlighted therein. One of the important announcements made by the FM was that of tabling of the Direct Tax Code, in the following week, which aims at further simplification and rationalization of the law and to deliver on the objective of ease of doing business. Mercifully, on account of the new Tax Bill in the offering, in the taxing proposals, there was no unannounced tinkering with the existing law. The theme of ease of doing business received recognition from both the Survey and the Budget and we would need to wait and watch the recommendations of the high-level committee which would be constituted for this purpose.

The block buster announcement on the direct taxes front most certainly was the increasing of taxing thresholds and rate slabs which translated to income to the tune of INR 12 lakhs attracting Nil tax (subject to caveats) and income of up to INR 24 lakhs attracting a maximum rate of 25% tax. This indeed has been a bonanza and a healthy cut for all individual taxpayers. These rate corrections will lead to a sacrifice of INR 1 lakh crore revenue in the coming year, despite which, in the estimates for next year there is still a healthy growth of 10% in estimated direct tax collections. The Prime Minister had obviously beseeched Goddess Laxmi, in the form of the FM, to bless the middle class, and she did not disappoint. This should help address the consumer demand and inflation issues, putting INR 1 lakh crore more in their pockets.

With a view to adopting global best practices, it is proposed to determine the ALP for a block of three years which will go a long way in reducing the administrative effort and compliance burden of the revenue authorities and the taxpayers. Government has been incentivizing units in IFSC in the last few years and this year"s tax proposal is no exception. The FM has announced that the safe harbour rules, which allow taxpayers to adopt pre-defined margins for certain international transactions will be expanded to reduce litigation and provide tax certainty and avoid disputes.

On the front of ease in doing business, the Bill also proposes to rationalize the TDS and TCS provisions by increasing the thresholds for applicability of TDS/TCS provisions, viz. TDS for rents, commission, fee for technical/professional services and abolition of TCS provision on sale of goods. In order to promote start-ups, the Bill proposes to extend the sunset clause relating to commencement of operation till March 31, 2030. Government is aiming to reduce the compliance burden for small charitable trusts and institutions by extending their validity of registration from five years to ten years. Further, minor defaults such as incomplete applications have been exempted.

To simplify the process of computation of income from house property, the Bill proposes to remove the conditions for claiming the benefit of Nil annual value in respect of two-house properties. This should give a fiscal incentive for those aspiring for „second homes".

The Bill proposes a significant reduction in the number of Tariff Rates of Basic Customs Duty (BCD). Currently, there are about 15 rates of BCD in the Customs Tariff. The Bill proposes to reduce the number of tariff rates to 8, including zero rate of BCD. The Bill also proposes to apply not more than one Cess or Surcharge. However, in the same breath, the Bill proposes to apply equivalent cess to maintain effective incidence of duties on most of the items. Going forward, reduction in the number of tariff rates is a step in the right direction, to reduce the number of classification disputes and enhance ease of doing business for manufacturers who depend on imported raw materials and traders of imported goods.

Also, to enable improved access to lifesaving medicines, the Bill proposes to exempt another 36 drugs and 37 medicines for treating rare diseases, cancer and severe chronic diseases, to add 6 more medicines to the 5% duty list and to grant exemption to 13 new patient assistance programmes. Further, to give a boost to "Make in India", the Bill proposes duty exemption to open cell for LED/LCD TV, looms for textiles, capital goods for lithium-ion batteries of mobile phones and EV"s, and for inputs imported for use in manufacture of leather goods and handicrafts.

As trade facilitation measures, the Bill proposes a time limit of two years for Customs Officers to finalize provisional assessments, a new section in the Customs Act, to enable voluntary declaration of material facts, after customs clearance is completed and payment of customs duty and interest, but without any penalty.

In GST, as recommended by the Honourable GST Council, the Bill proposes to retrospectively amend section 17(5)(c) of the CGST Act, with effect from July 01, 2017, to correct a drafting error, by replacing the expression "plant or machinery" by the expression "plant and machinery". Such an amendment appears to have been proposed to nullify the effect of the landmark judgment dated October 3, 2024, of the Honourable Apex Court, in the case of Commissioner of Central GST Vs Safari Retreats. It was inter alia held in the above judgment that the expression "plant or machinery" is different from the expression "plant and machinery", which is defined in the CGST Act. Based on the above subtle distinction, Honourable Apex Court had held that the GST paid on goods and services used for construction of a shopping mall can be claimed as ITC, subject to satisfying the functionality test. As a result of the above proposal to retrospectively amend the above section, those litigants who had claimed ITC in similar circumstances may have won the battle but may lose the war if they do not succeed on limitation!

The Bill further proposes to substitute the existing proviso to section 34 of the CGST Act, to ensure that the GST involved on a credit note issued by the supplier is allowed to be deducted from his outward supply liability, only if the proportionate ITC claimed by the recipient is reversed. The proposed amendment is likely to bring relief to taxpayers who are currently facing significant demands for reversal of ITC after the proposed amendment comes into effect. Further, an amendment is proposed to para 8 of Schedule – III of the CGST Act, to exempt supplies made from SEZs or FTZs to any person before exports or to the DTA, to ensure parity with similar transactions made from Customs Bonded Warehouses.

The Bill also proposes retrospective exemption from service tax in certain cases relating to reinsurance services provided by insurance companies under the Weather Based Crop Insurance Scheme and Modified National Agricultural Insurance Scheme. It is significant to note that proposed amendment envisages refund of service tax collected on such reinsurance services.

The proposals made in the Bill appear likely to simplify the customs duty structure and reduce classification disputes, reduce the cost of a greater number of imported lifesaving drugs and medicines and give a further boost to the "Make in India" initiative. The proposal to retrospectively amend the GST blocked credit provision to nullify the effect of Honourable Apex Court judgment may not bode well with Industry. The proposed retrospective exemption from service tax to some of the reinsurance services, with refunds being enabled, would surely be welcomed by the Insurance Sector.

Despite the present headwinds, we must bear in mind that we are still the fastest growing major economy in the world and the Budget FY 2025-26 has aimed to sustain this momentum as the country embarks its journey of Viksit Bharat, to becoming a developed country and the promised Amrit kaal. The ongoing Mahakumbh, in Prayagraj, I am sure will augur well, turning the waters of the Triveni sangam to Amrit a symbolic celebration of the epic Amrit manthan by the Gods, which was not realized before Shiva digested the poison, cooled off by the Ganga. The country in a like manner, will enjoy the Amrit Kaal in 2047, but not without having mountains to climb, albeit not having to digest the poison of a 90-hour week!

As always, I look forward to receiving your valuable feedback and comments on the contents of this publication, which it must be said is no substitute for any professional advice, but an expression of our views interlaced with our practical experience.

Sincerely,

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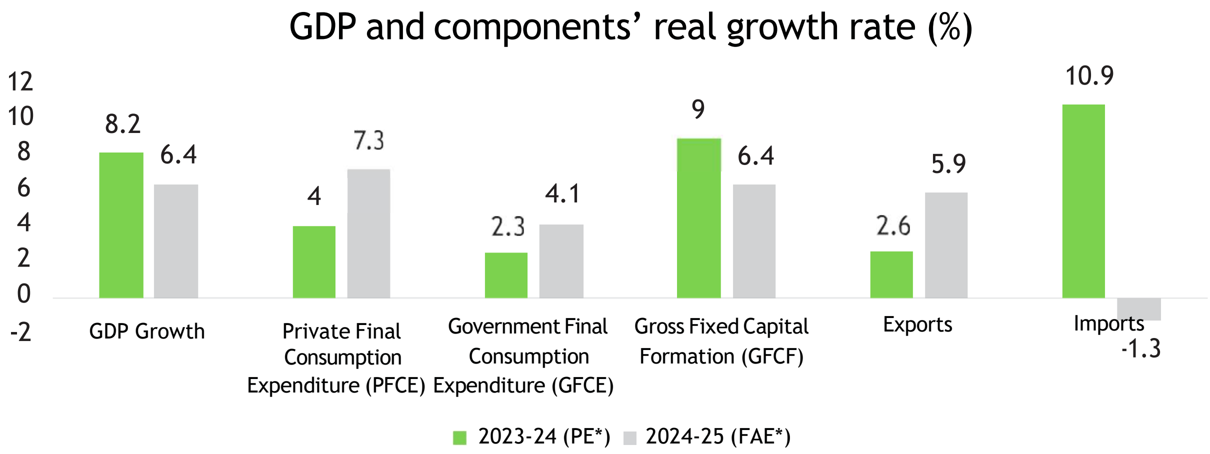
ECONOMIC SURVEY 2025
Unraveling Growth, Challenges, and Opportunities

INTRODUCTION

The Indian economy demonstrated resilience in FY25 despite global headwinds, with real GDP projected to grow at 6.4%. This growth is supported by a robust services sector, a recovering rural economy, and strong agricultural output, with agriculture expanding at 3.8% due to record Kharif production. The industrial sector, growing at 6.2%, benefitted from increased construction activities and utility expansions, while the services sector at 7.2% growth, was led by healthy activity in financial, real estate, professional services, public administration, defense, and other services. Private consumption surged by 7.3% YoY, reaching its highest share in GDP since FY03, with rural demand rebounding, evidenced by rising sales of two-wheelers, three-wheelers, and tractors. However, capital formation growth slowed to 6.4% in H1 FY25 due to policy hesitancies linked to elections. Urban consumption showed mixed trends, with passenger vehicle sales moderating but air travel demand increasing by 7.7% YoY.

Figure 1: Growth Rates of Real Gross Domestic Product and Components at Constant Prices



* PE: Provisional Estimates, FAE: First Advanced Estimates

India"s economy grew at an impressive rate of 8.2% in real terms for FY24, continuing its strong performance from previous years. This robust growth is attributed to stable consumption patterns, increased private sector investment, and strong government policy support. The survey projects real GDP growth to be between 6-6.8% for FY25, depending on global economic and political developments. The survey reports that inflationary pressures, largely driven by global supply chain disruptions and unpredictable monsoons, have been effectively managed through strategic administrative and monetary policies. Retail inflation decreased from an average of 6.7% in FY23 to 5.4% in FY24, the lowest level since the pandemic. This stability is credited to timely interventions by the government and the RBI.

Inflation trends remained favorable, with retail inflation (CPI) moderating to 4.9% (Apr-Dec 2024) from 5.4% in the previous fiscal year. However, high food inflation (8.4%) persisted due to spikes in vegetable and pulse prices. External trade showed positive momentum, with exports growing by 5.6% YoY in H1 FY25, primarily driven by a services trade surplus, while the Current Account Deficit was contained at 1.2% of GDP due to record remittances. Government consumption is expected to improve slightly, but capital formation growth is expected to slow down due to reduced public and private sector investments.

While the merchandise trade deficit widened, a strong services trade surplus and remittances helped contain the current account deficit to 1.2% of GDP in Q2 FY25. Inflation pressures persisted due to food prices, but core inflation moderated, prompting the RBI to maintain a stable repo-rate and inject liquidity. Banking stability improved with NPAs dropping to a 12-year low, and the rupee remained relatively resilient despite external headwinds. Credit deployment by banks to the industrial and services sectors remained stable for most FY25. The moderation observed in recent months is mainly due to regulatory tightening by the central bank to control the expansion of unsecured retail loans.

In the first nine months of FY25, the INR depreciated by 2.9% due to a strengthening USD amid geopolitical tensions in the Middle East and U.S. election uncertainty. However, the INR still outperformed the Canadian Dollar, South Korean Won, and Brazilian Real, which fell by 5.4%, 8.2%, and 17.4%, respectively.

By the end of December 2024, India"s foreign exchange reserves decreased to USD 640.3 billion, after exceeding USD 700 billion earlier. These reserves cover about 90% of the country"s USD 711.8 billion external debt as of September 2024, providing a strong buffer against external vulnerabilities. With an import cover of 10.9 months, India is well-positioned to handle external shocks.

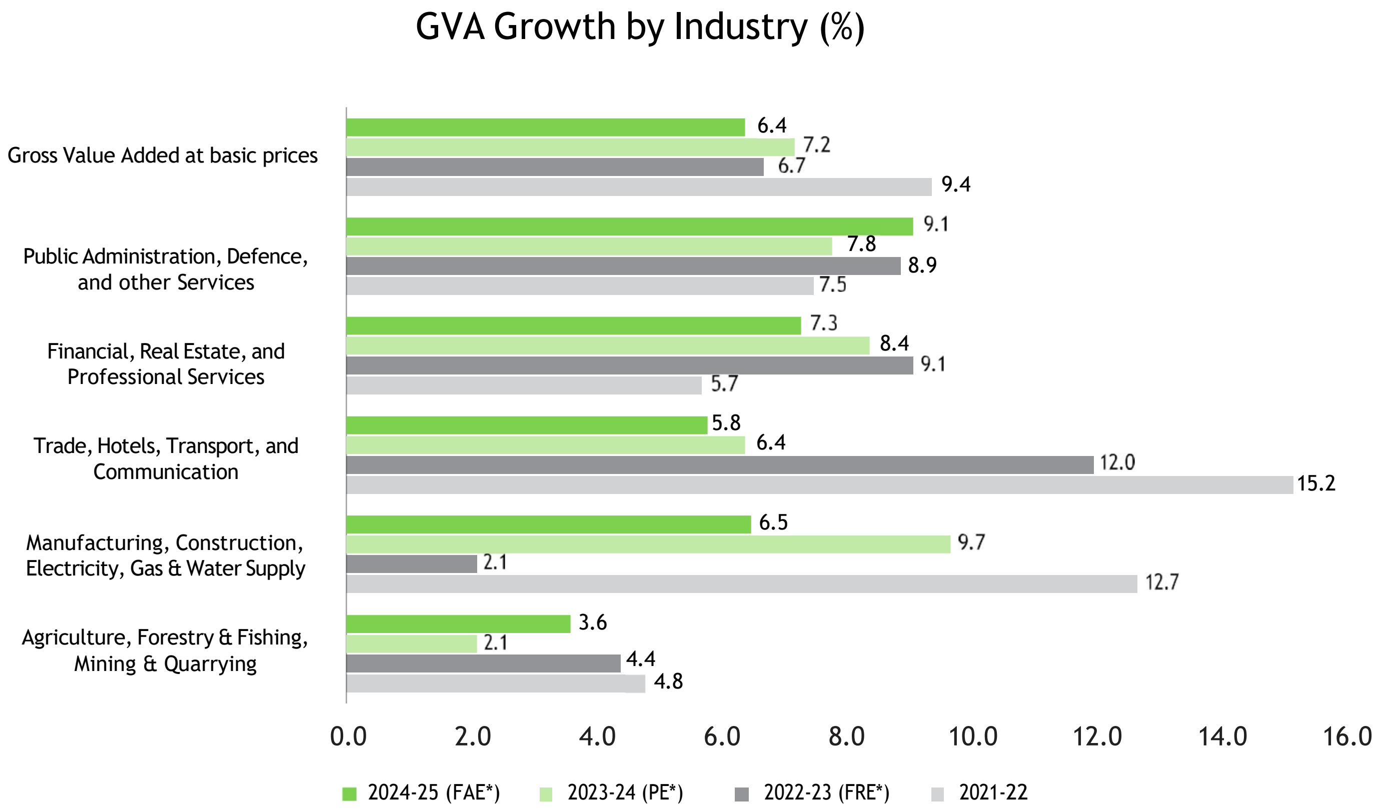
Public finances remained stable, with the fiscal deficit within manageable limits and Union capital expenditure rebounding post-elections. India"s external debt has remained stable over recent years, contributing to external sector stability amid global geopolitical challenges. The external debt-to-GDP ratio increased slightly from 18.8% in June 2024 to 19.4% in September 2024. However, state finances were more dependent on central tax devolution, leading to fiscal disparities across regions.

