INDIA UNION BUDGET 2025

KEY SECTOR UPDATES

BANKING, FINANCIAL SERVICES, AND INSURANCE

AN INDIA UNION BUDGET UPDATE 2025

Part 1: Business implications

What The Industry Asked For?

- **100% in FDI in the Insurance Sector:**

  The Union Budget 2025 is anticipated to introduce 100% foreign direct investment (FDI) in the insurance sector. This is in alignment with earlier reforms aimed at liberalising the sector. The Finance Ministry had initially proposed this increase in FDI to 100% in November 2024.

- **Enhance credit accessibility for MSMEs:**

  The MSME sector is anticipating the introduction of a dedicated liquidity facility in the Union Budget 2025 to enable easier access to working capital and long-term financing. MSMEs are seeking strengthening of the Credit Guarantee Scheme to ensure seamless access to affordable funding which would help MSMEs reduce their reliance on expensive informal sources.

- **Key expectations of NBFCs:**
  - Increasing refinancing options for NBFCs: The Finance Industry Development Council (FIDC) is advocating for the establishment of a dedicated refinance institution to support NBFCs.
  - Reducing loan size threshold for NBFCs for invoking SARFAESI Act: NBFCs are pushing to lower the loan size threshold for invoking the SARFAESI Act from INR 2mn to INR 0.1mn similar to that of banks and HFCs.

- **Financial inclusion and enhanced access to financial services in under-served areas:**

  Fintech companies have called for increased financial inclusion and enhanced credit availability in under-served areas seeking Government funding to improve digital infrastructure and develop tailored financial products. They emphasise the need for expanded microfinance options and partnerships with local institutions to empower under-served communities. Additionally, initiatives to boost financial literacy are essential to ensure effective utilisation of new financial services.

- **Strengthening the Digital Lending Ecosystem:**

  Experts urged improvements to the digital lending ecosystem to enhance credit access, particularly in rural India. Rising credit fraud, limited customer protection, and cyber scams highlight the need for prioritised measures to strengthen digital finance. .

- **Improving the Digital Infrastructure and Regulatory Support:**

  The financial services sector has highlighted the need for enhanced digital infrastructure and regulatory support. Stakeholders are anticipating increased investment in digital infrastructure to boost competitiveness and streamlined regulations to help create a more robust framework for digital transactions.

What Budget Gave?

- **100% in FDI in the Insurance Sector:**
  The Union Budget 2025 announced several key measures to support the MSME sector:
  - **Significant enhancement of credit availability with guarantee cover:**
    - Micro and Small Enterprises: Credit guarantee cover increased from INR 50mn to INR 100mn, adding INR 1,500bn in credit over 5 years.
    - Startups: Guarantee cover raised from INR 100mn to INR 200mn, with a 1% fee for loans in 27 key sectors.
    - Exporter MSMEs: Access to term loans up to INR 200mn for well-performing exporters.
    - Credit Cards for Micro Enterprises: The Union Budget 2025 has introduced customised credit cards with a limit of INR 0.5mn specifically for micro enterprises registered on the Udyam portal, with plans to issue 1mn such cards in the first year.
    - Scheme for first time entrepreneurs: A new scheme will be launched to provide term loans of up to INR 20mn over the next 5 years for 0.5mn first-time entrepreneurs, including women, Scheduled Castes, and Scheduled Tribes.
    - Fund of Funds for Startups: A new Fund of Funds with INR 100bn contribution will be established to expand support for startups, building on previous commitments of over INR 910bn to Alternate Investment Funds (AIFs).

- **Financial inclusion and enhanced credit access to underserved areas:**
  - **Enhanced Credit through Kisan Credit Cards (KCC):** KCC to provide short-term loans to 77 million farmers, fishermen, and dairy farmers. The loan limit under the Modified Interest Subvention Scheme will be increased from INR 0.3mn to INR 0.5mn for KCC loans.
  - **Revamping PM SVANidhi scheme:** The PM SVANidhi scheme which has supported over 6.8 million street vendors by alleviating their reliance on high-interest informal loans will be revamped under the Union Budget 2025. The revamped scheme will offer higher bank loans, UPI-linked credit cards with INR 30,000 limit, and enhanced capacity-building support.
  - **Grameen Credit Score:** Under Union Budget 2025, Public Sector Banks will establish a 'Grameen Credit Score' framework to meet the credit needs of self-help group (SHG) members and residents of rural areas.

- **Regulatory support:**
  - The Government has announced the establishment of a new mechanism under the Financial Stability and Development Council (FSDC) aimed at enhancing the financial sector's regulatory framework. This mechanism will evaluate the impact of current financial regulations and enhance their responsiveness to the needs of the financial sector.

How It Impacts The Industry?

- The increase in FDI limit for insurance sector is projected to attract substantial foreign capital, which will foster increased competition and invigorate the insurance sector and enhance its infrastructure.
- The support measures for MSMEs will strengthen the sector by improving their financial accessibility and supporting their growth potential in the economy.
- The initiatives aimed at financial inclusion and enhanced credit access to underserved areas will empower rural communities by providing essential financial support, stimulating economic growth, and improving livelihoods for millions of farmers, street vendors, and self-help group members.
- The establishment of a new Fund of Funds is expected to significantly enhance the startup ecosystem by providing crucial financial support, facilitating access to capital for early-stage ventures, and attracting further investments.
- The regulatory support steps taken are part of a broader strategy to create a modern, flexible, and people-friendly regulatory environment that supports economic growth and enhances the ease of doing business in India.

Our Point Of View

The Union Budget 2025 directly addresses some of the key industry demands and concerns and the measures undertaken are poised to drive significant growth and improvements across key areas. The insurance sector would witness more foreign investment, while MSMEs and underserved communities would benefit from enhanced financial support, improving economic opportunities and inclusivity. These steps would provide a robust foundation for long-term growth, stability and inclusiveness in the sector. Further, these reforms position the financial services industry for rapid expansion and innovation, with a strong influx of investments expected to flow in as a result.

Part 2: Tax implications

What The Industry Asked For?

- **Clarification on tax regulations for Virtual Digital Assets (VDA):**

  Cryptocurrencies and NFTs, defined as VDAs, in India remain unregulated, face a 30% tax on capital gains and an additional 1% TDS. The crypto industry is hoping that the Union Budget 2025 to introduce clearer regulations and revisit these tax rates to support sustainable growth in the sector.
- **Introduction of tax incentives to Debt Linked Savings Scheme (DLSS) in lines of Equity Linked Savings Scheme (ELSS):**

  Investments in DLSS should be eligible for deductions under Section 80C of the IT Act, in the same way that ELSS investments currently are, to create a level playing field for debt-oriented mutual funds.
- **Resolution of ambiguity in taxability of Carried Interest:**

  There is no express provisions under the direct tax laws determining the characterisation of carried interest in the hands of the investment manager. There are a couple of tax rulings under indirect tax parlance where carried interest paid to a fund manager is held as a service fee and therefore liable to GST. It is anticipated that a clarification concerning the characterisation of such carried interest will resolve the uncertainties and ambiguities about its potential tax implications, both under direct and indirect tax laws.
- **Tax regime for branch of foreign reinsurer operating in India:**

  Reinsurance companies are anticipating that the Union Budget 2025 will provide clarity on taxation of foreign reinsurer carrying on business in India through its branch office.
- **Clarification on implementation of IFRS Accounting Standard for Insurance Contracts:**

  Although the new accounting standard represents the transparency of Insurer's financial statements and performance, it inevitably presents challenges to be factored such as application of current value approach to measure insurance contracts might impact the estimation of future cash flows, unearned profit which is spread over term of contract or risk management associated with each underlying insurance contract etc. A suitable clarification with respect to its application for insurance contracts and its corresponding impact from taxation perspective is required for its successful implementation in the near future.

What Budget Gave?

Direct tax

INSURANCE

- **Rationalisation of tax implication on redemption of Unit Linked Insurance Policy (ULIP):** ULIP products not fulfilling prescribed conditions under section 10(10D) of the IT Act proposed to be classified as 'Non-Exempt ULIP' and thereby taxed under the head 'Capital Gains'. Therefore, any gains arising from redemption of such Non-Exempt ULIP shall be taxed under the head 'Capital Gains' and will form part of 'Equity Oriented Fund' as defined under the provisions of the IT Act.
- **Enhanced limit for tax withholding:** Tax withholding (TDS) threshold proposed to be increased from INR 15,000 to INR 20,000 in respect of remuneration/ reward for soliciting or procuring the insurance business
- **Contribution made to NPS Vatsalya eligible for deduction:** Deduction under section 80CCD of the IT Act (available under old tax regime) proposed to be extended to parent/ guardian contributing to NPS Vatsalya Scheme in respect of minor child (up to 2 children), subject to limit of INR 50,000.

INTERNATIONAL FINANCIAL SERVICE CENTRE (IFSC)

- Sunset dates for commencement of operations of IFSC unit for several tax concessions proposed to be extended to 31 March 2030.
- **Tax exemption:** The following tax exemptions are proposed to be introduced:
  - Proceeds received on life insurance policy issued by IFSC insurance intermediary office to non-residents.
  - Capital gains tax and dividend income arising from IFSC unit engaged in ship leasing.
  - Gains arising in hands of non-residents from transfer of specified instruments entered with Foreign Portfolio Investors (FPIs) being an IFSC unit.
- Excluding deemed dividend taxability in case where one of the group entities is a 'Finance company' or a 'Finance unit' as defined under IFSC regulations and the parent entity is listed on stock exchange outside India.
- All conditions relaxed for fund managers based in IFSC except for condition relating to aggregate participation up to 5% by resident investors where operations are commenced before 31 March 2030. Condition to be fulfilled within 4 months from specified date.
- Including retail scheme and Exchange Traded Funds within the definition of resultant fund for tax neutral relocation of original funds to such funds in the IFSC.