The job market witnessed growing formalization, which is expected to enhance worker"s access to social security and stability. Moreover, the unemployment rate for individuals aged 15 and above steadily declined from 6% in 2017–18 to 3.2% in 2023–24.

Elections, geopolitical tensions, supply chain disruptions, and climate-related shocks heightened uncertainty, keeping global growth at moderate levels - 3.2% in 2024, according to the IMF. Amidst this uncertainty, India continued to shine, recording robust economic growth while navigating certain challenges.

A. Growth Drivers and Sectoral Performance

Figure 2: Growth Rates of Real Gross Value Added at Basic Prices by Industry



*FRE: First Revised Estimates, PE: Provisional Estimates, FAE: First Advanced Estimates

Agriculture

India"s agriculture sector, contributing 16% to GDP and supporting 46.1% of the population, remains resilient with an average annual growth of 5% since FY17 and 3.5% in Q2 FY25. Key growth factors include remunerative pricing, institutional credit access, crop diversification, and sustainable practices, leading to a 5.23% annual rise in farm income. While India is a major cereal producer (11.6% of global output), crop yields remain below international standards. Fisheries and livestock have emerged as high-growth sectors, with CAGRs of 13.67% and 12.99%, respectively. Government initiatives like PMFBY, e-NAM, and PDMC aim to improve sustainability, irrigation, and digital integration. However, only 55% of the net sown area is irrigated, making the sector vulnerable to climate shocks. Credit availability is expanding through KCC, and mechanization efforts, including drone technology for women-led SHGs, are gaining traction. Infrastructure development is key, with investments in marketing, storage, and processing under the AIF and AMI schemes. The government"s focus on food security through PDS, NFSA, and PMGKAY continues, with initiatives like ONORC ensuring nationwide ration portability. Moving forward, diversifying into allied sectors and climate adaptation will be crucial for sustaining agricultural growth.

Industrial Sector

India"s manufacturing sector accounts for 2.8% of global output, facing challenges from supply chain disruptions and trade protectionism. To enhance competitiveness, India needs more private R&D

investment, improved logistics, and stronger MSME finance access. Core industries like cement and steel show growth, while the electronics industry benefits from production incentives, making India the second-largest mobile producer. Despite EV adoption lagging due to infrastructure issues, pharmaceutical exports reached USD 26 billion.

Infrastructure

Infrastructure development saw growth, with a CAGR of 38.8% in capital expenditure from FY20 to FY24. The National Infrastructure Pipeline targets INR 111 lakh crore across 9,766 projects by FY25. The National Monetisation Pipeline raised INR 3.86 lakh crore by FY24. Advances in transport and connectivity included 17 new Vande Bharat train pairs and nearly complete bullet train projects. The power sector expanded, reaching 456.7 GW capacity, with renewables making up 47%. The digital infrastructure sector saw a boost from 5G rollout and BharatNet expansions.

Service Sector

India"s services sector, contributing 55% to GVA and employing 30% of the workforce, remains the economy"s driving force, with an 8.3% post-pandemic growth rate. The country ranks seventh globally in services exports, reaching 4.3% of the global share in 2023. Trade in services is booming, with 11% CAGR growth over the past decade and a 12.8% rise in exports in FY25. Financial services are expanding, with bank credit to the sector at INR 48.5 lakh crore and FDI inflows of USD 5.7 billion. Infrastructure improvements have supported logistics and connectivity, with rising railway and road transport efficiency, booming aviation demand, and growing cargo movement at ports. Key service industries like tourism (5% of GDP), real estate (housing demand projected at 93 million units by 2036), Information Technology (IT) services (USD 254 billion industry), and telecom (fastest 5G rollout globally) are experiencing rapid expansion. Karnataka and Maharashtra dominate services Gross State Value Added, while emerging states like Bihar and Jharkhand show potential. To sustain momentum, India must focus on AI-driven job creation, digital skilling, and grassroots-level business reforms.

Financial Sector

The financial sector is experiencing transformation with increased consumer credit and diverse financing options. As banking, capital markets, insurance, and financial inclusion advance, robust regulatory oversight is required to address risks in consumer credit, cybersecurity, and AI-driven banking, ensuring stability and sustainable growth. The RBI"s Financial Inclusion Index improved from 53.9 in March 2021 to 64.2 by March 2024, thanks to the role of Rural Financial Institutions (RFIs) and Development Financial Institutions (DFIs) in expanding credit access. India"s capital markets have thrived, with stock market highs and a tripling of retail investors on the NSE to 10.9 crore by December 2024. The insurance sector grew, with total premiums rising by 7.7% in FY24 to INR 11.2 lakh crore; however, life insurance penetration fell slightly to 2.8%.

External Sector

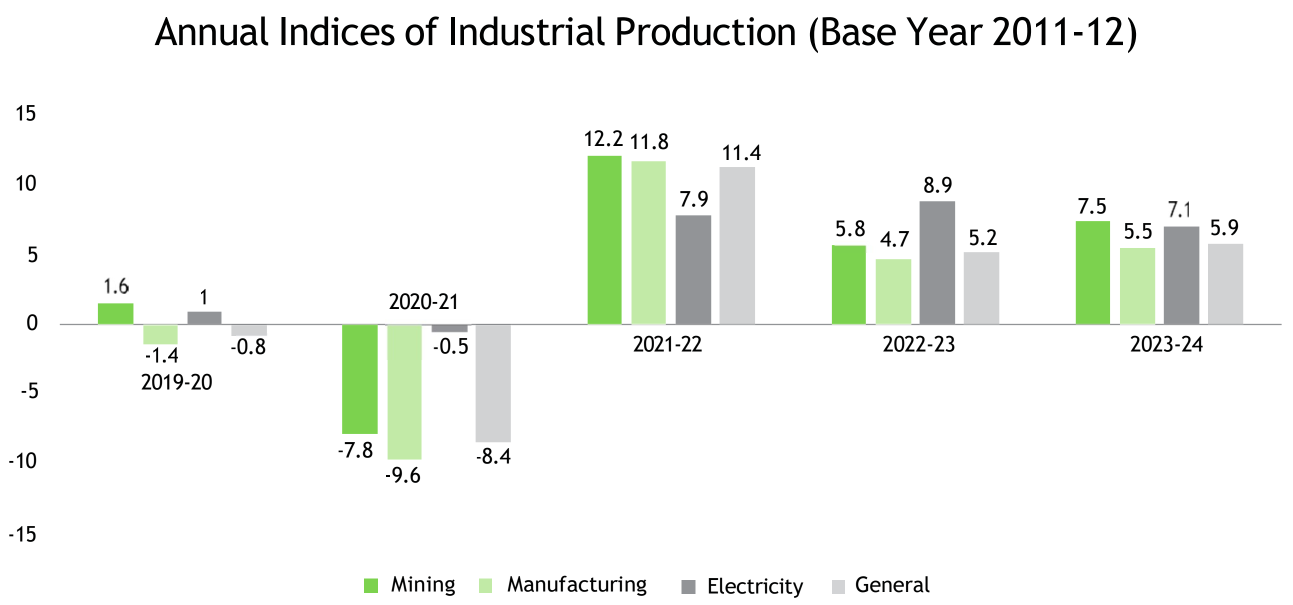
From April to December 2024, India"s exports totaled USD 602.6 billion, driven by services, pharmaceuticals, and electronics, while imports reached USD 682.2 billion, raising the trade deficit to USD 79.5 billion. Services exports grew by 11.6%, while textile exports stood at USD 34 billion. FDI revived in FY25, with inflows up 17.9% year-on-year to USD 55.6 billion, led by services and technology sectors. Conversely, FPI net inflows slowed due to global uncertainties, though the inclusion of Indian Government Bonds in global indices improved debt inflows, with INR 1.1 lakh crore entering the FPI debt segment between October 2023 and June 2024.

Social Sector

India"s education sector is evolving under the NEP 2020, targeting a 100% Gross Enrolment Ratio by 2030. While digital literacy is growing, rural-urban disparities persist. Higher education institutions have increased by 13.8%, and initiatives like ATLs in 10,000 schools promote STEM education. Healthcare reforms focus on mental health, Ayushman Arogya Mandirs (175,560 operational centers), and PM-ABHIM"s efforts to strengthen public health infrastructure. Immunization coverage has reached 93.5%, and AI-driven telemedicine is expanding. Rural development programs like PMAY-G (2.69 crore houses completed), Gram Nyayalayas, and NSAP provide crucial support. Women"s participation in rural employment schemes like MGNREGA (58.9%) and SHGs under DAY-NRLM (90.9 lakh SHGs) is driving inclusive growth.

B. Key Economic Themes of the Survey: Deregulation as the Growth Catalyst

Figure 3: Annual Indices of Industrial Production (Base Year 2011-12) at Sectoral level



The Economic Survey emphasizes the importance of "deregulation" and advancing the ease of doing business in India. It underscores that enabling businesses to focus on their core missions is a crucial contribution government can make to foster innovation and enhance competitiveness. "Getting out of the way" involves ceasing micromanagement of economic activities and adopting risk-based regulations. This requires shifting the regulatory approach from "guilty until proven innocent" to "innocent until proven guilty." Systematic deregulation could be the key to unlocking India"s growth potential, aiming to transform it into a USD 6.3 trillion economy by 2030. In support of this, the Jan Vishwas Act 2023 decriminalized 183 provisions across 42 central Acts to promote economic freedom and stimulate business growth. Furthermore, India"s PAN 2.0 initiative integrates government databases to simplify compliance. At the state level, efforts towards deregulation are also in progress. States can pursue systematic deregulation via a three-step process that evaluates regulatory cost-effectiveness. The initial step involves identifying areas for deregulation, guided by a state government-led initiative under Ease of Doing Business (EoDB) 2.0.

Monetary and Financial Sector Developments

India"s financial sector displayed steady expansion in FY25, with the banking sector achieving improved profitability and asset quality. Bank credit witnessed steady growth, aligning with deposit expansion, while the Gross Non-Performing Assets (GNPA) ratio fell to a 12-year low of 2.6%, and net NPAs reduced to 0.6%. Financial inclusion progressed significantly, as reflected in the RBI"s Financial Inclusion Index improving from 53.9 in March 2021 to 64.2 in March 2024. Regional Rural Banks (RRBs) saw notable profitability gains, with net profits rising from INR 4,974 crore in FY23 to INR 7,571 crore in FY24. Capital markets witnessed remarkable growth, with the Indian stock market outperforming global peers and reaching new highs. The surge in retail investors continued, with unique investors on NSE tripling over four years to 10.9 crore by December 2024. Initial Public Offering (IPO) activity also soared, making India the global leader in IPO listings for FY24. The monetary policy environment remained stable, with core inflation easing and expectations of policy rate cuts by the RBI. Foreign exchange reserves remained robust at USD 640.3 billion (December 2024), covering 90% of external debt. The insurance and pension sectors maintained steady growth, with total premiums reaching INR 11.2 lakh crore in FY24, despite a slight decline in life insurance penetration. Technological innovations in banking, such as AI-driven credit underwriting, risk management, and cyber security measures, gained traction, while cyber threats, including phishing and ransomware attacks, necessitated stronger regulatory oversight. The financial stability outlook remained positive, with an expanding role for non-banking financial companies (NBFCs) and the bond market, even as consumer credit exposure grew to 32.4% of total bank credit by FY24, signaling the need for careful risk management.

Prices and Inflation

Inflationary trends showed moderation in FY25, with India"s retail inflation declining to 4.9% (Apr-Dec 2024) from 5.4% in FY24. Global inflation trends followed a similar trajectory, with inflation declining in major economies such as the UK (from 6.3% to 3.9%) and Germany (from 5.9% to 4.0%). Food inflation remained volatile due to supply shocks, particularly affecting onion, tomato, and pulse prices. Government interventions, including stock limits on essential commodities, buffer stock procurement, and duty-free imports, were deployed to curb price surges. RBI"s projections indicated a further decline in inflation towards its 4% target by FY26, with global commodity prices expected to decline by 5.1% in 2025 and 1.7% in 2026. Long-term strategies to mitigate inflationary pressures include developing climate-resilient crops, expanding pulse cultivation, and enhancing data monitoring systems for price stability.

Medium-Term Outlook

India"s long-term growth vision aims to sustain an 8% GDP growth rate to achieve the goal of becoming a developed economy (Viksit Bharat) by 2047. IMF projections estimate India"s GDP to reach USD 5 trillion by FY28 and USD 6.3 trillion by FY30. However, geopolitical fragmentation, rising protectionism, and supply chain dependencies on China pose risks. Regulatory reforms such as the Jan Vishwas Act 2023 and PAN 2.0 aim to reduce compliance burdens and enhance economic freedom. State-level deregulation initiatives have improved industrial competitiveness, with Haryana and Tamil Nadu streamlining building laws and Punjab easing investment regulations. To sustain high growth, investment rates must rise to 35% of GDP, requiring further policy support for MSMEs, infrastructure expansion, and innovation-driven industrial development.

India"s industrial sectoris witnessing significant shifts, with global trends presenting both opportunities and challenges. Despite India"s modest 2.8% share in global manufacturing output compared to China"s 28.8%, its position is strengthening amid a global industrial slowdown, supply chain disruptions, and geopolitical uncertainties. Industrial growth in India is projected at 6.2% in FY25, driven by construction and electricity, though a slowdown in Q2 (3.6%) was seen due to weak exports and weather-related disruptions. Key industries like cement (second-largest globally), steel (net exporter with PLI-driven expansion), and petrochemicals (8%-9% CAGR) are growing steadily. The automobile sector, particularly two-wheelers and passenger vehicles, is expanding, but EV adoption is sluggish due to infrastructure challenges. Electronics and semiconductors are benefiting from PLI incentives, making India the second-largest mobile producer. Pharmaceuticals and biotech continue to thrive with growing exports and domestic production initiatives. MSME credit growth remains strong, though formalization challenges persist, and business reforms, including FDI liberalization and regulatory digitization, are improving the investment climate. States like Maharashtra, Tamil Nadu, Gujarat, Karnataka, and Andhra Pradesh lead in industrial output, supported by proactive policies. Looking ahead, India must boost private R&D in high-tech sectors, improve logistics, and expand financial access for MSMEs to enhance competitiveness.

Climate and Environment

India"s commitment to sustainable development is integral to its vision of becoming a developed nation by 2047. Climate adaptation is a priority, as India ranks among the most vulnerable countries to climate change, with adaptation expenditures rising to 5.6% of GDP. Strategies like climate-resilient agriculture, urban resilience, and coastal protection are being implemented. The transition to renewable energy faces storage and mineral access challenges, though non-fossil fuel capacity now accounts for 46.8% of the total. India"s net-zero target for 2070 requires balancing economic growth with carbon reduction, making R&D in battery storage, carbon capture, and sustainable infrastructure vital. The Lifestyle for Environment (LiFE) initiative promotes sustainable lifestyles and circular economies, with emphasis on reducing food waste and optimizing energy use.

Employment and Skill Development

India"s labor market is strengthening, with a declining unemployment rate (from 6% in 2017-18 to 3.2% in 2023-24) and rising participation. Average wages for salaried and self-employed workers are growing at a 5% CAGR. Women"s self-employment is rising, with 31.2% engaged in own-account work. Formalization efforts are accelerating, with EPFO adding young workers (61% under 29 years). The gig workforce is expected to reach 23.5 crore by 2029-30. Manufacturing expansion, particularly in Tamil Nadu and Gujarat, is driving employment. Skill development programs like PMKVY and FutureSkills Prime are upskilling workers, with over 1.24 crore trained under the Craftsmen Training Scheme and AI-focused courses gaining traction.

Labour and AI

AI is transforming labor markets globally, with up to 30% of work hours projected to be automated by 2030. Job displacement is already visible, with firms like PhonePe cutting 60% of support staff. Call centers and customer support jobs are particularly vulnerable. AI"s development relies on extensive data, energy, and mineral resources, raising concerns about sustainability, bias, and reliability. India must navigate these challenges by upskilling workers, investing in AI infrastructure, and ensuring inclusive economic transitions.

This structured overview provides a cohesive analysis of India"s economic, industrial, agricultural, environmental, and labor market trends, highlighting key government initiatives and future challenges.

C. Areas of Concern: Challenges on the Path to Growth

Weak Urban Demand

The underperformance in urban consumption is reflected in the deceleration of passenger vehicle sales growth, which slowed to 4.2% year-over-year in April–November 2024 compared to 9.2% in the corresponding period last year. Additionally, Fast-Moving Consumer Goods (FMCG) sales in urban areas recorded tepid growth in H1FY25, per Nielsen IQ.

Rising Unsecured Credit

According to the RBI"s December 2024 Financial Stability Report, nearly half of borrowers with credit card and personal loans also have significant loans like housing or vehicle loans. As of September 2024, 51.9% of new NPAs in retail loans originated from unsecured loans. As unsecured loans continue to rise, the possibility of default in this segment poses a threat to bank profitability.

Single-Source Concentration Risk

India faces limitations in producing critical goods at the scale and quality required to meet the infrastructure and investment needs of an aspiring economy. China"s dominance in the environmental goods sector warrants attention, as it holds over 80% market share across all solar panel manufacturing stages, from polysilicon to modules. Additionally, China is home to the world"s top 10 suppliers of solar photo volatic (PV) manufacturing equipment and provides 60% of the world"s wind installed capacity. Nearly 80% of global battery manufacturing capacity is based in China, crucial for the energy transition. The country controls the supply chain for solar materials, manufacturing, installed capacity, and recycling, producing at least 80% of key PV components. China"s comprehensive integration across the EV supply chain supports its global leadership in this sector. This geographical concentration in global supply chains leads to potential supply disruptions.

Impact of Global Policy Changes on India"s External Trade

The evolving trade stance of a few major economies could affect key Indian export sectors such as chemicals, machinery, textiles, and electronics. Global trade has been affected by several disruptions, including conflicts in the Red Sea and the Hormuz Strait, as well as a drought in the Panama Canal, leading to increased shipping costs and longer delivery times. Although tariffs are declining worldwide, there has been a rise in non-tariff measures (NTMs) following the pandemic, impacting over 70% of global trade. Additionally, trade patterns are shifting towards politically aligned nations, illustrated by increased China-Russia trade and reduced China-US trade. Meanwhile, new European Union (EU) regulations, such as the Carbon Border Adjustment Mechanism (CBAM) and the European Union Deforestation Regulation (EUDR), could affect USD 9.5 billion worth of Indian exports.

D. Focus Areas:Path to Sustainable Growth

Price Stability

Taming Food Inflation: Core inflation in India has reached its lowest point in a decade, although food inflation remains volatile, primarily due to supply shocks. Given that food items make up around 40% of India"s Consumer Price Index (CPI), fluctuations in food prices considerably impact overall inflation. Key drivers of food price increases include the surge in onion and tomato prices, which were affected by extreme weather and monsoon disruptions, and a persistent demand-supply gap for pulses, despite India being a major producer. To manage inflation, the government has implemented measures such as imposing stock limits on wheat, pulses, and oilseeds; procuring 4.7 lakh metric tons of onions for buffer stocks; and selling subsidized wheat flour, rice, pulses, and vegetables. Additionally, they have eased imports by allowing duty-free imports of essential food items like yellow peas. Looking ahead, the RBI projects inflation to align with a 4% target by FY26, while the IMF forecasts inflation to decrease to 4.4% in FY25 and 4.1% in FY26. Commodity prices are expected to decline by 5.1% in 2025 and 1.7% in 2026, easing inflationary pressures. As part of a long-term strategy, the development of climate-resilient crops and expansion of pulse cultivation in rice-fallow regions, along with improved data monitoring systems, will help mitigate production shocks and track price movements.

Foreign Investment

Attracting Global Capital: While India continues to be a strong FDI destination, ranking high in greenfield project announcements and international project finance deals, net FDI figures indicate caution. As reported by the RBI, net FDI during the first eight months of FY25 was USD 0.48 billion, down from USD 8.5 billion in the corresponding period of FY24 and significantly lower than USD 19.8 billion in FY23. However, this slowdown has been mainly caused by increased repatriation over the past two years

Climate & Energy Transition

Greening the Economy: India"s vision to become a developed nation by 2047 hinges on inclusive and sustainable development, with a commitment to low-carbon growth. However, achieving this goal presents challenges, particularly in deploying renewable energy due to storage issues and limited access to necessary minerals. As a country vulnerable to climate change, India has increased its adaptation expenditures from 3.7% to 5.6% of GDP between FY16 and FY22, highlighting the need for a robust adaptation strategy. The Lifestyle for Environment (LiFE) initiative supports sustainable practices and a circular economy to foster environmental conservation. India"s commitment to climate action will significantly impact its energy production, procurement, and requirements, necessitating a shift in the energy mix. By 2030, projections indicate a substantial increase in the share of renewable energy, particularly solar and wind, in installed capacity, while the share of coal and lignite is expected to decline sharply compared to 2020.

Skilling & AI Adoption

Future-Proofing the Workforce: Skill development remains a critical focus in India, with 90.2% of the workforce possessing education equivalent to or below the secondary level, resulting in 88.2% of the workforce engaged in low-competency jobs. To address this, several initiatives are enhancing skill development, particularly in cutting-edge fields and rural enterprises. The Global Energy Alliance for People and Planet (GEAPP) India, in partnership with Uttar Pradesh"s rural livelihood mission, aims to solarize 50,000 women"s enterprises by 2025, expanding to one lakh by 2027 and five lakhs by 2030. The Periodic Labor Force Survey (PLFS) report for 2023-24 noted that 4.9% of youths aged 15-29 received formal vocational/ technical training, while 21.2% gained skills through informal channels.

For India, a service-driven economy with a young and adaptable workforce, embracing AI can boost economic growth and enhance labor market outcomes. The government will focus on education and skill development to prepare workers for success in an AI-enhanced environment. With the Future Skills Prime program, 119 courses specifically focusing on AI, have trained 1.27 lakh individuals, including 1,236 government officials and 292 trainers. Over 1.24 crore individuals enrolled for long-term training under the Craftsmen Training Scheme across Industrial Training Institutes (ITIs).

E. Conclusion

India"s economic narrative in FY25 highlights a nation adeptly navigating a complex global environment marked by geopolitical tensions, climate challenges, and economic uncertainties. Despite these hurdles, the country"s impressive growth trajectory is propelled by a well-integrated strategy encompassing robust sectoral performances, particularly in services, agriculture, and infrastructure. India"s focus on deregulation, ease of doing business, and systematic economic reforms has played a crucial role in fostering innovation and competitiveness. As the nation leverages technological advancements in AI and digital infrastructure, it also grapples with mitigating climate vulnerabilities, underscoring its commitment to sustainable development. The resilience and adaptability of India"s financial sector, combined with regulatory oversight, have cemented a stable foundation for economic growth, while the increasing formalization of labor markets promises inclusive progress.

Looking ahead, India"s ambitious vision of becoming a developed economy by 2047 will hinge on its ability to maintain an 8% GDP growth rate, foster investment, and drive industrial expansion. Continuously enhancing competitiveness through R&D investment, MSME support, and logistic improvements will be pivotal. Moreover, addressing rural-urban disparities, bolstering climate adaptation efforts, and ensuring equitable access to education and skill development remain imperative to achieving this vision. As AI reshapes the labor landscape, India"s strategic focus on up skilling its workforce ensures readiness for the future. India is set to dominate the global economic landscape in FY26, surging ahead with a stellar real GDP growth of 6.3%-6.8% - more than double the World Bank"s projected global expansion of just 2.7%. While much of the world grapples with economic slowdowns, India"s powerhouse economy is being propelled by transformative reforms, cutting-edge technology and a steadfast commitment to sustainability.

DIRECT TAXES

The clauses in the „Bill" so far as they relate to direct taxes, when enacted, will operate with effect from AY 2026-27. Where the intention is otherwise, there will be a specific mention of the fact. The readers will notice that when we make our comments on the diverse clauses of the Bill, we have indicated the material clauses in bracket.

Amendments to Tax Rates

The Bill proposes new tax slabs for individuals, HUFs, AOPs, and BOIs, who opt for the new tax regime (u/s 115BAC). These have been illustrated below:

A) Proposed Changes

I) Concessional income-tax slab rates for Individual / HUF / AOP (other than a co-operative society) / BOI / AJP (subject to certain conditions) - Section 115BAC

The Bill has proposed to provide relief to taxpayers (especially „middle class") under the new tax regime by rearranging the tax slabs as follows:

Income (INR)	Rate (%)
0 – 4,00,000	Nil
4,00,001 – 8,00,000	5
8,00,001 – 12,00,000	10
12,00,001 – 16,00,000	15
16,00,001 – 20,00,000	20
20,00,001 – 24,00,000	25
Above 24,00,000	30

A resident individual whose total income does not exceed INR 12,00,000 can claim tax rebate u/s 87A on the total income [excluding income taxable at special rate (such as capital gains)]. Tax rebate is lower of the amount of income-tax amount and INR 60,000.

Where the total income includes any income by way of dividend or income under the provisions of section 111A, section 112 and section 112A of the Act, the rate of surcharge on the income-tax in respect of that part of income shall not exceed 15%.

B) Tax rates for class of persons where no changes are proposed

I) For Individuals, HUF, AOP and BOI

Income-tax slab and the applicable rates, under the old regime

Income (INR)	Rate (%)(1) (3) (4) (5) (13)
0 – 2,50,000(2)	Nil
2,50,001 – 5,00,000	5
5,00,001 – 10,00,000	20
Above 10,00,000	30

A resident individual whose taxable income does not exceed INR 5,00,000 can claim tax rebate under section 87A. Tax rebate is lower of the amount of income-tax amount and INR 12,500.

II) Tax Rates applicable to companies for Total Income / Book Profits exceeding INR 10 crore

Description	Rate (%)(7)
A) Domestic Company	
Regular Tax (i.e. for companies having turnover more than INR 400 crore)	34.944
Where the total turnover or gross receipts in the FY 2023-24 does not exceed INR 400 crore / section 115BA	29.120
MAT (on Book Profits)	17.472
B) Foreign Company	
Regular Tax	38.22
MAT (on Book Profit)	16.380

III) Tax Rates applicable to companies for Total Income / Book Profit less than INR 10 crore

	Rate (%)	
	Range of Income	
Description	INR 1 crore to INR 10 crore[8]	Less than INR 1 crore[9]
A) Domestic Company		
Regular Tax (i.e. for companies having turnover more than INR 400 crore)	33.384	31.200
Where the total turnover or gross receipts in the FY 2023-24 does not exceed INR 400 crore / section 115BA	27.820	26.000
MAT (on Book Profits)	16.692	15.600
B) Foreign Company		
Regular Tax	37.128	36.40
MAT (on Book Profit)	15.912	15.60

IV) Optional Concessional tax rates for Domestic companies - Sections 115BAA and 115BAB

	Rate (%)[10]
Companies (not availing deductions/ exemptions as prescribed therein) (section 115BAA)	25.168
Manufacturing companies set up and registered on or after October 1, 2019 but before March 31, 2024 (without claiming any deductions/exemptions) section 115BAB)	17.160
Companies in the business of generation of electricity set up and registered on or after October 1, 2019 but before March 31, 2024 (without claiming any deductions / exemptions) (section 115BAB)	17.160

V) Tax Rates applicable to Firm / LLP / Local Authority for Total Income exceeding INR 1 crore

Description	Rate (%)[11]
Regular Tax	34.944
AMT	21.549

If a person, other than a company, being a unit located in IFSC derives income solely in convertible foreign exchange, the income tax would be payable @ 10.483%, instead @ 21.549% under AMT.