INVESTMENTS FUNDS

- Gains arising from transfer of securities held by investment funds referred to in the section 115UB of the IT Act proposed to be taxed as capital gains.
- Certain conditions for fund manager located in IFSC proposed to be relaxed.
- Benefit of capital gains taxable under section 112A of the IT Act proposed to be extended to Business Trusts.
- It is proposed to remove the provisions of Tax Collected at Source (TCS) under section 206C(1H) of the IT Act on sale of specified goods with effect from 1 April 2025, thereby keeping the sale of securities out of the ambit of TCS.
- Extension of sunset clause for making investment into infrastructure sector from 31 March 2025 to 31 March 2030 by Sovereign Wealth Fund and Pension Fund. Further, Long term capital gains on sale of unlisted debt investment proposed to be exempt (even if deemed as short-term otherwise)
- Long term capital gains on sale of unlisted debt investment proposed to be exempt.
- TDS rate on income paid by securitisation trust to a resident investor proposed to be reduced to 10%. Further, threshold for TDS in respect of payments such as interest on securities, dividend paid to individual shareholder and units of Mutual Fund specified under section 10(23D) of the IT Act, proposed to be increased to INR 10,000.
- Tax exemption available under section 10(4E) of the IT Act, proposed to be extended to income from non-deliverable forward contracts (NDFs), offshore derivative instruments (ODIs), and OTC derivatives entered with FPIs through IFSC units.

OTHER AMENDMENTS

- Tax exemptions proposed for amounts withdrawn by individuals on or after 29 August 2024 with respect to NSS deposits for which a deduction has been allowed earlier under section 80CCA of the IT Act.
- Requirement of higher TDS/ TCS in case of non-filer of tax return proposed to be removed in case of non-PAN cases.
- The period of exemption available in respect of income earned by Specified Undertaking of Unit Trust of India under section 13 of the UTI Repeal Act, 2002 proposed to be extended to 31 March 2027 (extended from 31 March 2025).
- **Extension of Tax Holiday for Startups:** It is proposed to extend the sunset date for claiming deduction by startups from 31 March 2025 to 31 March 2030.
- **Rationalisation of carry forward of losses in case of amalgamation:** It is proposed to put a capping on the indefinite carry forward of losses and permits to carry forward the loss for 8 years from the year in which such loss has first been computed by the original predecessor entity instead of the year in which amalgamation has been effected.
- **Multi-year Arm's length determination for Intra-group transactions:** The Budget has proposed to introduce a progressive approach in transfer pricing assessments, by determining the Arm's Length Price (ALP) covering three consecutive years. This proposal seeks to shift to a more streamlined multi-year approach, where companies have transactions with their group companies by opting towards determination of ALP for three consecutive years as against for each year. Additionally, the scope of safe harbour rules is proposed to be expanded.
- **Furnishing information of crypto asset:** It is proposed to introduce reporting requirement for crypto transaction and penalties proposed for non-compliance or furnishing of inaccurate information.

Indirect tax

- Retrospective amendment in provisions dealing with blocked input tax credit (ITC) under GST law proposed to replace the phrase 'plant or machinery' with 'plant and machinery', which would result in restricting ITC of GST charged on construction of immovable structures qualifying as plant, to overcome the Supreme Court's ruling in Safari Retreats which allowed such ITC.
- Provisions related to time of supply of vouchers proposed to be omitted.
- Taxpayer allowed to reduce output tax liability in case of issuance of credit notes to a registered recipient only if ITC reversed by the recipient.
- Enabling provisions for invoice management system, to claim ITC and adjustment of outward liability, introduced.
- Input service distributor (ISD) mechanism to also govern distribution of ITC by ISD in respect of inter-state supplies on which tax has to be paid under reverse charge mechanism from 1 April 2025.
- **Insurance sector:** Retrospective amendment proposed to exempt reinsurance services provided under the Weather Based Crop Insurance Scheme (WBCIS) and the Modified National Agricultural Insurance Scheme (MNAIS) covering the period 01 April 2011 to 30 June 2017.

How It Impacts The Industry?

- The extension of the tax holidays for start-ups, IFSC units engaged in ship leasing, insurance and investment pooling activities along with the launch of new Fund of Funds in infrastructure to the tune of INR 10,000 crores (INR 100bn) will invite more capital infusion and strengthen India's position in financial services space.
- Rationalisation of safe harbour rules will make it easier for IFSC-based fund managers to manage funds located in other jurisdictions and will open the doors to consider relocation by the overseas Fund Managers.
- Increase in FDI limit in insurance from 74% to 100% will deepen the insurance market with innovation, global competitiveness, aligning with global best practices and building in innovative products.
- Announcement on revamping the current model Bilateral Investment Treaty (BIT) will make India as a jurisdiction to trade, more investor-friendly, at par with globally standards and attract foreign players.
- Extension of the current tax exemption enjoyed by the banking units to FPIs in IFSC on issuing ODIs would bring back the P-Note business in India and improve liquidity on IFSC exchanges.

  Clarity on characterisation of income earned by Category I and II AIFs as capital gains and parity with FPIs would settle the decade old pending demand from the fund's industry.
- Additionally, the rationalisation of TDS/TCS provisions will ease the compliance burden on businesses. The New Income Tax Bill to be placed next week will be simplified, taxpayer friendly, reduce ambiguity and reduce litigation.

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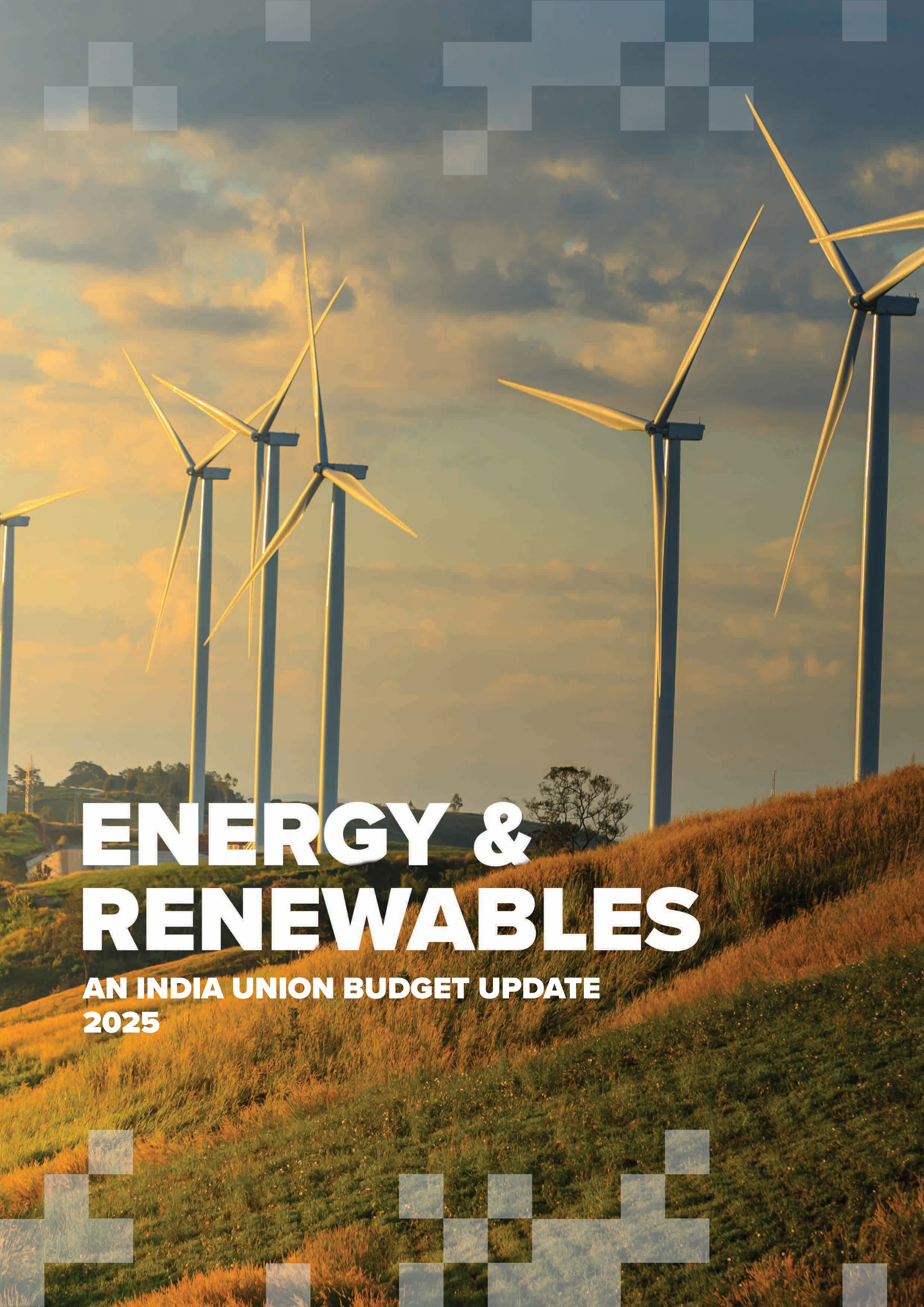


ENERGY & RENEWABLES

AN INDIA UNION BUDGET UPDATE 2025

Part 1: Business implications

What The Industry Asked For?