VI) Tax Rates applicable to Firm / LLP / Local Authority for Total Income Less than INR 1 crore

Description	Existing Rate (%)[9]
Regular Tax	31.200
AMT	19.240

If a person, other than a company, being a unit located in IFSC derives income solely in convertible foreign exchange, the income tax would be payable @ 9.36% instead @ 19.24% under AMT.

VII) Optional and Concessional tax rate for Resident co-operative societies (subject to certain conditions)

Income (INR)	Regular Tax Rate (%)[12]
Up to 10,000	10
10,001 – 20,000	20
Above 20,000	30

Description	Existing Rate (%)[12]
AMT	15

Concessional tax rate

A co-operative society resident in India has the option to pay tax @ 22% as per the provisions of section 115BAD, subject to fulfilment of certain conditions.

Reference notes:

(1) HEC shall be levied @4% on income-tax, including surcharge wherever applicable.

(2) In case of individuals who have not opted for the lower rate in section 115BAC, the basic exemption limit is INR 2,50,000 for every individual below the age of 60 years, INR 3,00,000 in the case of resident individuals of the age of 60 years or more and INR 5,00,000 in the case of resident individuals of the age 80 years and above.

(3) Surcharge @10% of income-tax is applicable in the case of a person having a total income (including dividend and income under the provisions of sections 111A, 112 and 112A of the Act) exceeding INR 50 lakhs, but not exceeding INR 1 crore and 15% in the case of a person having a total income (including dividend and income under the provisions of sections 111A, 112 and 112A of the Act) exceeding INR 1 crore, but not exceeding INR 2 crore. Surcharge rate shall not exceed 15% for AOP, where the members are only companies.

(4) Surcharge @25% of such income-tax is applicable in the case of a person having a total income (excluding dividend and income under the provisions of sections 111A, 112 and 112A of the Act) exceeding INR 2 crore, but not exceeding INR 5 crore and 37% in the case of a person having a total income (excluding dividend and income under the provisions of sections 111A, 112 and 112A of the Act) exceeding INR 5 crore.

(5) Surcharge @15% of income-tax for person having a total income (including dividend and income under the provisions of sections 111A, 112 and 112A of the Act) exceeding INR 2 crore but is not covered under Note (4) above.

(6) Surcharge for the taxpayer under new regime will be same as applicable to the slab rates for Individuals and HUF under old regime, except where the income exceeds INR 5 crore, the surcharge shall be restricted to 25%.

(7) Inclusive of surcharge of 12% (5% for foreign company) and HEC of 4%.

(8) Inclusive of surcharge of 7% (2% for foreign company) and HEC of 4%.

(9) Inclusive of HEC of 4%.

(10) Inclusive of surcharge of 10% and HEC of 4%.

(11) Inclusive of surcharge of 12% and HEC of 4%.

(12) Exclusive of surcharge of 7% in case of income exceeding INR 1 crore but not exceeding INR 10 crore and 12% in case of income exceeding INR 10 crore and HEC of 4% (except in case of resident co-operative society opting under section 115BAD, surcharge would be @ 10% of such income tax).

(13) Where the total income includes any income by way of dividend or income under sections 111A, 112 and 112A of the Act, the rate of surcharge on the amount of income-tax computed in respect of that part of income shall not exceed 15%.

[Clauses 2, 20,24 & the First Schedule]

Increase in threshold limits for taxation of perquisites in hands of employee – Section 17(2)

The existing provisions of clause (2) of section 17 defines „perquisite" to include any benefit or amenity provided free or at a concessional rate by an employer to an employee. The amenities and benefits (in general) received by employees with a salary below certain limit is exempt from being treated as perquisite. The limits, presently at INR 50,000 per annum, was set by the Finance Act 2001.

Further, the existing proviso to clause (2) of section 17, states that if an employer cover the cost of an employee"s or their family member"s medical travel abroad, it won"t be treated as a taxable perquisite, as long as the employee"s total income is below INR 2 lakh, as set by the Finance Act 1993.

Given that these limits were set over 20 and 30 years ago, it is proposed to allow the Income Tax Rules to provide for the income thresholds.

This amendment is proposed to take effect from April 1, 2026, i.e. AY 2026-27.

[Clause 9]

Exemption on withdrawals from National Savings Scheme – Section 80CCA

The existing provisions of section 80CCA of the Act allow an individual or a HUF to claim a deduction for amounts deposited in the NSS. However, no deduction is permitted for deposits made on or after April 1, 1992.

Under sub-section (2) of section 80CCA, any amount withdrawn from the NSS, along with the interest accrued thereon, is deemed to be the income of the asses see and is chargeable to tax. Since the deduction was discontinued from April 1, 1992, the taxable withdrawals pertain only to amounts deposited in the financial year 1991-92 and earlier, for which a deduction had been claimed. Additionally, as per Circular No. 532 dated March 17, 1989, withdrawals made upon the closure of the account due to the depositor"s death were not taxable in the hands of the legal heirs.

Subsequently, the Department of Economic Affairs issued a Notification on August 29, 2024, stating that no interest would be paid on NSS balances after October 1, 2024. In response, several representations were received seeking relief for individuals compelled to withdraw their deposits due to this change.

To address this hardship, it is proposed to amend section 80CCA to exempt from taxation any withdrawals made on or after August 29, 2024, from deposits for which a deduction was previously allowed. This exemption applies to the principal deposits and accrued interest on amounts invested before April 1, 1992. Though the initial deduction u/s 80CCA was available to both individuals and HUF, the proposed amendment is made applicable only to individuals.

Effectively, an individual tax payer would have enjoyed deduction when the deposit was made and now also when the amount is withdrawn on or after August 29, 2024.

This amendment is proposed to take retrospective effect from August 29, 2024.

[Clause 16]

Deduction under section 80CCD for contributions made to NPS Vatsalya – Section 80CCD

The existing provisions of section 80CCD of the Act provide for a deduction for contributions made to the Central Government"s pension scheme by an employee who has paid or deposited any amount into his pension scheme account.

The NPS Vatsalya Scheme was launched on September 18, 2024 to enable parents and guardians to open a NPS account for their children with a view to benefit the minors. On the majority of the minor, the NPS account shall be transferred to the minor with the accumulated corpus.

It is proposed to extend the tax benefits and allow deduction under Section 80CCD of the Act under old taxation regime in respect of contributions made to the minor"s NPS Vatsalya accounts upto INR 50,000. However, the amount on which deduction was allowed u/s 80CCD(1B), or any amount which accrues thereon, will be taxed on final year withdrawal unless the same was received upon the closure of the minor"s account due to death.

The NPS Vatsalya Scheme also permits partial withdrawals from the minor"s account for specific contingencies, such as education, treatment of certain illnesses, or disability (more than 75%) of the minor. In this regard, it is proposed to insert new clause 10(12BA) to provide exemption, up to 25% of the contributions made by the parent/guardian, of any income received from partial withdrawals as per the terms and condition specified under the Pension Fund Regulatory and Development Authority Act, 2013, and its regulations.

These amendments will take effect from April 1, 2026, and accordingly will apply in relation to the AY 2026-27 and subsequent AYs.

[Clauses 6 & 17]

Income on redemption of Unit Linked Insurance Policy

Section 10(10D) exempts from taxation any sum received under a life insurance policy. This clause provides for two exceptions to the exemption. Firstly, any sum received under an insurance policy issued on or after April 1, 2012 in respect of which, the premium payable for any year during the term of the policy, exceeds 10% of the actual capital sum assured. Secondly, in respect of Unit linked Insurance policy (ULIPs) issued on or after February 1, 2021, if the amount of premium payable for any PY during the terms of such policy exceeds INR 2,50,000 (dealt with in the fourth and fifth proviso to section 10(10D).

ULIPs are a species of life insurance policy. ULIPs which do not enjoy exemption under section 10(10D) are deemed to be a capital asset under section 2(14) and gains arising from receipt of any sum (including amount allocated by way of bonus) is chargeable to tax under the head „capital gains" under section 45(1B) of the Act, to be taxed in the manner provided for in section 112A.

While the intention was to tax all non-exempt ULIPs in this manner, because of specific reference only to „fourth and fifth provisos" of section 10(10D) (supra) in sections 2(14), 45(1B) and 112A of the Act, the tax treatment, as aforesaid, was not getting extended to ULIPs, whose income was not exempt under section 10(10D), on account of the fact that premium paid was more than 10% of the actual capital sum assured.

It is proposed to amend sections 2(14), 45(1B) and 112A of the Act, so as to omit the references to „fourth and fifth provisos" of section 10(10D) of the Act, to give consistent tax treatment to all ULIPs.

These amendments are proposed to take effect from April 1, 2026, i.e. AY 2026-27.

[Clauses 3, 12 & 22]

Removing conditions for claiming Nil Annual value of self-occupied property – Section 23

The existing provisions of section 23(2) provide that where house property is in the occupation of the owner for the purposes of his residence or the owner cannot occupy due to his employment, business or profession carried on at any other place, in such cases, the annual value of such house property shall be taken to be Nil.

It is proposed to amend section 23(2) to remove the above conditions and provide the benefit of Nil annual value in respect of two house properties, even where the owner cannot actually occupy it, due to any reason.

The amendment is proposed to take retrospective effect from April 1, 2025, i.e. AY 2025-26.

[Clause 10]

Harmonisation of Significant Economic Presence applicability with Business Connection – Section 9

Section 9 of the Act provides for income, in the case of a non-resident, which shall be deemed to accrue or arise in India. Section 9(1)(i) of the Act, inter alia, provides that all income accruing or arising, whether directly or indirectly, through or from any Business Connection, shall be deemed to accrue or arise in India. Explanation 1 to this section, provides that, in the case of a non-resident, no income shall be deemed to accrue or arise in India, if the operations are confined to purchase of goods in India for the purpose of export.

To address the issue of Base Erosion and Profit Shifting (BEPS) arising from the rapidly digitalising economy, Finance Act 2020, inserted Explanation 2A to section 9(1)(i) of the Act and expanded the concept of Business Connection, to include a new nexus rule based on Significant Economic Presence (SEP) to tax the digital economy, which hitherto enabled entities world over to carry out business in India without an actual physical presence, and thereby escape taxation in India.

Suggestions were received that owing to the definition of SEP in Explanation 2A, the specific exclusion provided in Explanation 1, for income arising through or from operations, which are confined to the purchase of goods in India for the purpose of export, may be denied and such income may be treated as income deemed to accrue or arise in India.

It is therefore, proposed to add a proviso to Explanation 2A, providing that the transactions or activities, which are confined to purchase of goods in India for the purpose of export, shall not constitute SEP in India. This would now bring in coherence with the exemption provided in Explanation 1 to section 9(1)(i) of the Act. Of course, it goes without saying that the non-resident is also entitled to the tax treaty benefits, wherein generally, activity of purchase of goods is excluded from the definition of „Permanent Establishment".

This amendment is proposed to take effect from April 1, 2026, i.e. AY 2026-27.

[Clause 4]

Rationalisation of transfer pricing provisions for determination of arm"s length price of similar transactions – Section 92CA

Currently, transfer pricing assessment is made by the TPO after a reference is received by him by the AO in respect of an international transaction or SDT for a given AY. In several cases taxpayers enter into similar international transactions and SDTs and same arm"s length analysis in determining the ALP of the transaction is applied every year. In such cases, the Bill proposes to carry out TP assessments in a block of three years to ease the administrative burden and efforts of the tax administrators and taxpayers.

The Bill proposes to insert sub-section (3B) in Section 92CA of the Act to provide that the ALP determined in relation to an international transaction or SDT for a PY shall also apply to similar international transaction or SDT for two consecutive PY immediately following such PY provided the taxpayer exercises an option before the TPO to this effect within a specified time period and manner to be prescribed. The TPO shall pass an order regarding the validity of the option exercised by the taxpayer within a month from the end of the month in which the option is exercised. In this case no reference to the TPO would be required to be made in respect of the subsequent two PYs.

It is also proposed that the TPO, after declaring the option exercised by the taxpayer as valid for a PY, shall examine and determine the ALP of similar transactions for two consecutive PYs immediately following such a PY and the AO, on receipt of the order from the TPO, shall proceed to recompute the total income of the assessee for the said two consecutive PYs as per the provisions of section 155(21) of the Act.

As a consequential amendment, it is also proposed to provide a time limit for recomputing the total income by inserting sub section (21) in section 155 of the Act in cases where the TPO has declared the option exercised by the taxpayer as valid for two consecutive PYs immediately following such PY. In such cases, the AO shall proceed to re-compute the total income of the taxpayer for the said two consecutive PYs by amending the order of assessment in conformity with the order of the TPO within three months from the end of the month in which the assessment is completed in the case of the assessee for such PY.

Considering the fact that there may be some implementation challenges in operationalising the above stated amended provision, it is proposed that CBDT may issue guidelines to remove any such difficulties.

These amendments are proposed to take effect from April 1, 2026, i.e AY 2026-27.

[Clause 21 & 45]

Scheme of presumptive taxation extended for non-resident providing services for electronics manufacturing facility – Section 44BBD

The Ministry of Electronics and Information Technology has notified Schemes for setting up of electronic manufacturing facilities in India. It is expected that non-residents will provide support in setting up of such electronics manufacturing facilities by deploying the technology and providing support services.

It is therefore proposed to insert a new section 44BBD in the Act. Under the said new section 25% of the aggregate amount receivable/ received by or paid/ payable to the non-resident or any person on his behalf on account of provision of services or technology to a resident company engaged in setting up an electronics manufacturing facility or engaged in business in connection with manufacturing or production of electronic goods in India would be deemed as profits and gains of such non-resident from his business.

Where income is declared by non-resident under sub section 1 of the new section, no set-off of unabsorbed depreciation or brought-forward losses will be allowed for such previous year notwithstanding provisions of Section 32(2) and section 72(1) of the Act.

The amendment is proposed to take effect from the April 1, 2026, and shall apply from AY 2026-27 and subsequent AYs.

[Clause 11]

Rationalisation of Carry Forward of losses in case of Amalgamation – Sections 72A & 72AA

The existing provisions of sections 72A and 72AA, provide that the accumulated loss of the amalgamating entity or predecessor entity, shall be deemed to be the loss of the amalgamated entity or the successor entity, for the PY in which the amalgamation or business reorganization has been effected. At the same time, section 72, provides that no business loss (other than speculation loss), shall be carried forward for more than eight AYs, immediately succeeding the AY for which the loss was first computed.

To rationalize the provisions of sections 72A and 72AA with section 72, it is proposed that any accumulated loss forming part 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 AYs, immediately succeeding the AY for which such loss was first computed in the hands of the original predecessor entity.

These amendments are proposed to prevent evergreening of losses of the predecessor entity, resulting from successive amalgamations and to ensure that the carry forward and set off is not allowed beyond the eight AYs from the immediately succeeding the AY for which the loss was first computed.

These amendments shall apply to any amalgamation or business re-organisation, which is effected on or after April 1, 2025. This means that the amalgamations or business re-organisations effected with the Appointed date, on or before March 31, 2025, would be grandfathered and would continue to obtain the benefit of the existing provisions of sections 72A and 72AA of the Act.

These amendments would also bring parity with the demerger provisions, wherein the losses are allowed to be carried forward as per the provisions of section 72 of the Act.

These amendments are proposed to take effect from April 1, 2026, i.e. AY 2026-27.

[Clauses 14 & 15]

Extension of timeline for tax benefits to start-ups – Section 80-IAC

The existing provisions of section 80-IAC of the Act, provide a deduction of 100% of the profits and gains derived from an eligible business, by an eligible start-up, for any three consecutive AYs, within a period of ten years from the date of incorporation. This deduction is available at the option of the assessee, subject to the fulfilment of the following conditions:

- the total turnover of its business does not exceed INR one hundred crore;
- it is holding a certificate of eligible business from the Inter-Ministerial Board of Certification; and
- it is incorporated on or after April 1, 2016, but before April 1, 2025.

It is proposed to amend section 80-IAC to extend the benefit for additional five years, making it available to eligible start-ups incorporated before April 1, 2030 (instead of April 1, 2025 as at present).

This amendment will take effect from April 1, 2025.

[Clause 18]

TDS Threshold Rationalisation

It is proposed to amend TDS provisions to enhance the threshold limits for their applicability for ease of doing business and improved compliance of the provisions. The amendments are as follows:

Section	Nature of payments	Existing threshold	Proposed threshold
193	Interest on securities	Nil	10,000 (Note 1)
193	Interest on securities payable to resident individual / HUF on debenture issued by company in which public is substantially interested	5,000	10,000
194	Dividends	5,000	10,000
194A	Interest (other than on securities) payable by banks / cooperative society/post office to senior citizen	50,000	100,000
194A	Interest (other than on securities) payable by banks / cooperative society/post office to a person (other than senior citizen)	40,000	50,000
194A	Interest (other than on securities) payable by a specified cooperative society to senior citizen member of cooperative society	50,000	1,00,000
194A	Interest (other than on securities) payable by a specified cooperative society to member (other than senior citizen) of cooperative society or any other cooperative society	40,000	50,000
194A	Any other interest (other than on securities)	5,000	10,000
194B	Winnings from lottery, crossword puzzle, etc	10,000 (in aggregate)	10,000 / transaction
194BB	Winnings from horse race	10,000 (in aggregate)	10,000 / transaction
194D	Insurance commission for soliciting or procuring insurance business	15,000	20,000
194G	Income by way of commission, prize etc. on lottery tickets	15,000	20,000
194H	Commission or brokerage	15,000	20,000
194I	Rent	240,000 during the FY	50,000 per month or part of month
194J	Fee for professional services, technical services, royalty or sum received for restrictive agreement referred to in section 28(va)	30,000	50,000
194K	Income in respect of units of a mutual fund or specified company or undertaking	5,000	10,000
194LA	Income by way of enhanced compensation	2,50,000	5,00,000

Note 1 – TDS u/s 193 shall be applicable on the aggregate interest exceeding INR 10,000 only.

It may be noted that the enhancement in the threshold limit would provide relief to individual tax payers / small tax payers, whose income may not be subjected to tax and/or is consistent with the amendments in increased slab rates.

These amendments will take effect from the April 1, 2025.

[Clauses 51, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, & 62]

Rationalisation of the TDS rates u/s 194LBC

The existing provision of section 194LBC of the Act, requires a securitisation trust to deduct tax @ 25% (in case of individual /HUF) / 30% (in other cases), from any income payable to a resident investor, in respect of an investment in a securitisation trust.

It is now proposed to amend section 194LBC to reduce the rate of 25% / 30% to 10%.

This amendment will take effect from April 1, 2025.

[Clause 63]

Reduction in Tax Deduction Rates for Certain Incomes

For the FY 2025-26, the rate for TDS on insurance commission u/s 194D is proposed to be reduced from 5% to 2%.

This amendment will take effect from April 1, 2025.

[Clauses 2, & the First Schedule]

Exemption from prosecution for delayed payment of TCS – Section 276BB

The existing provisions of section 276BB provide for punishment to a person, for failure to pay the tax collected under section 206C to the credit of the Government.

It is now proposed to insert a proviso to section 276BB, to provide that the person failing to pay the tax collected shall not be prosecuted, if the TCS was deposited into the Government Treasury, before the time prescribed for filing the quarterly statement in respect of such payment. This amendment is consistent with the amendment made to section 276B (dealing with a similar default in respect of TDS) by the Finance (No. 2) Act, 2024 and reduce the hardship.

This amendment is proposed to take effect from April 1, 2025.

[Clause 84]

Omission of TCS on sale of specified goods – Section 206C

The existing provisions of section 206C(1H) of the Act, provide that a seller who receives consideration for sale of any goods of the value, or with aggregate value, exceeding INR 50 lakhs in any PY shall collect tax from the buyer @ 0.1% of the sale consideration exceeding INR 50 lakhs subject to certain conditions.

Further in section 194Q a buyer is required to deduct tax @ 0.1% on the payment made to a resident seller for the purchase of any goods of the value, or aggregate of value, exceeding INR 50 lakhs in any PY. Section 206C(1H) will not be applicable if the buyer is liable to deduct TDS under Section 194Q on the goods purchased from the seller.

To promote ease of doing business and alleviate the compliance burden on taxpayers, it is proposed that the provisions of section 206C(1H) of the Act will no longer apply from April 1, 2025.

The proposed amendment is expected to take effect from April 1, 2025.

[Clauses 64 & 67]

Removal of higher TDS/TCS for non-filers of return of income – Sections 206AB & 206CCA

The existing provisions of section 206AB and 206CCA of the Act, require deduction / collection of tax at a higher rate, when the specified deductee/ collectee is a non-filer of income-tax returns, subject to meeting other conditions.

Representations were received from various stakeholders that it is difficult for the deductor / collector, to verify as to whether the income tax returns have been filed by the deductee / collectee, resulting in application of higher rates of deduction / collection, blocking of capital and increased compliance burden.

To address these concerns and reduce compliance burden for the deductor / collector, it is proposed to omit the provisions of sections 206AB and 206CCA of the Act.

These amendments are proposed to take effect from April 1, 2025.

[Clauses 65, 66 & 68]

Incentivising International Financial Services Centre

With a view to promote and create world class financial infrastructure, GoI has been incentivizing the units located in IFSC. To make the IFSC more attractive, the Budget proposes the following additional tax incentives to units located in IFSC:

- The existing provisions of section 2(22)(e), provide that dividend includes any advance or loan to a shareholder paid by a company (not being a company, in which the public are substantially interested), or to any concern, in which such shareholder is a member or a partner and in which he has a substantial interest or any payment by any such company on behalf, or for the individual benefit, of any such shareholder. The amount of dividend shall be to the extent of accumulated profits. This deeming provision is also applicable to Treasury centres in IFSC.

  It is proposed to amend section 2(22) to provide that such deemed dividend provision shall not apply, in case of any advance or loan between two group entities, where one of the group entity is a „Finance company" or a „Finance unit" in IFSC, set up as a global or regional corporate treasury centre for undertaking treasury activities or treasury services and the „parent entity" or „principal entity" of such group is listed on stock exchange in a country or territory outside India, as may be specified by the CBDT. The conditions for a „group entity", „principal entity" and the „parent entity" shall be prescribed.

- Currently, section 9A of the Act provides that an Offshore fund will not create a business connection or PoEM in India by virtue of fund management activities performed by its fund manager in India, provided the Offshore fund and its fund manager meet certain conditions.

  One of the conditions specified for the Offshore fund is that the Indian residents should not contribute more than 5% of the corpus of the Offshore fund.

  Further, section 9A(8A) grants the power to the Central Government to relax the conditions specified for the Offshore fund and the fund manager, provided the fund manager of the Offshore find is situated in IFSC and its operations commences by March 31, 2024.

  To incentivise the Offshore fund, the Bill proposes to relax the condition of 5% holding in the Offshore fund, irrespective of whether its fund manager is in IFSC or outside IFSC, by providing for two dates, i.e. April 1 and October 1 of the PY for determining the 5% threshold and allowing four months from the above two dates for complying with the threshold to continue to enjoy the benefits of not creating business conditions or PoEM in India.

  The Bill also proposes that the Central Government can relax other conditions of Offshore fund and fund manager, if the fund manager located in IFSC commences its operations till March 31, 2030 (against March 31, 2024 as currently provided).

- The sunset dates for the commencement of operations of IFSC units in relation to several tax benefits are proposed to be extended to March 31, 2030. This sunset date applies to the units enjoying the benefits under sections 80LA, 10(4D), 10(4F), 10(4H) and 47(viiad).

- The existing provisions of section 10(10D) of the Act, provides exemption in respect of sum received under a life insurance policy, including bonus, subject to a condition that the annual amount of premium or aggregate of premiums payable is not above INR 2.5 lakhs for ULIP, and not above INR 5 lakhs for other policies. This condition is also applicable to insurance policies issued by insurance intermediary offices located in IFSC.

  With a view to promote the insurance intermediaries in IFSC it is proposed to amend section 10(10D) to provide that proceeds from life insurance policies issued by insurance intermediary office located in IFSC shall be exempted, irrespective of premium amount paid for such policies.

- The existing provisions of section 10(4H) of the Act, provide exemption to non-residents or unit of an IFSC engaged in aircraft leasing, on capital gains tax from transfer of equity shares of domestic companies being units of IFSC, engaged primarily in aircraft leasing. Further, section 10(34B) provides exemption of dividend income received by a unit of an IFSC, primarily engaged in the business of aircraft leasing, from a company being a unit of an IFSC primarily engaged in aircraft leasing.

  It is proposed to amend the sections 10(4H) and 10(34B) to extend similar exemptions to ship leasing units in IFSC.

  These amendments are proposed to take effect from April 1, 2025, i.e. AY 2025-26.

- The existing provisions of section 10(4E) of the Act, provide that any income of a non-resident on account of transfer of certain derivative contracts, entered into with an Offshore Banking Unit of IFSC (enjoying deduction under section 80LA) is exempt from tax.

  It is proposed to amend section 10(4E) to extend the exemption to cases, where such derivative contracts are entered into with FPI, being an IFSC unit, subject to prescribed conditions.

- The existing provisions of section 47(viiad) of the Act, provide for capital gains tax exemption on transfer of assets, being a share or unit held in the fund registered or incorporated outside India (Original fund), by a shareholder or unit holder in the course of relocation to a fund located in IFSC (Resultant fund). Thus, the relocation of original funds to the resultant fund in IFSC was a tax-neutral transaction.

  It is proposed to amend section 47(viiad), to include the Retail funds and Exchange-Traded Funds located in IFSC, which have already been granted exemption under section 10(4D) of the Act, within the definition of Resultant fund, in order that the relocation of such funds in IFSC is also treated as a tax-neutral transaction.

  These amendments are proposed to take effect from April 1, 2026, i.e. AY 2026-27.

[Clauses 3, 5, 6, 13 & 19]

Extending Period of Validity of registration u/s 12AB in case of smaller charitable entities – Section 12AB

Section 12AB(1) inter alia provides for procedure of registration or cancellation of registration of charitable trust or institution by the Principal CIT or CIT on receipt of application under clause (ac) of sub section (1).

Under the current dispensation, registration of charitable trust or institution is valid for a period of five or three years (where activities of the trust or institution have not commenced).

In order to reduce compliance burden for smaller trusts or institutions it is proposed to extend the period of validity of registration from five years to ten years in case of a charitable trust or institution whose total income, without giving effect to the provisions of Sections 11 and 12, did not exceed INR Five Crores in each of the two PYs preceding the PY in which the application is made.

The amendment is proposed to take effect from April 1, 2025.

[Clause 7]

Amendment proposed in relation Specified violation in case of charitable entities – Section 12AB

Under the current provisions viz. Explanation to sub section 4 of Section 12AB an incomplete application for renewal of registration is treated as „specified violation" which can result in cancellation of registration and, as a consequence, attract provisions of Section 115TD whereby FMV of assets in excess of total liabilities (accreted income) becomes taxable in addition to the total income of the trust or institution.

In order to prevent harsh consequences of filing incomplete application for registration, an amendment is proposed to not treat the incomplete application as specified violation and facilitate the charitable trust or institution to complete the application for purpose of registration. An application which contains false or incorrect information would however continue to face the consequences as aforesaid.

The amendment is proposed to take effect from April 1, 2025.

[Clause 7]

Amendment to definition of „Specified Person" under Section 13(3) of the Act – Section 13

Currently, if any income of the charitable trust or institution is applied for the benefit of a specified person (other than author, founder, trustee, member or manager of the trust who are already covered within the ambit of definition of Specified Person) or his relative or a concern in which he has substantial interest, such income ceases to be exempt from tax u/s 11 and 12 of the Act. Under the provisions of Section 13(3) a „specified person" also includes a person who has contributed to the charitable trust or institution amount of INR 50,000, in aggregate, upto the end of the relevant PY.