- **Policy Adjustments for Renewable Energy Expansion:** Renewable energy developers propose exemptions from the PLI scheme, inclusion in the ALMM, increased funding, and expanded subsidies and tax benefits for domestic solar panel and battery manufacturing to meet the 500GW non-fossil fuel energy target by 2030.
- **Support for Energy Storage & Smart Grid:** Additional tax benefits and subsidies for energy storage solutions and smart grid technologies to accelerate EV adoption and strengthen the e-mobility ecosystem.
- **Support for Power Distribution Companies and Solar Rooftop Expansion:** Power distribution companies seek financial and operational assistance to expand solar rooftop installations and deploy smart meters nationwide.
- **Viability Gap Funding for Emerging Renewable Technologies:** Offshore wind and green hydrogen project developers seek funding support to scale up alternative renewable energy sources.
- **Energy Transition Policy for Carbon-Intensive Sectors:** Steel, cement, and chemical industries seek a strategic policy framework to reduce emissions in hard-to-abate sectors.
- **Policy Transparency for Biofuel Initiatives:** Biofuel manufacturers and distributors propose clear policies and phased timelines for expanding biofuel programmes, including blending Compressed Biogas (CBG) into vehicle fuel and household energy supplies.
- **Incentives for Clean Energy in Agriculture:** Farmers and rural development stakeholders seek incentives for solar-powered irrigation pumps and energy-efficient cold storage systems to lower emissions and improve agricultural productivity.
- **Biomass Storage Banks:** Biomass energy producers propose the establishment of dedicated agricultural residue storage facilities to ensure a consistent supply for biomass-based power generation.
- **Carbon Capture Support for Heavy Industries:** Steel, aluminium, and cement producers request tax rebates, subsidies, and other incentives for carbon capture and utilisation technologies to align with the Carbon Border Adjustment Mechanism (CBAM) requirements of the European Union.

What Budget Gave?

- **Nuclear Energy Mission for Viksit Bharat:**
  - The Budget highlights the goal of 100 GW of nuclear energy by 2047, with amendments to the Atomic Energy Act and Civil Liability for Nuclear Damage Act to encourage private sector participation.
  - **Small Modular Reactors (SMR) R&D:** A Nuclear Energy Mission with INR 200bn will support SMR R&D, aiming for five indigenously developed SMRs to be operational by 2033. accelerate

- **PPP Model for Energy Projects:** A three-year project pipeline aims to boost private sector participation in transmission, distribution, and power evacuation infrastructure.

- **Supporting Clean Tech manufacturing:** The Budget focuses on boosting Clean Tech manufacturing to enhance domestic value addition, covering solar PV cells, EV batteries, motors and controllers, electrolysers, wind turbines, very high voltage transmission equipment, and grid-scale batteries.

- **DISCOM Reforms:** The Budget offers incentives for electricity distribution reforms and intra-state transmission capacity enhancement. States will be allowed an additional 0.5% GSDP borrowing, contingent on these reforms.

How It Impacts The Industry?

- The Budget takes a comprehensive approach to addressing power sector challenges, focusing on distribution reforms, transmission upgrades, and clean energy expansion. The provision for additional borrowing linked to DISCOM reforms aims to improve financial stability in distribution companies, while investments in intra-state transmission will facilitate better integration of renewable energy.

- The commitment to achieving 100 GW of nuclear energy by 2047, supported by INR 200bn for SMR R&D, strengthens long-term energy security. Incentives for clean tech manufacturing—spanning solar PV cells, EV batteries, and wind turbines—will reduce reliance on imports and enhance India's role in the global green energy supply chain.

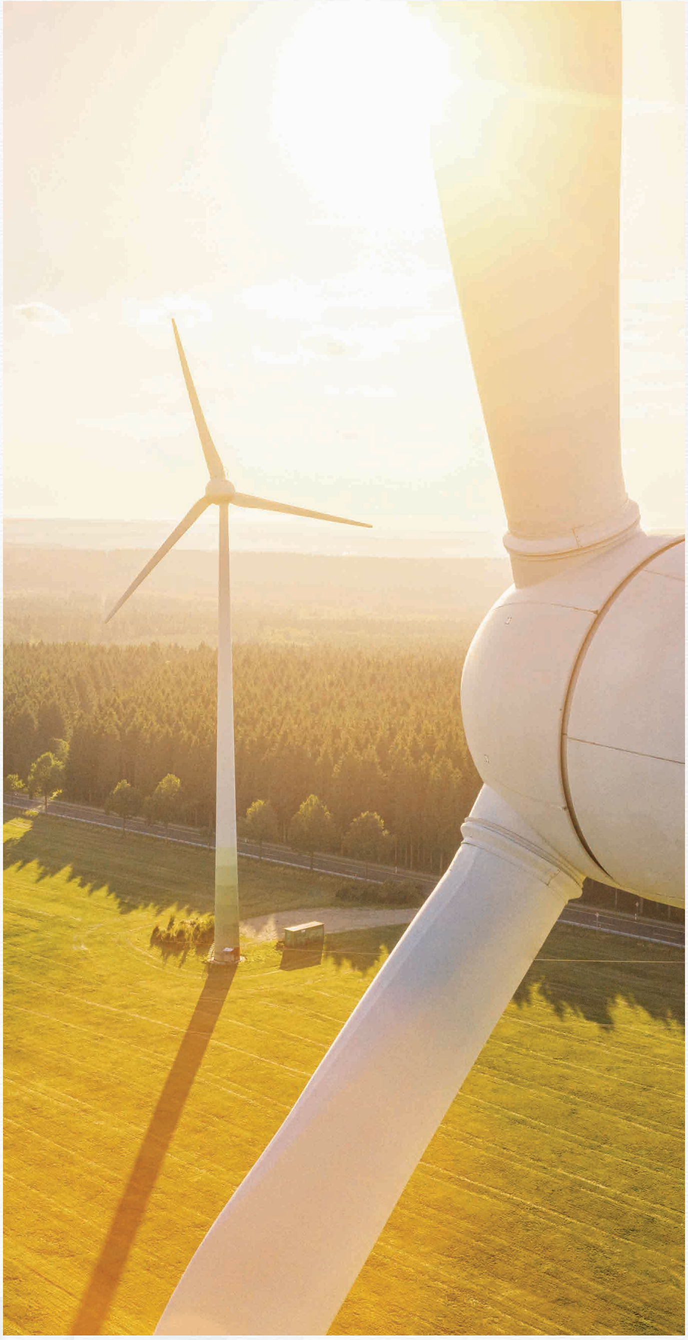
- Tariff reductions on solar components and lithium-ion batteries will lower project costs and accelerate adoption. These measures, combined with policy support for energy storage and smart grids, are crucial for sustaining the clean energy transition. However, their success depends on effective execution, regulatory clarity, and continued investment in grid modernisation.

Our Point Of View

- The Budget 2025-26 sets a strong direction for energy reforms, but execution will be key; linking state borrowing to DISCOM reforms is strategic, though structural and operational improvements remain critical.

- Clean tech and nuclear investments support energy security, but global competitiveness will depend on policy stability and supply chain resilience.

- Although the industry had hoped for more, this budget marks a positive step forward by the Government in the right direction..



Part 2: Tax implications

What The Industry Asked For?

- **Higher Rate of Depreciation for EV Charging Stations:** Companies involved in setting up EV charging infrastructure seek the highest available rate of depreciation for charging stations to enhance investment viability

- **Concessional Income Tax Regime for Renewable Power Sector:** Renewable energy developers and manufacturers seek the introduction of a concessional income tax regime to attract increased investment in the sector.

- **Customs Duty Concessions for Battery Energy Storage Systems:** Energy storage solution providers seek an extension of customs duty concessions under the Project Import Scheme to reduce costs and accelerate large-scale energy storage deployment.

What Budget Gave?

Direct tax

- Excluding deemed dividend taxability in case where one of the group entities is a ‘Finance company’ or a ‘Finance unit’ as defined under IFSC regulations and the parent entity is listed on stock exchange outside India.

- **Rationalisation of carry forward of losses in case of amalgamation:** It is proposed to put a capping on the indefinite carry forward of losses and permits to carry forward the loss for eight years from the year in which such loss has first been computed by the original predecessor entity instead of the year in which amalgamation has been effected.

- **Multi-year Arm's length determination for Intra-group transactions:** Budget has proposed to introduce a progressive approach in transfer pricing assessments, by determining the Arm's Length Price (ALP) covering three consecutive years. This proposal seeks to shift to a more streamlined multi-year approach, where companies have transactions with their group companies by opting towards determination of ALP for three consecutive years as against for each year. Additionally, the scope of safe harbour rules is proposed to be expanded.

- **Rationalisation of Tax deducted at sources and Tax collected at sources:** The Government has proposed to rationalise tax withholding (TDS) provisions by increasing the threshold limits on payments such as dividend, commission, fees for professional or technical services, etc. Additionally, the requirement of higher TDS/ TCS in case of non-filer of tax return proposed to be removed in case of non-PAN cases.

- It is proposed to remove the provisions of TCS under section 206C(1H) of the IT Act on sale of specified goods with effect from 1 April 2025.

- **Extension of Tax Holiday for Start-ups:** The Government introduced a 100% tax exemption for eligible startups in Budget 2016, with a sunset date of 31 March 2025. This has now been extended to startups incorporated before 01 April 2030.

Indirect tax

- Exemption from Basic Customs Duty (BCD) to waste and scrap of lithium-ion battery and capital goods used in the manufacture of lithium-ion battery of EVs and mobile phones.

- Customs duty rates on photovoltaic cells assembled in modules or made up into panels, classifiable under tariff item 85414300 and other items classifiable under tariff item 85414900 marginally reduced by exempting Social Welfare Surcharge, while reduction in BCD on them is offset by levy of Agriculture and Infrastructure Development Cess.

- BCD rates on liquified propane, liquified butane, LPG (for non-automotive as well as automotive purpose) and other liquified petroleum gas has been reduced.

- Implementation of levy of additional excise duty of INR 2 per litre on unblended Diesel deferred till 31 March 2026.

- Concessional BCD rate on parts of Wind Operated Electricity Generators (WOEG), for the manufacture or maintenance of WOEG and permanent magnets for manufacture of PM synchronous generators for use in WOEG extended till 31 March 2026.

- Definitive time limit of two years introduced to finalise bill of entries provisionally assessed, subject to conditions.

- Provisions introduced to voluntarily revise bill of entry and pay duty with interest, subject to conditions.

- Retrospective amendment in provisions dealing with blocked input tax credit (ITC) under GST law proposed to replace the phrase 'plant or machinery' with 'plant and machinery', which would result in restricting ITC of GST charged on construction of immovable structures qualifying as plant, to overcome the Supreme Court's ruling in Safari Retreats which allowed such ITC.

- Taxpayer allowed to reduce output tax liability in case of issuance of credit notes to a registered recipient only if ITC reversed by the recipient

- Enabling provisions for invoice management system, to claim ITC and adjustment of outward liability, introduced.

- Input service distributor (ISD) mechanism to also govern distribution of ITC by ISD in respect of inter-state supplies on which tax has to be paid under reverse charge mechanism from 1 April 2025.
- The duty cuts on goods used in manufacturing of lithium-ion batteries would encourage the domestic production of the batteries.

How It Impacts The Industry?

- Given the consolidation which happens frequently in the energy and renewables sector, it is important to consider implications of this proposed amendment relating to carry forward of losses in case of amalgamation.
- Multi-year ALP will lead to a reduction in transfer pricing litigation spread across multiple years on similar transactions and provide more certainty and clarity to the energy and renewable companies, in terms of tax outcome.

Our Point Of View

- Tariff cuts and battery incentives boost domestic manufacturing, yet scalability and investor confidence will determine impact. Businesses must align with evolving regulations and capitalise on opportunities in grid modernisation, storage, and localised production.
- Considering that energy and renewable companies operate through multiple special purpose vehicles (SPVs) wherein intra-group transfer of funds can have tax consequences, it is pertinent to consider the possibilities of funding such SPVs through a Finance unit in IFSC.

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HEALTHCARE & LIFESCIENCES

AN INDIA UNION BUDGET UPDATE 2025

Part 1: Business implications

What The Industry Asked For?

- **Increasing the budget allocation for the healthcare sector to 2.5-3% of GDP:**

  The healthcare industry is urging the Government to increase healthcare spending to 2.5-3% of the GDP to align with global. averages. India's healthcare expenditure has historically remained within the range of 1.5-2.1% of GDP in recent years, resulting in inadequate infrastructure.

- **Increasing the budget allocation for the PLI scheme for pharma products and medical devices:**

  The industry is requesting an increased allocation for the PLI scheme to drive domestic manufacturing of pharmaceutical products and medical devices.

- **Implementing a policy to facilitate the streamlined import of refurbished medical devices in India:**

  To curb the influx of unregulated second-hand medical devices into the country, CDSCO is informing the customs department that importing refurbished devices is not allowed. Parts of the industry are seeking special provisions to facilitate imports, ensuring continued access to cost-effective medical equipment.

- **Introducing more incentives to stimulate investments in research and development and support domestic manufacturing of pharmaceutical products in India:**

  Most of the research grants provided by the Government are limited to institutions and academic centres, with few exceptions for private companies. The industry is expecting the Government to widen the base and funding support to encourage private Contract Research Organisations (CROs) to participate in early discovery and clinical research in India.

- **Offering incentives to promote the adoption of AI and advanced technologies in healthcare:**

  With the adoption and use of AI and advanced technologies reaching an all-time high, the associated costs are proving to be a hindrance for some. The industry is expecting the Government to take initiatives and help promote the adoption of AI and advanced technologies.

- **Introducing a single-window clearance system for pharmaceuticals and medical devices: :**

  For certain categories of pharmaceuticals and medical devices, a separate licence is required in each state. This is making operations difficult and time-consuming. The industry is requesting a single regulatory authority for pharmaceuticals and medical devices to increase the ease of doing business.

What Budget Gave?

- The Union Budget 2025 has allocated INR 983bn for healthcare, marking a modest increase of 11.7% from INR 880bn in 2024-25.
- **Boost to medical education:**
  Government plans to add 10,000 additional seats in medical colleges and hospitals and have a goal of adding 75,000 seats in the next five years.
- **Day care Cancer centres:**
  Government to facilitate setting up of Day Care Cancer Centres in all district hospitals in the next three years. A total of 200 centres are to be established in 2025-26.
- **Medical Tourism:**
  Medical Tourism and Heal in India will be promoted in partnership with the private sector along with capacity building and easier visa norms.
- **Patient Assistance Programmes:**
  Government has proposed to add 37 more medicines along with 13 new patient assistance programmes in the list of duty-free imports by pharmaceutical companies for supply free of cost to patients.
- **Healthcare for Gig Workers:**
  Gig workers will be provided healthcare under PM Jan Aarogya Yojna.

How It Impacts The Industry?

- The government's latest budget introduces several initiatives aimed at strengthening the healthcare system in India. The proposed increase in medical college seats will address the long-term shortage of doctors, ensuring a more robust healthcare workforce. The establishment of day-care cancer centres across district hospitals will provide essential support to cancer patients while easing the strain on existing healthcare infrastructure. Additionally, the easing of visa norms is expected to give a boost to the growing medical tourism sector by attracting more international patients.
- The government is also focusing on improving access to medicines for patients suffering from rare diseases. The inclusion of 36 life-saving drugs and six others under concessional duties will reduce costs, benefiting both the pharmaceutical industry and patients. Further, the addition of 37 medicines and 13 patient assistance programs to the list of duty-free imports will enable pharmaceutical companies to supply essential treatments free of cost, lowering financial barriers and promoting growth within the healthcare sector. Together, these measures will enhance both accessibility and affordability, fostering a more sustainable healthcare ecosystem. Recognising the contribution of gig workers, the inclusion of this workforce under the PM Jan Aarogya Yojana will provide them with essential health coverage.

Our Point Of View

- While the industry has asked for more, this budget is a welcome move from the Government in the right direction towards providing support and relief for patients suffering from critical diseases, to taking care of the healthcare ecosystem by the expansion of medical college seats as well as bolstering the sector growth by attracting medical tourism in India. Solving these ecosystem challenges would enhance the potential of the Healthcare and Life Sciences sector and create a conducive environment for investment opportunities.

Part 2: Tax implications

What The Industry Asked For?

Reintroducing or extending concessional tax rates for manufacturers of pharmaceutical products:

Newly set-up pharma manufacturing companies that commence manufacturing activities on or before 31 March 2024 are entitled to a headline corporate tax rate of 15%. It is expected that this Budget, with the objective of boosting manufacturing activities in India, will reintroduce or extend the concessional headline corporate tax rate for another one or two years.

What Budget Gave?

Direct tax

- **Multi-year Arm's length determination for Intra-group transactions:** Budget has proposed to introduce a progressive approach in transfer pricing assessments, by determining the Arm's Length Price (ALP) covering three consecutive years. This proposal seeks to shift to a more streamlined multi-year approach, where pharmaceutical companies have transactions with their group companies by opting towards determination of ALP for three consecutive years as against for each year. Additionally, the scope of safe harbour rules is proposed to be expanded which will provide more certainty and reduce litigation, offering greater clarity for pharma businesses engaged in cross-border transactions, R&D collaborations, and licensing agreements.

- **Rationalisation of carry forward of losses in case of amalgamation:** The Budget 2025 has put a capping on the indefinite carry forward of losses and permits to carry forward the loss for eight years from the year in which such loss has first been computed by the original predecessor entity instead of the year in which amalgamation has been affected.

- **Extension of Tax Holiday for Start-ups:**
The Government introduced a 100% tax exemption for eligible startups in Budget 2016, with a sunset date of 31 March 2025. This has now been extended to startups incorporated before 01 April 2030.

- **Rationalisation of Tax deducted at sources and Tax collected at sources:**
The Government has proposed to rationalise tax deduction at source (TDS) provisions by increasing the threshold limits on payments such as dividend, commission, fees for professional or technical services, etc. Additionally, the Government has proposed to eliminate tax collected at source (TCS) requirement for sellers receiving consideration exceeding INR 5mn and remove the higher withholding of taxes on non-filers of Income-tax returns.

- **Extension of time limit for filing Updated returns:**
In a move to encourage voluntary compliance and following the philosophy of 'Trust first, scrutinise later', the Government has proposed extending the time limit for filing an updated return from 36 months to 60 months from the end of the relevant fiscal year. The new tax rates for these filings range from 25% to 70% of the aggregate tax and interest, depending on the time period beyond the fiscal year.

- **Harmonisation of Significant Economic Presence (SEP) applicability with business connection:** The Budget 2025 has now put the ambiguity to rest by clarifying that transactions or activities of a non-resident which are confined to purchase of goods in India for the purpose of export shall not constitute significant economic presence of such non-resident in India.

Indirect tax

- Basic customs duty has been exempted on 36 life-saving drugs and medicines. Further, six life-saving medicines have been added to the list attracting concessional customs duty of 5%, whereas three have been removed from the list. The exemption/ concessional rate would also apply on the bulk drugs for manufacture of these medicines.

- 37 more medicines along with 13 new patient assistance programmes have been added in the list of duty-free imports by pharmaceutical companies for supply free of cost to patients.

- Exemption from BCD on import of Drugs, medicines or food for special medical purpose used for treatment of rare disease extended to 31 March 2029.