It is now proposed to provide that specified person would be a person whose contribution during the relevant PY exceeds INR 1 lakh and in the aggregate exceeds INR 10 lakhs upto the end of the relevant PY. The amendment would be applicable to a person other than author, founder, trustee, member or manager of the trust.

Amendments are further proposed in clause (d) and clause (e) of sub section 3 of Section 13 to exclude from the definition of „specified person" a relative and a concern in which specified person has substantial interest. It is clarified that relaxation shall not apply to author, founder, trustee, member or manager of the trust.

The amendments are proposed to be effective from April 1, 2025.

[Clause 8]

Extension of benefits of Tonnage Tax Scheme to inland vessels – Sections 115V to 115VZC

To provide a boost to water transportation and increase capital investments in Indian shipping industry, Tonnage Taxation Scheme („TTS") was introduced, vide Finance Act, 2004. Under this TTS, 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. For this purpose, Chapter XIIG (containing sections 115V to 115VZC) was introduced in the Act to provide this benefit to qualifying sea-going ships or vessel of fifteen net tonnage or more, which are registered under the Merchant Shipping Act, 1958.

It is proposed to extend the scope of TTS to inland vessels, registered under the Inland Vessels Act, 2021. Accordingly, inland vessels have been included in the definition of „qualifying ship", in section 115VD of the Act. Corresponding amendments have been also made to various sections in Chapter XIIG of the Act.

This amendment will take effect from April 1, 2026, i.e. AY 2026-27.

[Clauses 26, 27, 28, 29, 30, 31, 33, 34, 35 & 36]

Obligation to furnish information in respect of crypto asset – Section 285BAA

The provisions of section 115BBH of the Act, were introduced for taxation of virtual digital assets (VDA) known as crypto assets on their transfer at the rate of 30% with no deduction of expenditure thereagainst except cost of acquisition. Section 194S provides for tax deduction at source at 1% of the transaction value of the VDA.

To capture the details of transactions in a crypto asset, it is proposed to introduce section 285BAA to obligate the prescribed reporting entity to furnish information of crypto asset in a prescribed statement.

It is also proposed to amend section 2(47A) to include in the definition of VDA any crypto-asset, being a digital representation of value that relies on a cryptographically secured distributed ledger or a similar technology to validate and secure transactions whether already included in the definition of „virtual digital asset" or not.

This amendment is proposed to take effect from April 1, 2026.

[Clauses 3 & 85]

Extending the time limit to file the Updated return – Sections 139(8A) & 140B(3)

The existing provisions of sections 139(8A) and 140B(3) of the Act, allow an assessee to furnish an updated return upto 24 months from the end of the relevant AY, by making payment of additional income tax of 25% of aggregate of tax and interest payable, if such return is furnished upto 12 months from the end of relevant AY and additional income tax of 50%, if such return is furnished after 12 months, but upto 24 months from the end of relevant AY.

It is proposed to amend sections 139(8A) and 140B(3) to extend the above time limit upto 48 months, against the payment of additional income tax of 60%, if updated return is furnished after 24 months, but upto 36 months from the end of relevant AY and additional income tax of 70%, if such return is furnished after 36 months, but upto 48 months from the end of relevant AY.

It is also proposed that updated return will not be permitted, where an assessee is issued any show cause notice under section 148A after 36 months, unless by subsequent order under section 148A(3), it is determined that it is not a fit case to issue notice under section 148, in which case the updated return may be furnished upto 48 months from the end of relevant AY.

These amendments are proposed to take effect from April 1, 2025.

[Clauses 39 & 40]

Extension of date of making investment by Sovereign Wealth Funds, Pension Funds & Others and rationalisation of tax exemptions – Sections 10(23FE)

Under the existing provisions of clause (23FE) of section 10 of the Act, exemption on certain incomes, like dividend, interest, long-term capital gains in hands of specified entities (like SWFs and Pension Funds) can be availed on their investments in infrastructure in India, if such investments are made by March 31, 2025.

The Finance (No. 2) Act, 2024, amended section 50AA of the Act, whereby capital gains from unlisted debt securities were reclassified as short-term capital gains, irrespective of the holding period. Prior to the said amendment, notified SWFs or Pension Funds, were eligible for exemption on long term capital gains from investment made in India (whether in the form of debt or share capital or unit), under clause (23FE) of section 10. Given the significance of foreign SWFs and Pension Funds in financing infrastructure projects, tax relief is sought to be provided by the proposed amendment in section 10(23FE) of the Act. The amendments proposed are as follows:

a. Exemption of long-term capital gains of a specified person (whether or not, such capital gains are deemed as short-term capital gains under section 50AA), arising from an investment made by it in India and

b. Extension of the date of investment from March 31, 2025 to March 31, 2030.

These amendments are proposed to take effect from April 1, 2025.

[Clause 6]

Amendment of Definition of „Capital Asset" – Section 2(14)

Section 2(14) of the Act defines the term „capital asset" to include property of any kind held by an assessee, whether or not, connected with his business or profession, but does not include any stock-in-trade or personal assets. Further, the securities held by a FII, invested as per SEBI regulations under the SEBI Act, 1992, are also classified as „capital asset".

To remove the uncertainty regarding the income from transactions in securities by investment funds (AIFs-I and II), as specified in clause (a) of Explanation 1 to Section 115UB, whether to be classified as capital gains or business income, it is proposed to amend the section 2(14), to clarify that any security held by the investment funds under section 115UB, in compliance with the SEBI regulations made under the SEBI 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 take effect from April 1, 2026, i.e. AY 2026-27.

[Clause 3]

Rationalisation in taxation of Business Trusts – Section 115UA

A special taxation regime for taxation of ReIT and InvIT („Business Trusts) was introduced in the Finance (No. 2) Act, 2014. Generally, the Business Trusts make investments in Special Purpose Vehicles („SPV") in the form of equity or debt instruments.

The existing provisions of section 115UA, provide for the pass-through status to interest and dividend income received by the ReIT and InvIT and rental income in the case of ReIT. Accordingly, such incomes were taxable in the hands of the unit holders, unless specifically exempted.

Further, the existing provisions provide that incomes of any other nature of the Business Trusts would be taxable at the maximum marginal rate, subject to the provisions of section 111A (dealing with tax on short term capital gains in certain cases) and section 112 (dealing with tax on long term capital gains). Therefore, the Business Trusts were not entitled to the benefits of lower tax rate prescribed for the long term capital gains referred to in section 112A (dealing with long term capital gains in certain cases, like, gains on sale of listed shares, gains on units of equity oriented funds, etc.).

It is proposed to amend section 115UA(2), by including a reference to section 112A of the Act, so that the Business Trusts would now be entitled to the benefit of the said lower rate of tax for capital gains, which would give more returns to the unit holders of such Business Trusts.

This amendment is proposed to take effect from April 1, 2026, i.e. AY 2026-27.

[Clause 25]

Increasing time limit available to pass order under section 115VP

The existing provisions of section 115VP of the Act prescribe the method and time for opting for tonnage tax scheme under which tonnage income is computed in accordance with the provisions of Chapter XII-G. Sub section 1 of Section 115VP provides that a qualifying company can opt for tonnage tax scheme by making an application under the section before jurisdictional JCIT.

The JCIT on verification and after satisfying himself about the eligibility of the company is required to pass an order approving or rejecting the tonnage tax scheme before expiry of one month from the end of month in which the application was received by it under sub section (4) of Section 115VP.

Very little time is available to JCIT to conduct the verification of information and documents, physical inspection of the ships, if necessary, providing an opportunity of being heard to the assessee and then passing a reasoned order on the application. To address the issue of paucity of time, it is proposed to amend sub-section (4) of section 115VP of the Act and increase the time limit to pass an order to three months from the end of the quarter in which application is received on or after the April 1, 2025.

This amendment is proposed to take effect from April 1, 2025.

[Clause 32]

Extension of exemption to Specified Undertaking of Unit Trust of India

Currently the SU-UTI, incorporated for liquidating the Government liabilities on account of erstwhile UTI, has been exempted from payment of income-tax till March 31, 2025. Since the task of the Specified Undertaking is expected to extend beyond March 31, 2025, it is proposed to extend such income-tax exemption till March 31, 2027.

The amendment is proposed to take effect from April 1, 2025, i.e. AY 2025-26.

[Clause 131]

Block assessment for search and requisition cases

Finance (No. 2) Act 2024 reintroduced the concept of assessment of the total income of the „block period“ (as defined in section 158B) in the context of a search initiated under section 132 or requisitioned under section 132A of the Act, on or after September 1, 2024.

Under section 158BB, computation of total income of the block period extends to taxation of „undisclosed income“. Presently, such undisclosed income includes money, bullion, jewellery etc. It is proposed to extend the meaning of „undisclosed income“ to include, even „virtual digital asset“ as defined in section 2(47A) of the Act.

Section 158BA deals with assessment of total income as a result of search. Sub section (4) thereof deals with assessment in a situation, where initial search is followed by initiation of a subsequent search.

A structural change is proposed to be made in sub section (4) to provide that the assessment in respect of such subsequent search shall be made after the assessment in respect of the previous search has been completed.

Sub sections (2) and (3) of section 158BA, provide for abatement of assessment, reassessment or recomputation (other than made under the extant Chapter XIV-B dealing with search) pertaining to any assessment year falling in the block period. Similarly, sub section (3) provides for abatement of reference to the TPO or order passed by him.

Sub section (5) provides for revival of such abated assessment or reassessment, if any proceedings under the said Chapter or any order of assessment or reassessment has been annulled in appeal or other legal proceedings. It is proposed to extend the revival to a case of recomputation and reference to TPO and his order. This would take care of an unintended omission in the sub section as presently worded.

Section 158BB deals with computation of total income of block period. The total income would comprise of, apart from undisclosed income determined by the AO under sub section (2), various other income starting from the total income disclosed in the return furnished under section 158BC.

Sub section (1) of section 158BB is proposed to be substituted, to also include within the scope of the total income computed of block period, income in respect of a PY, which has ended, but the due date for furnishing the return of income for that year has not expired, prior to the date of initiation of the search, etc. It is proposed that such income would be determined based on the entries relating to such income, transactions etc., as recorded in the books of account, etc. maintained in the normal course, before the date of initiation of the search etc. Similar procedure for determination of income is also proposed for the period commencing from April 1 of the PY, in which search is initiated and ending on the day of initiation of search etc. Further similar procedure is also proposed in respect of the period commencing from the date of initiation of the search and ending on the date of execution of last of the authorizations for search etc. Presently, there was no elaboration of the basis for determination of income falling within these periods which is now proposed to be provided.

In section 158BB(1)(i), reference to „total income disclosed in the return furnished under section 158BC" is proposed to be replaced by „undisclosed income declared in the return furnished under section 158BC". In terms of section 158BB(5), income referred to in section 158BB(1)(i) is chargeable to tax. Since the return under section 158BC(1)(a), includes disclosed income as well undisclosed income, the reference to „total income declared" in section 158BB(1)(i), appears to be unintended and is proposed to be replaced by „undisclosed income declared" so that only the „undisclosed income" disclosed in the return of income filed under section 158BC(1)(a) is charged to tax.

It is also proposed to provide that in all the aforesaid determination, income relating to an international transaction or specified domestic transaction shall not be considered for the purposes of determination of income of the block period, but such income shall be assessed under the other provisions of the Act (i.e. other than Chapter XIV-B).

Sub section (6) of section 158BB provides that, for the purposes of determination of total income of the block period, loss shall be ignored. Some structural amendment is proposed to provide that undisclosed loss declared by the assessee shall also be ignored.

Section 158BE provides for time-limit for completion of block assessment. Some rationalization amendments are proposed to extend the period „from the end of the month" to „from the end of the quarter". Likewise, an amendment is proposed to deal with the extension of time in case of stay on assessment proceedings and vacation thereof.

These amendments are proposed to be made retrospective effect from February 1, 2025.

[Clauses 46, 47, 48 & 49]

Rationalisation of time limit for retention of books or other documents seized – Sections 132

Section 132 contains provisions dealing with search and seizure. Section 132(8) of the Act provides for a cap on the period for which books of account or other documents seized under section 132 can be retained by the authorized officer. The period presently provided is thirty days from the date of various orders (of assessment, or reassessment or recomputation) referred to therein. This period is extendable by recording reasons as to why the period needs to be extended and the same being approved by the prescribed PCIT, etc.

To avoid multiple periods of limitation and keeping track thereof, it is proposed to amend sub-section (8) to provide that, instead of thirty days, the period would be „one month from the end of the quarter in which the order or assessment or reassessment or recomputation is made". Provisions for seeking and approving extension of the period shall continue to apply as at present.

This amendment is proposed to take effect from April 1, 2025.

[Clauses 37 & 38]

Non-applicability of penalty, where search initiated on or after September 1, 2024 – Section 271AAB

The existing provisions of section 271AAB(1A) of the Act provides for imposition of penalties in search cases, initiated after December 15, 2016.

The Finance Act, 2024 introduced provisions of „Block Assessment" (Chapter XIV-B) for searches initiated under section 132 of the Act on or after on or after September 1, 2024.

It bears vital notice that presently penalty is leviable at 50% of the amount of tax on undisclosed income as per section 158BFA on an assessee in whose case search has been initiated under Section 132 of the Act on or after September 1, 2024.

Although it is clear that penal provisions of section 271AAB are not applicable to proceedings conducted under section 158BC, it is proposed to amend section 271AAB of the Act to clarify that its provisions shall not be applicable to the assessee in whose case search has been initiated under section 132 of the Act on or after September 1, 2024.

This amendment is proposed to take effect from September 1, 2024.

[Clause 75]

Time limit to impose penalties rationalized – Section 275

The existing provisions of section 275 of the Act provide for bar of limitation for imposing penalties. The section lays down various timelines for imposition of penalty depending upon the stage of completion of the connected proceeding reached at the respective points in times.

It is proposed to substitute and insert new section to provide that any order imposing a penalty under Chapter XXI (section 270 to 273 of the Act) shall not be passed after the expiry of six months from the end of the quarter in which

- the connected proceedings are completed, and no appeal is pending qua connected proceeding, or
- the CIT(A) order u/s 246, or 246A is received by the jurisdictional PCIT or CIT and no appeal is preferred u/s 253, or
- the ITAT order u/s 253 is received by the jurisdictional PCIT or CIT, or
- in any other case, the notice for imposition of penalty is issued.