- BCD on lab chemicals (other than for specific end use, i.e. inhouse R&D) revised from 150% to 70% and a new levy of Agricultural Infrastructure and Development Cess introduced at the rate of 70% on such lab chemicals.

- Definitive time limit of two years introduced to finalise bill of entries provisionally assessed, subject to conditions.

- Provisions introduced to voluntarily revise bill of entry and pay duty with interest, subject to conditions.

- Time limit for fulfilling end-use condition of imported inputs under Customs (Import of Goods at Concessional Rate of Duty or for Specified End Use) Rules, 2022 is extended from six months to one year, with periodicity for submission of statements being revised from monthly to quarterly basis

- Retrospective amendment in provisions dealing with blocked input tax credit (ITC) under GST law proposed to replace the phrase 'plant or machinery' with 'plant and machinery', which would result in restricting ITC of GST charged on construction of immovable structures qualifying as plant, to overcome the Supreme Court's ruling in Safari Retreats which allowed such ITC. .

- Taxpayer allowed to reduce output tax liability in case of issuance of credit notes to a registered recipient only if ITC reversed by the recipient.

- Enabling provisions for invoice management system, to claim ITC and adjustment of outward liability, introduced.

- Input service distributor (ISD) mechanism to also govern distribution of ITC by ISD in respect of inter-state supplies on which tax has to be paid under reverse charge mechanism from 1 April 2025.

- Retrospective amendment from 1 July 2017 to treat supply of goods warehoused in SEZ or FTWZ to any person before clearance for exports or to domestic tariff area as supply of neither goods nor services.

How It Impacts The Industry?

- The extension of the start-up benefits sunset period will drive innovation and strengthen India’s leadership in Healthcare and Life Sciences. Further, the proposed transfer pricing reform is expected to reduce administrative burdens by eliminating the need for annual reassessments, as many intra-group transactions are recurring. Additionally, the rationalisation of TDS/ TCS provisions will ease the compliance burden on businesses. Furthermore, by clarifying that purchasing products from India doesn’t create significant economic presence, non-residents healthcare and life sciences businesses are encouraged to source goods and thereby expanding export opportunities for India.

- The government is also focusing on improving access to medicines for patients suffering from rare diseases. The inclusion of 36 life-saving drugs and six others under concessional duties will reduce costs, benefiting both the pharmaceutical industry and patients. Further, the addition of 37 medicines and 13 patient assistance programs to the list of duty-free imports will enable pharmaceutical companies to supply essential treatments free of cost, lowering financial barriers and promoting growth within the healthcare sector. Together, these measures will enhance both accessibility and affordability, fostering a more sustainable healthcare ecosystem.

Our Point Of View

- In line with its vision of Viksit Bharat, the Government has proposed to introduce new income-tax bill aimed at simplifying and streamlining the law, ensuring greater clarity, tax certainty, and reducing litigation. While the safe harbour rules will be notified in due course, the measures already introduced demonstrate the Government’s commitment to minimising disputes, providing certainty in international taxation, and enhancing the ease of doing business for global companies operating in India.

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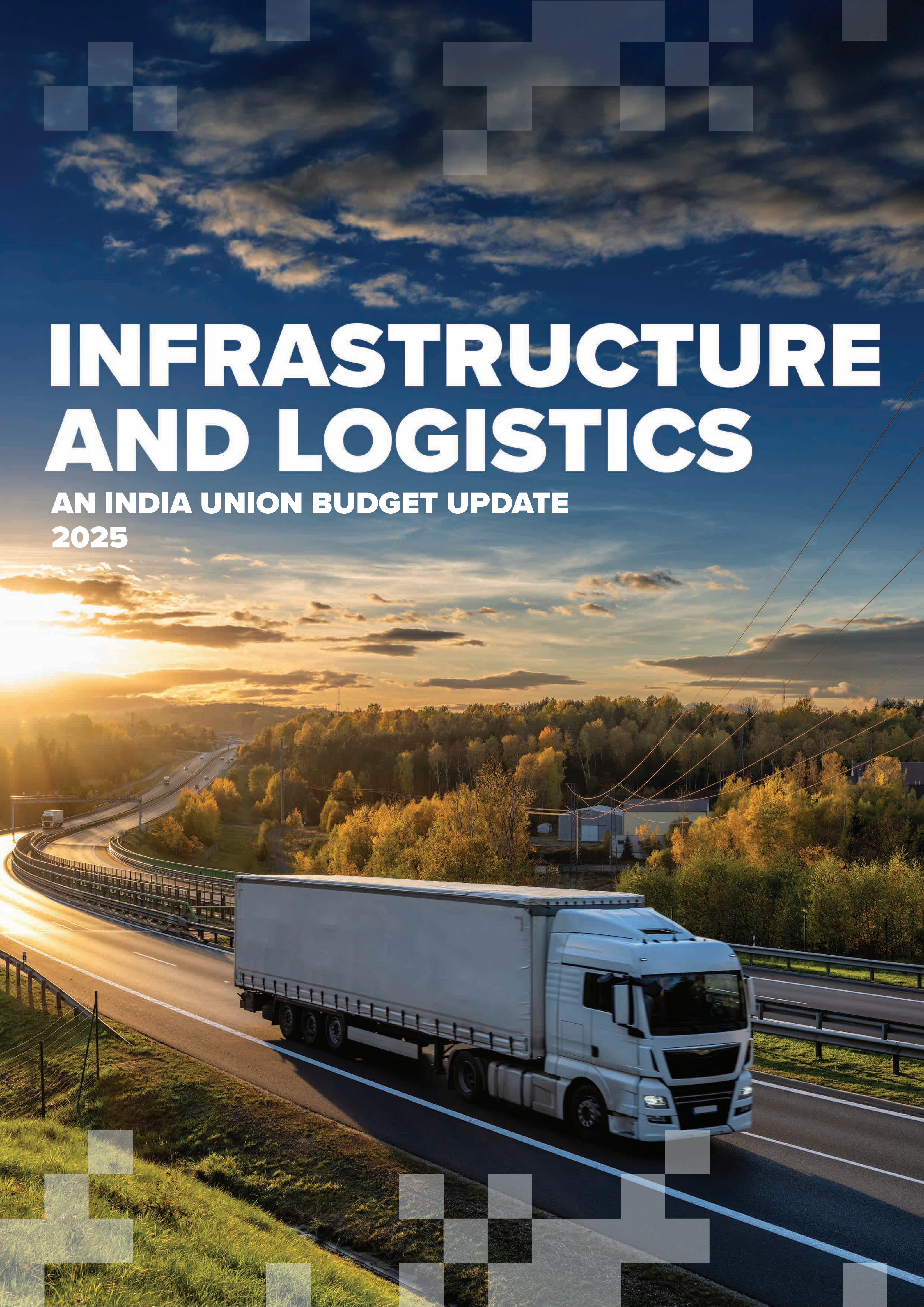
INFRASTRUCTURE AND LOGISTICS

AN INDIA UNION BUDGET UPDATE 2025



Part 1: Business implications

What The Industry Asked For?

Increased Budget Allocation for Infrastructure Projects:

- The capital expenditure allocation for infrastructure in the fiscal year 2024-25 was INR 11.11tn (3.4% of GDP), up from INR 10tn in the fiscal year 2023-24.
- A further increase is required to sustain growth, accelerate project execution, and attract private investment.

Diversification of Infrastructure Funding Sources:

- Expanding alternative funding mechanisms, including the Toll-Operate-Transfer (TOT) model and financing for Hybrid Annuity Model (HAM) projects, would enhance private sector participation.
- Such diversification would lead to more efficient project execution and reduce the financial burden on the Government.

Fiscal Incentives for Electric Vehicles (EVs) and Related Infrastructure:

- Fiscal benefits and incentives for electric trucks and related infrastructure, such as EV charging stations, would promote sustainable transportation.
- Increased allocations to schemes such as Faster Adoption and Manufacturing of Hybrid and Electric Vehicles (FAME) and incentives for charging infrastructure are needed.

Enhanced Support for the Aviation Sector:

- Increased allocations for the Ude Desh Ka Aam Naagrik (UDAN) scheme to improve regional connectivity through greenfield airports.
- Incentives for sustainable aviation fuels to promote environmental sustainability.

Smart Cities and Sustainable Infrastructure:

- Higher budget allocation for smart cities to develop sustainable infrastructure and green initiatives for urban development.
- Homebuyers and developers request enhanced tax benefits, including revised dimensions, cost thresholds, and income limits for affordable housing in urban areas.
- Affordable housing stakeholders demand higher funding for Pradhan Mantri Awas Yojana to meet national housing goals.

Infrastructure Status for the Shipping Sector: Granting infrastructure status to the shipping sector and extending the Production-Linked Incentive (PLI) scheme to container manufacturing to enhance logistical capabilities.

Simplification of Land Acquisition and Approvals: Streamlining land acquisition processes and expediting approvals for logistics and warehousing projects to accelerate construction and operational timelines.

Incentives for Green Warehousing and Sustainable Building Practices: Incentives to promote green warehousing and sustainable construction across the real estate sector.

Development of Integrated Industrial Parks: Support for integrated industrial parks and export hubs, particularly for micro, small, and medium enterprises (MSMEs), to align with the Make in India initiative.

Strengthening Domestic and Cross-Border Supply Chains: Government assistance in enhancing domestic supply chains and enabling cross-border logistics to create resilient and efficient infrastructure networks.

What Budget Gave?

- **Budget allocation for Infrastructure**
  - The capital expenditure allocation for infrastructure in the fiscal year 2024-25 was INR 11.11tn (3.4% of GDP), up from INR 10tn in the fiscal year 2023-24.
  - Will develop a three-year PPP project pipeline, with states encouraged to do the same, supported by the IIPDF scheme for PPP proposal preparation.

- **Urban Infrastructure:**
  - Allocation of INR 100.0bn towards AMRUT (Atal Mission for Rejuvenation and Urban Transformation focusing on development of basic infrastructure, covering water supply and infrastructure, green spaces and parks and non-motorised urban transport).
  - Allocation of INR 12.50bn towards National Urban Digital Mission aiming to digitise municipal services across the country.
  - Allocation of INR 100.0bn towards Urban Challenge Fund to address land and development challenges, support social infrastructure, and expand Smart Cities and Urban Corridors.
  - Additionally, INR 1.5tn in 50-year interest-free loans will be provided to states for large-scale urban infrastructure projects.

- **Rural Infrastructure:**
  - Allocation of INR 670.0bn towards National Jal Jeevan Mission / National Rural Drinking Water Mission.
  - Allocation of INR 71.9bn towards Swachh Bharat Mission (Gramin).
  - Allocation of INR 190.0bn towards Pradhan Mantri Gram Sadak Yojana.

- **Airports & Aviation:**
  - Modified UDAN scheme to be launched to cover 120 destinations and carry 40 million passengers in the next 10 years also covering helipads and smaller airports in the hilly, aspirational and N-E region.
  - Allocation of INR 5.3bn in 2025-26 in UDAN.
  - Patna airport expansion and brownfield airport in Bihta.
  - Upgradation of infrastructure and warehousing for air cargo including high value perishable horticulture produce

- **Roads:**
  - Allocation of INR 2.8tn towards national highway development programs.
  - Allocation of INR 71.4bn towards works under Border roads development program to strengthen access between mainland and border areas

- **Railways:**
  - Scheme for time limit for export of foreign origin goods that were imported for repairs extended to 1 year (from 6 months currently) extended to Railway Goods (MRO for Railways).
  - Allocation of INR 2.1tn towards capital expenditure to enhance capacity, safety and capability to enhance its usage and drive modal shift from road.

- **Marine and Waterways:**
  - Shipbuilding Financial Assistance Policy to be revamped for addressing cost disadvantages including credit notes for shipbreaking in Indian yards to promote a circular economy.
  - Shipbuilding clusters will be facilitated to increase the range, categories and capacity of ships.
  - Maritime development fund with corpus of INR 250.0bn to be set up with 49% contribution from the government and balance from the ports and private sector.

- **Logistics:**
  - Enhancing digital public infrastructure through “Bharat Trade Net” for international trade as a unified platform for trade documentation, financing solutions and complement with the Unified Logistics interface Platform (ULIP) in line with international practices.
  - For furthering PPPs and assisting the private sector in project planning, access to relevant data and maps from the PM Gati Shakti portal will be provided.

- **Urban Transport:**
  - Allocation of INR 312.4bn towards Metro projects to continue the development and promotion low-cost public transport in urban areas.

- **Other Infrastructure including Housing:**
  - Allocation of INR 24.8bn towards Northeast Special Infrastructure Development Scheme.
  - Allocation of INR 22.9bn towards Prime Minister’s Development Initiative for Northeast Region.
  - Allocation of INR 55.9bn towards border infrastructure and management.
  - Pradhan Mantri Awas Yojana: INR 781.3bn v/s INR 475.9bn in Budget 2024.
  - SWMIH Fund 2 (Affordable and Mid – Income Housing): INR 150.0bn with aim to complete construction of 1 lakh housing units.
  - Scheme for industrial housing: INR 25.0bn (New).
  - PM – Ajay: INR 21.4bn v/s INR 8.0bn in Budget 2024.
  - Defence Construction Works: INR 114.5bn v/s INR 105.6bn in Budget 2024.
  - For promoting funding from Sovereign Wealth Funds and Pension Funds in the infrastructure sector, the sunset clause for investment has been extended by another 5 years till 31 March 2030.

Part 2: Tax implications

How It Impacts The Industry?

- Budget continues the focus on infrastructure sector with highest allocations across all sectors totalling ~ INR 11.2tn.
- Supports downstream demand for key commodities such as cement, steel and other building materials while also providing enhanced employment opportunities across the infrastructure value chain.
- Showcases continued policy stability towards infrastructure spending and presents potential investment and growth opportunities across sectors also driving investor confidence.
- Growing focus and allocation for schemes such as Urban Digital Mission, Bharat Trade Net Urban Challenge Fund showcases growing openness towards innovation and digitisation presenting opportunities even for startups to support pathbreaking initiatives.

Our Point Of View

- Budget has taken a balanced approach to cover a multi–dimensional approach to infrastructure development with significant focus on urban development, water and transport sectors.
- In line with its vision of Viksit Bharat, the Government has proposed to introduce new income-tax bill aimed at simplifying and streamlining the law, ensuring greater clarity, tax certainty, and reducing litigation. The budget proposal on tax exemptions, extension of cut-off date for investment in infrastructure or for commencement of operations by IFSC units, providing certainty of tax to AIF demonstrate the Government's commitment to boost infrastructure sector and enhancing the ease of doing business for global companies operating in India.
- Overall, the Budget is well positioned to support long term infrastructure development while also providing opportunities for private sector to actively participate through PPP, EPC and digital solutions.

What The Industry Asked For?

- **Incentives for Green Warehousing and Sustainable Building Practices:**
  - Tax benefits to promote green warehousing and sustainable construction across the real estate sector.
- **Tax Holiday Extension for Foreign Investors:**
  - Foreign sovereign wealth funds (SWFs) and pension funds currently benefit from tax exemptions on investments in India's infrastructure sector.
  - The current sunset clause for investments is set to expire on 31 March 2025.
  - Extending these tax holidays would attract long-term foreign capital, strengthening the financial base for large-scale infrastructure projects.
- Non-residents enjoy exemption in respect of royalty or interest on account of lease of an aircraft or ship paid by a unit in IFSC which has commenced operations before 31 March 2025. Further, extension of this sunset clause of 31 March 2025 would encourage promotion of IFSC and development of the aviation and shipping industry.

What Budget Gave?

Direct tax

Extension of sunset clause for making investment from 31 March 2025 to 31 March 2030

- for investment into infrastructure sector by SWF and pension funds.
- for commencement of operations of IFSC units in respect of Royalty or interest on account of lease of an aircraft or ship paid by a unit in IFSC to non-residents.

Exemption for income in respect of ship leasing – IFSC Unit

- Exemption from capital gains tax now extended to non-residents or units of IFSC engaged in ship leasing, on transfer of equity shares of domestic companies being units of IFSC and engaged in ship leasing, on same lines as available for aircraft leasing.
- Similarly, tax exemption extended to dividend paid by a company being a unit of IFSC engaged in ship leasing, to a unit of IFSC engaged in ship leasing.

Exemption from tax to specified investors also extended for long term capital gains from unlisted debt securities.

To promote inland water transportation industry, the Tonnage Tax Scheme is proposed to be extended to Inland Vessels registered under Inland Vessels Act, 2021.

The definition of capital asset is amended to provide certainty of taxation to Category – I and Category – II AIFs undertaking investments in infrastructure sector. Accordingly, any income from transfer of security would be in the nature of capital gains.

Multi-year Arm's length determination for Intra-group transactions: Budget has proposed to introduce a progressive approach in transfer pricing assessments, by determining the Arm's Length Price (ALP) covering three consecutive years. This proposal seeks to shift to a more streamlined multi-year approach, where companies have transactions with their group companies by opting towards determination of ALP for three consecutive years as against for each year. Additionally, the scope of safe harbour rules is proposed to be expanded.

Indirect tax

- Exemption from Basic Customs Duty to waste and scrap of lithium-ion battery and capital goods used in the manufacture of Lithium-ion battery of EVs.
- Exemption from basic customs duty on ships and vessels for breaking up and raw materials, components, consumables or parts for manufacture of ships/ vessels extended for another 10 years.
- Period of re-export for railway goods imported duty-free (classified under chapter 86) for Maintenance, Repair and Overhaul extended from 6 months to 1 year
- Definitive time limit of 2 years introduced to finalise Bill of entries provisionally assessed, subject to conditions.
- Provisions introduced to voluntarily revise bill of entry and pay duty with interest, subject to conditions.
- Retrospective amendment in provisions dealing with blocked input tax credit (ITC) under GST law proposed to replace the phrase 'plant or machinery' with 'plant and machinery', which would result in restricting ITC of GST charged on construction of immovable structures qualifying as plant, to overcome the Supreme Court's ruling in Safari Retreats which allowed such ITC.
- Taxpayer allowed to reduce output tax liability in case of issuance of credit notes to a registered recipient only if ITC reversed by the recipient.
- Enabling provisions for invoice management system to claim ITC and adjustment of outward liability introduced.
- Input service distributor (ISD) mechanism to also govern distribution of ITC by ISD in respect of inter-state supplies on which tax has to be paid under reverse charge mechanism from 1 April 2025.

How It Impacts The Industry?

- Extension of cutoff date, from 31 March 2025 to 31 March 2030, for making investments by SWFs and pension funds investing in India's infrastructure sector and for commencement of operations by IFSC Unit would boost investor confidence, aid development of IFSC and stimulate investments in the shipping and the aviation industry.
- The logistics industry has been marred with extensive litigation on the Transfer Pricing front. The Finance Bill provides an option to taxpayers to carry forward the transfer pricing assessment findings (including post litigation) of one year to two subsequent years. This reduces the transfer pricing litigation burden on the taxpayers and lends certainty for the covered years.
- Extension of exemption from customs duty for manufacture of EV batteries would support the domestic manufacturing of EV batteries.
- The retrospective amendment in GST law relating to blocked credits can lead to higher costs of construction for immovable structures, which qualify as plant, used for provision of various services.