The limitation period as per proposed subsection (5) excludes

- the time taken in giving an opportunity to the assessee to be reheard under the proviso to section 129 (upon change of incumbent)
- the period of stay on proceeding for levy of penalty was granted by an order or injunction of any court. The period of stay shall start from the date stay order is passed and end on the date on which certified copy of the

order vacating the stay was received by the jurisdictional PCIT or CIT. It may be noted that any period during which immunity was granted u/s 245H (settlement of cases) is proposed to be omitted.

The proposed Section 275(3) provides that before imposing or enhancing or reducing or cancelling the penalty or dropping the proceedings for imposition of penalty, a reasonable opportunity of being heard is provided to the assessee. Furthermore, no such order shall be passed after the expiry of six months from the end of the quarter in which the appellate order was received by the jurisdictional PCIT or CIT or revision order under sections 263 or 264 is passed. The proposed substitution shall keep the levy of penalty in abeyance till the issue is finalized at an appellate forum. It may be noted that under section 275 the levy of penalty is not kept in abeyance if the appeal is filed before the High Court.

The proposed amendments will take effect from April 1, 2025.

[Clauses 69 & 83]

Extending the processing period of application seeking immunity from penalty and prosecution – Section 270AA

The existing provisions of section 270AA(4) provide for the time-limit of 1 month within which the AO is required to pass an order accepting or rejecting the application made by the Assessee for granting immunity from imposition of penalty or prosecution.

It is proposed to amend the section so as to extend the processing period from 1 month to 3 months from the end of the month in which application for immunity is received by the AO.

The amendment is proposed to take effect from April 1, 2025.

[Clause 74]

Penalties to be imposed by the Assessing Officer

Under the existing dispensation JCIT has been vested with power to impose penalties under sections 271C, 271CA, 271D, 271DA, 271DB, 271E and 271BB of the Act.

It is proposed that the penalty under sections 271C, 271CA, 271D, 271DA, 271DB, 271E would be imposed by the AO in place of JCIT. However, it is clarified that where penalty amount exceeds the monetary limit specified in section 274(2) viz. INR 10,000 in case of the ITO or INR 20,000 in case of ACIT or DCIT, such penalties would be imposed by the concerned AO only after the approval of the JCIT. Corresponding amendment is also proposed in clause (n) of section 246A(1) to substitute the words „DCIT" appearing in the said clause.

Section 271BB is also proposed to be omitted. Currently section 271BB provides for penalty for failure to invest in certain new issue of shares or units in respect of which tax rebate was available to the assessee under the erstwhile provisions of section 88A of the Act which were omitted with effect from April 1, 1991. In the absence of the provisions of section 88A the relevance of consequential provisions of section 271BB no longer survives and therefore the provisions of section 271BB are proposed to be omitted.

These amendments are proposed to take effect from April 1, 2025.

[Clauses 69 and 76 to 82]

Removing date restrictions on framing the Schemes in certain cases – Sections 92CA, 144C, 253 & 255

The Central Government has undertaken various measures to enhance electronic processes under the Act, minimizing person-to-person interaction between the taxpayers and the Department, wherever technologically feasible. These initiatives aim to optimize resource utilization and implement a team-based assessment system with dynamic jurisdiction. A series of forward-looking reforms have been introduced to modernize the direct tax administration, benefiting the taxpayers and the economy.

To facilitate these reforms, enabling provisions for notifying faceless schemes under sections 92CA, 144C, and 253 of the Act were introduced through the TOLA, effective from November 1, 2020. Additionally, a similar provision under section 255 was inserted through the Finance Act, 2021, effective from April 1, 2021. Due to challenges in implementation, the Finance Act, 2022, extended the time limit for notifying these schemes to March 31, 2024, which was further extended to March 31, 2025, through the Finance Act, 2024.

To ensure flexibility in implementing the faceless schemes, it is now proposed to remove the prescribed end date for notifying faceless schemes under sections 92CA, 144C, 253, and 255. This amendment will enable the Central Government to issue directions beyond March 31, 2025, if required.

The proposed amendments to the sections mentioned above will take effect from April 1, 2025.

Excluding the period such as Court stay etc. for calculating time limit to pass an order – Section 206C(7A)

The existing provisions of sub-section (7A) of section 206C of the Act, state that under sub-section 6A, a person cannot be deemed an assessee in default for failing to collect the whole or any part of the tax after six years from the end of the FY, in which the tax was collectible or two years from the end of the FY in which the correction statement under sub-section (3B) is delivered, whichever is later.

It is proposed to insert a proviso to section 206C to import the provisions of sub-sections (3), (5) and (6) of section 153 and Explanation 1 thereof in section 206(7A). Section 153 provides for time limits for completion of assessment, reassessment and recomputation in a multitude of situations. The proposed amendment is bound to make application of the provisions of section 206C(7A) complex and cumbersome.

The proposed amendment is expected to take prospective effect from April 1, 2025.

[Clause 67]

Clarification regarding commencement date and the end date of the period, stayed by the Court

The Act contains various sections wherein, for the purposes of computing the limitation for passing orders, etc., period during which proceedings are stayed by an order or injunction of any Court, is to be excluded. A question often arises as to when this period of exclusion is to start and when it is to end.

In order to provide uniformity across the Act, it is proposed to provide that the period of exclusion would commence from the date on which stay on the proceedings was granted by an order or injunction by any Court and would end on the date on which a certified copy of the order vacating the stay was received by the PCIT or CIT (Approving Panel in case of section 144BA).

This amendment is proposed to take effect from April 1, 2025.

[Clauses 41, 43, 44, 49, 50, 72, 73 & 86]

INDIRECT TAX

Custom Duty

❖ Customs Tariff

Currentlythereare 15 Tarif Ratesof BCDspecified in the Schedule to the Customs Tariff Act, 1975. Given the several policy-based exemptions granted by issuing customs notifications, the number of effective rates of BCD currently in force far exceed the number of rates specified in the Tariff. Therefore, the customs duty rate structure is quite complicated and provides scope for classification disputes.

It is proposed to rationalize and simplify the customs duty rate structure, by reducing the number of Tariff Rates to 8 rates only, including zero rate. Also, to further simplify the rate structure, it is proposed to apply not more than one cess or surcharge. However, it is proposed to apply equivalent cess to maintain effective incidence of duties on most of the items.

The above proposals are as per clause 98(a) of the Bill and the Second Schedule. A declaration under the Provisional Collection of Taxes Act, 2023 has been incorporated in the Bill. Therefore, the changes proposed therein takes effect from the midnight of February 01/ February 02, 2025. Clause 98(b) and the Third Schedule to the Bill proposes Chapter Heading wise changes in the Customs Tariff, which would take effect from May 1, 2025.

❖ Reduction of BCD on certain Lifesaving Drugs and Medicines:

To enable improved access to lifesaving medicines, the Bill proposes to exempt 36 drugs and 37 medicines for treating certain rare diseases, cancer and severe chronic diseases. Further, 6 more medicines are proposed to be added to the list of medicines attracting 5% BCD and to grant exemption to 13 new patient assistance programmes.

❖ Time Limit for Finalizing Provisional Assessments in Customs:

The existing section 18 of the Customs Act, which deals with provisional assessments, does not stipulate any time limit by which provisional assessments of Bills of Entry and Shipping Bills are to be finalized by the Customs Authorities. Therefore, in some cases it takes a very long time to get provisional assessments finalized. However, the section requires payment of differential duties along with interest till the differential duties of customs are paid pursuant to an order of final assessment. Therefore, importers who have furnished the necessary details and documents to finalize the assessments are adversely impacted.

It is now proposed to insert a new sub-section (1B) in section 18 of the Customs Act to provide for a definite time limit of two years for finalization of provisional assessments. The proposed amendment would also empower the Commissioner of Customs to further extend the time limit by one more year if sufficient cause is shown. For pending cases of provisional assessments, the time limit shall be reckoned from the date of enactment of the Bill.

It is also proposed to insert a new sub-section (1C) in section 18 to enable suspension of the time limit of two years on certain specified grounds of difficulty in obtaining information from an authority outside India, pendency of an appeal before the Tribunal or in the Courts in a similar matter, interim stay granted by Court, specific directions issued by CBIC in a similar matter, to keep the matter pending, or the application of the importer or exporter is pending before the Settlement Commission.

The above amendments would take effect from a date to be notified by the Central Government.

[Clause 87]

Provision for Voluntary Revision of BoE / SB:

Currently, there is no provision in the Customs Act to revise the BoE filed under section 46 for import of goods, or the SB filed under section 50 for export of goods.

A new section 18A is proposed to be inserted in the Customs Act, to enable the importer/ exporter to voluntarily revise the BoE or SB after clearance for import or export is completed, as the case may be, in the manner, within the time limit and subject to conditions to be prescribed. Such revision of the BoE/ SB would be enabled without obtaining an authorization from the Customs Authority under section 149 of the Customs Act. The proposed amendment would envisage payment of differential customs duty along with interest, in cases of short-levy, non- levy, etc., and treat the revised BoE / SB as a claim for refund under section 27 of the Customs Act.

Further, a new Explanation is proposed to be inserted in section 27(1), to clarify that the period of limitation of the claim for refund consequent to the revision of BoE/ SB shall be one year from the date of payment of duty or interest. Also, an Explanation is proposed to be inserted in section 28 of the Customs Act to clarify that the time limit of two years to issue any notice for recovery of duty or interest shall be counted from the date of payment of duty or interest.

The above amendments would take effect from a date to be notified by the Central Government.

[Clause 87 to 90]

Changes pertaining to Settlement Commission

Clause 101 of the Bill proposes to abolish the CCESC, with effect from April 1, 2025. The CCESC was constituted under section 32 of the Central Excise Act, 1944.

Consequential amendments are proposed in relevant sections 127B to 127H of the Customs Act.

[Clause 91 to 97]

Amendment to IGCR Rules

Rule 6 of the Customs (Import of Goods at Concessional Rates for Specified End Use) Rules currently provides a time limit of six months to fulfilling end use conditions prescribed at the time of import.

Rule 7 of the IGCR prescribes the requirement of filing monthly end use statements to the Customs Authority.

It is proposed to amend the above rules to enable fulfilment of the end use condition within one year, instead of six months and to enable filing of quarterly statements of end use, instead of monthly statements.

Central Excise

Deferment of Higher Excise Duty on Unblended Diesel

Readers may recall that the imposition of an Additional Duty of Excise of INR 2 per litre on unblended diesel was deferred by notification No.11/2017-CE, dated June 30, 2017, issued under section 5A of the Central Excise Act, 1944.

By notification No. 1/2025- CE, dated February 01, 2025, the imposition of the above Additional Duty of Excise has been deferred till March 31, 2026.

Abolition of the Settlement Commission

The Customs, Excise and Service Tax Settlement Commission [CCESC] was constituted under section 32 of the Central Excise Act, 1944.

By clause 101 of the Bill, it is proposed to abolish the CCESC with effect from April 1, 2025.

Accordingly, consequential amendments have been proposed in the relevant Sections of the Central Excise Act, 1944. The proposed amendments also provide for an Interim Board to decide on Settlement Applications pending as on March 31, 2025, and proposes the said date as the cut-off date beyond which no further applications would be entertained.

[Clause 99 to 115]

Goods & Services Tax Act

The Union Budget proposes changes in GST laws for ensuring trade facilitation. These proposed amendments include:

Inclusion of IGST paid under RCM in ISD Mechanism

The existing provisions of section 2(61) do not specifically enable the distribution of IGST paid under RCM through the ISD route. As a result, raising doubts as to whether such ITC of IGST can be distributed by an ISD among the recipients. The proposed amendment seeks to clarify by modifying the definition of ISD and enabling the distribution of IGST paid under RCM, by an ISD. It is proposed to simultaneously amend section 20 of the CGST Act, which deals with the manner of distribution of ITC, to enable distribution of ITC of IGST paid under RCM by an ISD.

This provision will take effect from April 1, 2025.

[Clauses 116 & 120]

Inclusion of Local Fund and Municipal Fund in the definition of Local Authority

It is proposed to amend section 2(69), which defines „local authority" by inserting the word „fund" and by introducing an explanation to define the expressions „Local Fund" and „Municipal Fund" used in the definition of „local authority".

This provision will come into effect on a date to be notified by the Central Government.

[Clause 116]

Insertion of definition of UIM

It is proposed to insert a new definition of UIM by inserting section 2(116A). The above expression is being used in the new section 148A, which is proposed to be inserted in the CGST Act, vide Clause 127 of the Bill.

This provision will come into effect on a date to be notified by the Central Government.

[Clauses 116]

Omission of Time of supply provisions relating to Vouchers

The existing provisions of sections 12(4) and section 13(4) of the CGST Act, provide for the time of supply of vouchers which can be exchanged for goods and/or services. It is proposed to remove these subsections, which define the time of supply of vouchers. The proposed removal of time of supply provisions are in accordance with the recommendations of the Honourable GST Council in its 55th meeting and the CBIC C. No. 243/37/2024-GST dated December 31, 2024.

These amendments will come into effect on a date to be notified by the Central Government.

[Clauses 117 & 118]

Substitution of the term “Plant and machinery” in the blocked credit provisions – Sec.17(5)(d)

It may be recalled that sections 17(5)(c) and (d) of the CGST Act seek to deny ITC of GST paid on works contract services and other services and goods used in the construction of immovable property on one“s own account. The above provisions were challenged before the Hon“ble Odisha High Court in the case of Safari Retreats Vs Commissioner of CGST & Ors. In its judgment dated April 17, 2019, the Court inter alia held that the above blocked credit provisions are to be „read down“ and ITC allowed if GST is paid on the lease rentals of the immovable property. The above judgment was strongly contested by the Government before the Hon“ble Apex Court. In its judgment dated October 3, 2024, the Hon“ble Apex Court had negatived the challenge to the constitutional validity of the above provisions. Further, it was held that the expression “plant or machinery” employed in section 17(5)(d) is distinguishable from the expression “plant and machinery” which is used in section 17(5) (c) and therefore, the ITC claimed on goods and services in constructing the immovable property cannot be blocked by resorting to section 17(5)(d), if the functionality test is satisfied. The court also observed that the question whether the mall, warehouse or any building can be qualified as a “plant or machinery” is a factual question to be determined keeping in mind the business of the registered person and the role that the building plays in his business. Based on such observation, the court appears to have distinguished the special mall building as a „plant“ viz-a-viz the expression „machinery“. Accordingly, Hon“ble Apex Court had remanded the case back to the High Court with a direction to verify whether the functionality test was satisfied.