Our Point Of View

- In line with its vision of Viksit Bharat, the Government has proposed to introduce new income-tax bill aimed at simplifying and streamlining the law, ensuring greater clarity, tax certainty, and reducing litigation. The budget proposal on tax exemptions, extension of cut-off date for investment in infrastructure or for commencement of operations by IFSC units, providing certainty in of tax to AIF demonstrate the Government's commitment to boost infrastructure sector and enhancing the ease of doing business for global companies operating in India.

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CONSUMER & E-COMMERCE

AN INDIA UNION BUDGET UPDATE 2025

Part 1: Business implications

What The Industry Asked For?

- **Taking measures to boost private consumption:**
  Reduced private spending due to stagnant real incomes and a tough job market is directly hitting India's growth story, with Private Final Consumption Expenditure growth slowing to 4% during fiscal year 2024 compared to 6.8% in fiscal year 2023. Both traditional and new-age companies are acknowledging a moderation in urban growth and are expecting measures to increase consumers' disposable income in the Budget to revive demand.

- **Upgrading the last-mile network:**
  E-commerce companies are looking to expand into remote areas, with quick commerce companies rapidly expanding beyond metros. Continued investment is expected to upgrade the road network and last-mile delivery infrastructure, which is essential for the success of these expansions.

What Budget Gave?

- **Focus product scheme for retail sector - footwear and leather:**
  Introduction of a focus product scheme aimed at boosting the productivity, quality, and competitiveness of India's footwear and leather industry. This scheme will provide support for design development, component manufacturing, and machinery needed for non-leather footwear production, in addition to supporting leather footwear and products.

- **Scheme to encourage domestic toy manufacturing:**
  Launch of a scheme aimed at transforming India into a global hub for toys, building on the National Action Plan for Toys.

- **Recognising gig workers:**
  Registration of gig workers on the e-Shram portal and issuance of identity cards.

How It Impacts The Industry?

The Budget's initiatives are set to positively impact a couple of sub-segments within the Consumer sector.

- The focus product scheme for footwear and leather is expected to create 2.2 million jobs, generate a turnover of INR 4tn, and boost exports by over INR 1tn. This would encourage domestic manufacturing and create investment opportunities for investors and corporate in this sector.

- The toy industry will benefit from a strengthened manufacturing base, improved skills, and the production of high-quality toys, enhancing India's global market presence.

- Gig workers will receive support, with around 10 million workers benefiting from healthcare under the PM Jan Arogya Yojana.

Our Point Of View

- The industry had called for reforms to boost private consumption, addressing stagnant incomes, improve import/export processes, and support infrastructure, especially for last-mile delivery. The Budget introduced measures to address some of these expectations, including tax reforms and launching an Export Promotion Mission to streamline the export processes.

- Key sub-segments within Consumer & E-commerce sector have received attention from the Budget to promote domestic manufacturing, such as the focus product scheme for footwear and leather and initiatives for the toy industry.

Part 2: Tax implications

What The Industry Asked For?

- **Extension of tax incentives:**
  The e-commerce start-up industry seeks extension of the tax incentive by another three to five years.

- **Simplifying processes for imports/ exports:**
  Industry stakeholders are suggesting reforms to improve the ease of doing business for e-commerce firms working in the import/ export sectors, including dedicated e-commerce import terminals to reduce congestion and improve turnaround time.

What Budget Gave?

Direct tax

- **Extension of tax holiday for startups:**
  The Government introduced a 100% tax exemption for eligible startups in Budget 2016, with a sunset date of 31 March 2025. This has now been extended to startups incorporated before 1 April 2030.

- **Change in tax slab:**
  With the aim of increasing disposable income, the Government has made the changes in tax slabs.

- **Rationalisation of carry-forward of losses in case of amalgamation:**
  It is proposed to put a capping on the indefinite carry-forward of losses and permits to carry forward the loss for 8 years from the year in which such loss has first been computed by the original predecessor entity instead of the year in which amalgamation has been effected.

- **Rationalisation of tax deducted at sources and tax collected at sources:**
  The Government has proposed to rationalise tax withholding (TDS) provisions by increasing the threshold limits on payments such as dividend, commission, fees for professional or technical services, etc. Additionally, the requirement of higher TDS / TCS in case of non-filer of tax return proposed to be removed in case of non-PAN cases.

- It is proposed to remove the provisions of TCS under section 206C(1H) of the IT Act on sale of specified goods with effect from 1 April 2025

- **Extension of time limit for filing Updated returns:**
  In a move to encourage voluntary compliance and following the philosophy of 'Trust first, scrutinise later', the Government has proposed extending the time limit for filing an updated return from 36 months to 60 months from the end of the relevant fiscal year. The new tax rates for these filings range from 25% to 70% of the aggregate tax and interest, depending on the time period beyond the fiscal year.

- **Multi-year Arm's length determination for Intra-group transactions:**
  The Budget has proposed to introduce a progressive approach in transfer pricing assessments, by determining the Arm's Length Price (ALP) covering three consecutive years. This proposal seeks to shift to a more streamlined multi-year approach, where companies have transactions with their group companies by opting towards determination of ALP for three consecutive years as against for each year. Additionally, the scope of safe harbour rules is proposed to be expanded.

Indirect tax

- Duty rates on parts of electronic toys, open cell for manufacture of LCD/LED TV panels, components of mobile phones, etc reduced

- Definitive time limit of 2 years introduced to finalise Bill of entries provisionally assessed, subject to conditions.

- Provisions introduced to voluntarily revise bill of entry and pay duty with interest, subject to conditions.

- Retrospective amendment in provisions dealing with blocked input tax credit (ITC) under GST law proposed to replace the phrase 'plant or machinery' with 'plant and machinery', which would result in restricting ITC of GST charged on construction of immovable structures qualifying as plant, to overcome the Supreme Court's ruling in Safari Retreats which allowed such ITC.

- Introduced enabling provisions for invoice management system, to claim ITC and adjustment of outward liability.

- Input service distributor (ISD) mechanism to also govern distribution of ITC by ISD in respect of inter-state supplies on which tax has to be paid under reverse charge mechanism from 1 April 2025

How It Impacts The Industry?

- Extension of incentives for start-ups to claim 100% tax deduction on profits is likely to fuel further growth for start-ups/ early-stage companies.

- The changes in the tax slabs are expected to result in higher disposable income for individuals, which will, in turn, encourage increased household consumption. With more financial flexibility, people would be able to spend more and contribute to overall economic expansion.

Our Point Of View

- Extension of incentives for startups to claim 100% tax deduction on profits is a welcome change, with the increased focus on gig workers through the e-Shram portal also being a positive step towards recognition of gig workers. Changes in the tax slabs are a welcome move, as they are expected to boost private consumption, ultimately contributing to economic growth. In conclusion, the overall Consumer and E-commerce sector has witnessed balanced support from the Budget.

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INDUSTRIAL AND MANUFACTURING

AN INDIA UNION BUDGET UPDATE 2025

Part 1: Business implications

What The Industry Asked For?

- **Simplifying processes for imports/ exports:** Reforms to improve the ease of doing business for exporters and importers for quicker approvals and lower turnaround times.
- **Digitally integrating MSMEs:** Through investments in AI and digital infrastructure to improve access and digital literacy in Tier 2 and 3 cities.
- Investment in industrial infrastructure enabling plug and play for industries and enhance ease of doing business.
- Higher PLI scheme allocations to promote high value manufacturing.
- **Supporting currency volatility:** Relevant support to importers for sourcing raw materials and other production inputs at lower costs and maintain their competitiveness.

What Budget Gave?

- The two key engines for growth in this Budget have been MSME sector development and Exports. Special focus has been provided to MSME via various financial schemes including credit guarantee, enhanced investment and turnover limits.
  - Enhanced investment and turnover limits
    - Micro: Investment limit hiked from INR 10mn to INR 25mn and turnover limit from INR 50mn to INR 100mn
    - Small: Investment limit hiked from INR 100mn to INR 250mn and turnover limit from INR 500mn to INR 1bn
    - Medium: Investment limit hiked from INR 200mn to INR 500mn and turnover limit from INR 2.5bn to INR 5bn
  - Credit guarantee cover enhancements
    - Micro and Small: Hiked from INR 50mn to INR 100mn
    - Startups: Hiked from INR 100mn to INR 200mn
    - Well-run exporter MSMEs: INR 200mn
- Scheme allocations as per Budget 2025
  - Plug and Play Industrial Parks: INR 25bn (New)
  - Domestic industry Incentivisation Scheme (Telecom products): INR 20.1bn
  - Higher allocation for electronics sector (Semi–conductor, electronics): INR 160bn.
  - Allocation to the PM Electric Drive Revolution in Innovative Vehicle Enhancement (PM E-DRIVE) Scheme, including INR 36bn in subsidies for battery-powered two- and three-wheelers, ambulances, trucks, and other emerging EVs. The scheme also covers charging infrastructure at 88,500 sites, supplementing existing PLI schemes for the auto and auto components sectors: INR 40bn.
  - Higher PLI allocations covering electronics, auto, food and textiles: INR 51.7bn.
  - Innovation Initiative through RDI (Research, Development and Innovation) Scheme: INR 200bn.

How It Impacts The Industry?

The Budget has focused on key sub-sectors within the Industrial and Manufacturing sector especially those with high employment potential such as auto and auto components, textiles, electronics and food processing industries to grow significantly, however, other core manufacturing sectors such as steel, cement, chemicals have witnessed a limited impact to the tune of duties and tariffs. Measures for MSMEs are aimed at enhancing their overall capabilities and supporting the startup ecosystem.

Our Point Of View

The Budget confirms the policy commitment towards Make in India and Innovation, with special emphasis on key sub-sectors such as electronics, automotive and textiles manufacturing which may witness an increased investment potential from private sector. Stronger support to the MSME ecosystem through reclassification and export focus showcases a positive push towards strengthening the backbone for a more globally competitive industrial and manufacturing sector. Overall, the Industrial and Manufacturing sector has witnessed positive push towards growth and inclusiveness.

Part 2: Tax implications

What The Industry Asked For?

- Reintroduction of concessional tax rate for manufacturing companies.

What Budget Gave?

Direct tax

- **Presumptive taxation:** In order to incentivise non-residents to provide support (in the form of technology and support services) in setting up of electronics manufacturing facilities, it is proposed to have a presumptive taxation regime for such non-residents. The effective tax rate is proposed to be 8.75% (excluding surcharge and education cess).
- **Rationalisation of carry forward of losses in case of amalgamation:** It is proposed to put a capping on the indefinite carry forward of losses and permits to carry forward the loss for eight years from the year in which such loss has first been computed by the original predecessor entity instead of the year in which amalgamation has been effected.
- **Extension of Tax Holiday for Start-ups:** The Government introduced a 100% tax exemption for eligible startups in Budget 2016, with a sunset date of 31 March 2025. This has now been extended to startups incorporated before 01 April 2030.
- **Rationalisation of Tax deducted at sources and Tax collected at sources:** The Government has proposed to rationalise tax withholding (TDS) provisions by increasing the threshold limits on payments such as dividend, commission, fees for professional or technical services, etc. Additionally, the requirement of higher TDS/ TCS in case of non-filing of tax return is proposed to be removed in case of non-PAN cases.
- It is proposed to remove the provisions of TCS under section 206C(1H) of the IT Act on sale of specified goods with effect from 1 April 2025.
- **Extension of time limit for filing updated returns:** In a move to encourage voluntary compliance and following the philosophy of 'Trust first, scrutinise later', the Government has proposed extending the time limit for filing an updated return from 36 months to 60 months from the end of the relevant fiscal year. The new tax rates for these filings range from 25% to 70% of the aggregate tax and interest, depending on the time period beyond the fiscal year.
- **Harmonisation of Significant Economic Presence (SEP) applicability with business connection:** The Budget 2025 has now put the ambiguity to rest by clarifying that transactions or activities of a non-resident which are confined to purchase of goods in India for the purpose of export shall not constitute significant economic presence of such non-resident in India.
- **Multi-year Arm's length determination for Intra-group transactions:** Budget has proposed to introduce a progressive approach in transfer pricing assessments, by determining the Arm's Length Price (ALP) covering three consecutive years. This proposal seeks to shift to a more streamlined multi-year approach, where companies have transactions with their group companies by opting towards determination of ALP for three consecutive years as against for each year. Additionally, the scope of safe harbour rules is proposed to be expanded.

Indirect tax

- Exemption from Basic Customs duty (BCD) to cobalt powder, scrap of lithium-ion battery, lead, zinc and 12 more critical minerals and capital goods used in the manufacture of lithium-ion battery of EVs and mobile phones.
- Reduction in effective rate of duty on (i) parts of electronic toys for manufacturing toys and (ii) open cell for interactive flat panel display module (IFPD) for manufacturing IFPD module.
- Exemption from BCD to inputs and parts of (i) open cell for use in manufacture of LCD/ LED TV panels and (ii) for use in manufacture of printed circuit board assembly, camera module and connectors of cellular mobile phones and specified parts of cellular mobile phones.
- Increase in BCD on IFPD imported as completely built units
- Extension in exemption/ concessional duty rates to textile machinery to 31 March 2027, with addition of two more types of looms in the eligible machinery.
- Definitive time limit of two years introduced to finalise bill of entries provisionally assessed, subject to conditions.
- Provisions introduced to voluntarily revise bills of entry and pay duty with interest, subject to conditions.
- Time limit for fulfilling end-use condition of imported inputs under Customs (Import of Goods at Concessional Rate of Duty or for Specified End Use) Rules, 2022 is extended from six months to one year, with periodicity for submission of statements being revised from monthly to quarterly basis.
- Retrospective amendment in provisions dealing with blocked input tax credit (ITC) under GST law proposed to replace the phrase 'plant or machinery' with 'plant and machinery', which would result in restricting ITC of GST charged on construction of immovable structures qualifying as plant, to overcome the Supreme Court's ruling in Safari Retreats which allowed such ITC.
- Taxpayers are allowed to reduce output tax liability in case of issuance of credit notes to a registered recipient only if ITC reversed by the recipient.
- Enabling provisions for invoice management system, to claim ITC and adjustment of outward liability, introduced.
- Input service distributor (ISD) mechanism to also govern distribution of ITC by ISD in respect of inter-state supplies on which tax has to be paid under reverse charge mechanism from 1 April 2025.
- Retrospective amendment from 1 July 2017 to treat supply of goods warehoused in SEZ or FTWZ to any person before clearance for exports or to domestic tariff area as supply of neither goods nor services.

How It Impacts The Industry?

- By extending presumptive taxation regime to non-resident taxpayers who support development of electronics manufacturing facilities, Government has provided tax certainty to such non-resident taxpayers.
- Extension of incentives for start-ups to claim 100% tax deduction on profits is a welcome change as it will encourage entrepreneurship and help small manufacturers.
- Various exemptions/ concessions in customs duty rates are directed towards removal of inverted duty structure and to aid growth of domestic manufacturing sector.

Our Point Of View

- By keeping effective tax rate (excluding surcharge and education cess) below 10%, Government intends to boost foreign investment and technology transfer. This will further boost Government's initiative of 'Make in India' movement.
- The amendments in customs duty rates clearly focus on supporting the manufacturing sector in India. The extension of tenure for various exemptions also provide certainty to the businesses, enabling them to plan for the longer term.

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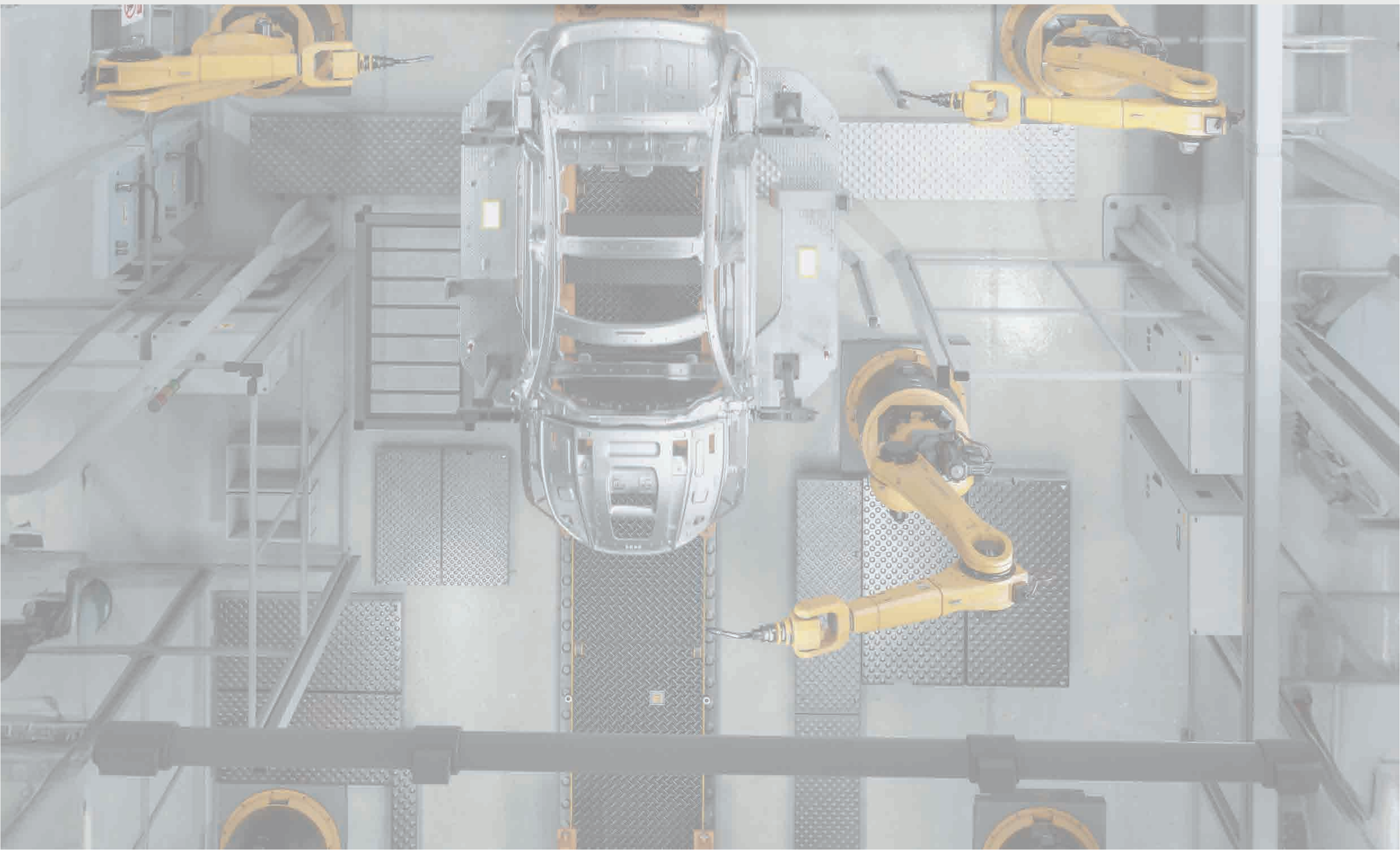

INDIA UNION BUDGET 2025

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