To nullify the effect of the above Apex Court judgment, the Bill proposes to retrospectively amend section 17(5)(d) by substituting the words “plant and machinery” in place of the words “plant or machinery”. Further, it is proposed to insert a new Explanation 2, in section 17(5), to the effect that 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”.

The above amendments would take retrospective effect from July 01, 2017.

[Clauses 119]

Added Condition for Credit Notes to qualify for reducing Output tax liability

The existing provisions of section 34 of the CGST Act contains a proviso which restricts the reduction of tax liability if the incidence of tax and interest on the supply has been passed on to any other person.

It is proposed to introduce a new condition for the issuance of credit notes, which requires the reversal of the corresponding ITC if it has been availed by the recipient of the supply.

The proposed amendment to the provision to section 34(1) of the CGST Act would ensure that when a supplier issues a credit note to reduce his tax liability – typically due to reasons such as sales returns, discounts, or corrections in invoices – the recipient of the supply must reverse the ITC that was initially claimed on the underlying supply. The above amendment proposes to substitute the existing proviso to section 34(1) by a new proviso – which seeks to introduce the new condition of ITC reversal by the recipient as well as retains the existing condition of not allowing a reduction in output tax liability to the supplier, if the incidence of tax and interest is passed on to another person.

This measure aims to maintain tax neutrality and prevent undue benefits from being availed in cases where the taxable value of the supply is subsequently reduced. By enforcing ITC reversal in such situations, the proposed provision aligns with the principles of the GST framework, ensuring compliance and transparency in tax assessments.

These amendments will come into effect on a date to be notified by the Central Government.

[Clause 121]

Proposal to introduce certain conditions and restriction for filing of GST returns

The facility of IMS was recently introduced in the GSTN Portal, to enable taxpayers to accept/reject/keep pending the invoices/Credit Notes/Debit Notes issued by the suppliers concerned. The above facility has been introduced on an optional basis. To make it mandatory for taxpayers to use the IMS facility, before generating the GSTR-2B statement, certain amendments have been proposed to section 38 and section 39 of the CGST Act, in the Bill.

It is likely that the use of the IMS facility may be made mandatory at the earliest, to enable auto-population of details in the GST returns utility

These amendments will come into effect on a date to be notified by the Central Government.

[Clause 122 & 123]

Introduction of Mandatory Pre-Deposit for filing Appeals to the Appellate Authority against Orders imposing only Penalty

In the existing section 107(6), the proviso to the section prescribes a sum equal to the admitted amount of tax and other liabilities plus 10% of the disputed amount of tax (subject to a maximum of INR 20 crore), as mandatory to be deposited for filing of an appeal before the Appellate Authority. The proviso to section 107(6) prescribes a pre-deposit of 25% of the penalty for filing an appeal against an Order issued under section 129(3) of the CGST Act. No pre-deposit is currently prescribed for filing an appeal against Orders which seek to impose only penalty, which are not issued under section 129(3).

It is proposed to substitute the proviso to section 107(6), to prescribe a mandatory pre-deposit of 10% of the penalty imposed, for filing an appeal before the Appellate Authority against Orders imposing only penalty, without any demand of tax. Post the amendment, it would be necessary to pre-deposit 10% of the penalty imposed, to file an appeal against any Order imposing penalty, without involving any tax demand. The requirement of pre-deposit of 10% of the penalty would be necessary, irrespective of whether the Order is issued under section 129(3) or any other Section.

The above amendments would take effect from a date to be notified by the Central Government.

[Clause 124]

Introduction of Mandatory Pre-deposit for filing Appeals to the GST Appellate Tribunal against Orders imposing only Penalty

Under the existing provisions of section 112(8), a sum equal to the admitted amount of the remaining amount of tax and other liabilities plus 10% of the disputed amount of tax (subject to a maximum of INR 20 crore), has been prescribed as mandatorily to be pre-deposited for filing an appeal before the GSTAT. This is in addition to the pre-deposit prescribed under section 107(6) of the CGST Act for filing an appeal before the Appellate Authority. No pre-deposit is currently prescribed under section 112(8) for filing an appeal against Appellate Orders which uphold Orders which seek to impose only penalty, without involving any demand of tax.

It is now proposed to insert a proviso to section 112(8) to prescribe a mandatory pre-deposit of 10% of the penalty imposed, for filing an appeal before the GSTAT against Appellate Orders imposing only penalty, without any demand of tax. Post the amendment, it would be necessary to pre-deposit 10% of the penalty imposed, to file an appeal before the GSTAT, against any Order, irrespective of the section under which the Order is issued.

The above amendment would take effect from a date to be notified by the Central Government.

[Clause 125]

❖ Implementation of a Track and Trace Mechanism for certain notified goods

The existing provisions under GST did not provide for any mechanism to Track and Trace the movement of any goods that are being supplied.

It is proposed to insert a new section 148A in the CGST Act, to empower the Government to notify, the goods and the persons or class of persons who are in possession or who deal with such goods, based on the recommendations of the Honourable GST Council.

After the enactment of the new section, it would be mandatory for the notified persons and class of persons to affix a UIM on the notified goods, including the information to be recorded therein and electronically store and share such information with Government, as may be prescribed, within the prescribed time, maintain records and documents in the form and manner as may be prescribed, and follow other compliances as may be prescribed.

Further, the Bill also proposes the insertion of a new section 122B in the CGST Act, to empower the Government to impose a penalty of INR 1,00,000 or 10% of the tax payable on such goods, whichever is higher, for contravention of the provisions of the proposed new section 148A. Such penalty would be in addition to any penalty under the provisions of Chapter XV of the CGST Act.

The above amendment would take effect from a date to be notified by the Central Government.

[Clauses 126 & 127]

❖ Amendment of Schedule III of the CGST Act

The existing provisions of Schedule III of the CGST Act specifies the activities or transactions which shall be treated neither as a supply of goods nor a supply of services. Section 7 of the CGST Act defines the scope and ambit of the expression „supply". Sub-section (2) thereof inter alia states that the activities or transactions specified in Schedule III shall be treated neither as a supply of goods nor a supply of services.

Currently, in view of Para 8(a) of Schedule III, supply of warehoused goods to any person before clearance for home consumption is not liable to GST. However, there is no clarity whether a supply of goods warehoused in a SEZ or in a FTZ to any person before clearance for exports or to the DTA would be exempt from GST under para 8(a) of Schedule III. Per Explanation 2 in Schedule III, for the purposes of paragraph 8, the expression „warehoused goods" shall have the same meaning as assigned to it in the Customs Act, 1962 (50 of 1962). Also, per the definitions in the Customs Act, „warehoused goods" means goods deposited in a warehouse, and „warehouse" means a public warehouse licensed under section 57 or a private warehouse licensed under section 58, or a special warehouse licensed under section 58A of the Customs Act. Hence, it appears that SEZs and FTZs are not currently covered within the ambit of para 8(a) of Schedule III of the CGST Act. Consequently, transactions in SEZs or FTZs, effected before clearance for exports or to the DTA do not appear to be exempted from GST in terms of para 8(a) of Schedule III.

It is now proposed to insert a new clause 8(aa) in Schedule III of the CGST Act, stating that the supply of goods warehoused in a SEZ or in a FTWZ to any person before clearance for exports or to the DTA shall be treated neither as supply of goods nor as supply of services.

However, it is also proposed that no refund shall be made of all such tax which has been collected, but which would not have been so collected, had the above clarificatory amendment been in force at all material times.

The above amendments would take retrospective effect from July 01, 2017.

[Clauses 128 & 129]

Service Tax

❖ Special provision for retrospective exemption from service tax on certain reinsurance services

Under the Finance Act, 1994, as was prevailing during the period from April 1, 2011, to June 30, 2017, service tax was levied and collected on taxable services of reinsurance provided or agreed to be provided by insurance companies under the Weather Based Crop Insurance Scheme and the Modified National Agricultural Insurance Scheme.

It is proposed to grant retrospective exemption from service tax on the above reinsurance services provided by insurance companies and also enable claiming of refund of service tax paid during the above period, subject to filing the refund claim within six months of enactment of the Finance Act, 2025.

[Clause 130]

GLOSSARY

Abbreviation	Description
%	Percentage
ACIT	Assistant Commissioner of Income Tax
Act	Income Tax Act, 1961
Addl. CIT	Additional Commissioner of Income Tax
Addl. DIT	Additional Director of Income Tax
AE	Associate Enterprise
AI	Artificial Intelligence
AIF	Alternative Investment Fund
AIDC	Agriculture Infrastructure and Development Cess
AJP	Artificial Jurisdictional Person
ALP	Arm's length price
AMI	Agricultural Marketing Infrastructure
AMT	Alternate Minimum Tax
AO	Assessing Officer
AOP	Association of Persons
ATL	Atal Tinkering Labs
AY	Assessment Year
BCD	Basic Customs Duty
BEPS	Base Erosion and Profit Shifting
Bill	The Finance Bill, 2025
BMA	Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015
BoE	Bill of Entry
BOI	Body of Individuals
BRL	Brazilian Real
CA2013	Companies Act, 2013
CAD	Candian Dollar
CAGR	Compound Annual Growth Rate
CBDT/ the Board	Central Board of Direct Taxes
CBIC	Central Board of Indirect Taxes & Customs
CCESC	Customs, Central Excise and Service Tax Settlement Commission
CCIT	Chief Commissioner of Income Tax

Abbreviation	Description
Central Excise Act	Central Excise Act, 1944
CGST Act	Central Goods and Services Tax Act,2017
CII	Cost Inflation Index
CIT	Commissioner of Income Tax
CIT(A)	Commissioner of Income Tax (Appeals)
COFEPOSA	The Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974
COVID-19	Coronavirus Disease
CPI	Consumer Price Index
CRGO	Cold Rolled Grain Oriented
Customs Act	The Customs Act,1962
DAY-NRLM	Deendayal Antyodaya Yojana - National Rural Livelihood Mission
DDT	Dividend Distribution Tax
DIT	Director of Income-tax
DTA	Domestic Tariff Area
EBITDA	Earnings before interest tax depreciation and amortization
ECO's	E-Commerce Operators
EPFO	Employees' Provident Fund Organisation
ETF	Exchange Traded Funds
EV	Electronic Vehicle
e-NAM	National Agriculture Market
FII/FPI	Foreign Institutional Investor / Foreign Portfolio Investor
FDI	Foerign Direct Investment
FM	Finance Minister
FMV	Fair Market Value
FoF	Fund of Funds
Forex	Foreign Exchange
FTWZs	Free Trade Warehousing Zone
FTZs	Foreign Trade Zones
FY	Financial Year
GDP	Gross Domestic Product
GoI	Government of India

Abbreviation	Description
GST	Goods and Services Tax
GST Council	Goods and Services Tax Council
GSTAT	Goods and Services Tax Appellate Tribunal
GSTN	Goods and Services Tax Network
GSTR	Goods and Services Tax Return
GVA	Gross Value Added
HEC	Higher Education Cess
HUF	Hindu Undivided Family
IFSC	International Financial Services Centre
IGCR	Import of Goods at Concessional Rates
IGST	Integrated Goods and Services Tax
IGST Act	Integrated Goods and Services Tax Act,2017
IMF	International Monetary Fund
IMS	Invoice Management System
INR	Indian Rupees
InVIT	Infrastructure Investment Trust
ISD	Input Service Distributor
ITAT	Income Tax Appellate Tribunal
ITC	Input Tax Credit
ITO	Income Tax Officer
JCIT	Joint Commissioner of Income Tax
JCIT(A)	Joint Commissioner of Income Tax (Appeals)
JDIT	Joint Director of Income Tax
KCC	Kisan Credit Card
KRW	South Korean Won
LCD	Liquid Crystal Display
LED	Light Emitting Diodes
LTCG	Long Term Capital Gain
MAT	Minimum Alternate Tax
MDI	Methylene Diphenyl Diisocyanate
MSME	Micro, Small and Medium Enterprises

Abbreviation	Description
NAPS	National Apprenticeship Promotion Scheme
NEP	National Education Policy 2020
NFSA	The National Food Security Act, 2013
NPA	Non Performing Asset
NPS	National Pension Scheme
NREGA / MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
NSAP	National Social Assistance Programme
NSE	National Stoke Exchange
NSS	National Saving Scheme
OECD	Organization for Economic Cooperation and Development
ONORC	One Nation One Ration Card Plan
PCBA	Printed Circuit Board Assembly
PCCIT	Principal Chief Commissioner of Income-tax
PCIT	Principal Commissioner of Income-tax
PDMC	Per Drop More Crop
PDS	Public Distribution System
PLI	Prodction Linked Incentive
PM-ABHIM	Pradhan Mantri Ayushman Bharat Health Infrastructure Mission
PMAY-G	Pradhan Mantri Awas Yojana - Gramin
PMFBY	Pradhan Mantri Fasal Bima Yojana
PMGKAY	Pradhan Mantri Garib Kalyan Anna Yojana
PMKVY	Pradhan Mantri Kaushal Vikas Yojana
PMLA	Prevention of Money Laundering Act, 2002
PoEM	Place of Effective Management
PPP	Public-Private Partnerships
PVC	Polyvinyl Chloride
PY	Previous Year
R&D	Research & Development
RBI	Reserve Bank of India
RCM	Reverse Charge Mechanism
ReIT	Real estate Infrastructure Trusts

Abbreviation	Description
SB	Shipping Bill
SDT	Specified Domestic Transaction
SHG	Self Help Group
SEBI	Security and Exchange Board of India
SEZ	Special Economic Zone
STCG	Short Term Capital Gain
STEM	Science, Technology. Engineering and Mathematics
STT	Securities Transaction Tax
SUUTI	Specified Undertaking of Unit Trust of India
SWS	Social Welfare Surcharge
TCS	Tax Collected at Source
TDS	Tax Deducted at Source
TOLA	Taxation and Other Laws
TP	Transfer Price
TPO	Transfer Pricing Officer
UIM	Unique identification Marking
ULIP	Unit Linked Insurance Policy
USD	US Dollar
UTGST Act	Union Territory Goods and Services Tax Act
VDA	Virtual Digital Asset
w.e.f	with effect from
YoY	Year on Year

Thank you!

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