KATALYST ADVISORS

Katalyst Kaleidoscope

February 2025: The Union Budget 2025-26

OUR ANALYSIS ON UNION BUDGET 2025 – 2026

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A. Budget Overview

The Budget for 2025-2026 has proposed development measures focussing on the following key areas:

i. **Spurring Agricultural Growth and Building Rural Prosperity:** The Pradhan Mantri Dhan-Dhanya Krishi Yojana aims to spur growth in agriculture and benefit 1.7 crore farmers across 100 districts. To support lakhs of cotton-growing farmers, a 5-year Mission for Cotton Productivity will focus on improving productivity and sustainability. A National Mission on High Yielding Seeds will enhance the research ecosystem and develop high-yield, pest-resistant, and climate-resilient seeds. Bihar will see the establishment of a Makhana Board to boost makhana production, processing, value addition, and marketing. To achieve self-sufficiency (Atmanirbharta) in pulses, a 6-year mission will target increased productivity and the development of climate-resilient seeds, specifically focusing on Tur, Urad, and Masoor. Additionally, India Post will be repositioned to serve as a catalyst for rural economic growth.

ii. **Supporting MSME's and Furthering Make in India**: To help MSMEs achieve better efficiencies, technological upgrades, and access to capital, investment and turnover limits for MSME classification will be raised by 2.5x and 2x, respectively. Customized credit cards with a ₹5 lakh limit for micro-enterprises registered on the Udyam portal will be introduced, benefiting 5 lakh new entrepreneurs. A focus product scheme for the labor-intensive footwear and leather sectors will facilitate employment, turnover growth, and exports. The National Action Plan for Toys will promote India as a global hub for sustainable toys under the "Make in India" brand. In line with the "Purvodaya" vision, a National Institute of Food will be set up in Bihar. A new scheme will provide term loans of up to ₹2 crores for 5 lakh women, Scheduled Castes, Scheduled Tribes, and first-time entrepreneurs over the next five years. To support further industrial development, a National Manufacturing Mission will be launched to cover small, medium, and large industries. Access to credit will be enhanced through an expanded credit guarantee cover, and a new fund of funds with an additional ₹10,000 crore will be set up.

iii. **Investing in people:** The Saksham Anganwadi and Poshan 2.0 programmes will deliver nutritional support to children, pregnant women, and adolescent girls in aspirational districts and the northeast. Broadband connectivity will be provided to all government secondary schools and primary health centers under the BharatNet project. The Bharatiya Bhasha Pustak Scheme will improve subject comprehension among students. Daycare cancer centers will be established in all district hospitals. National Centers of Excellence for skilling will be set up with global expertise and partnerships. PM SVANidhi will be revamped to offer enhanced bank loans, UPI-linked credit cards, and capacity-building support. IIT capacity will be expanded with 10,000 additional seats to boost technical education.

iv. **Investing in Economy and Innovation**: To support infrastructure development, ₹1.5 lakh crore will be allocated for 50-year interest-free loans to states for capex. The Jal Jeevan Mission will be extended till 2028 with an increased budget to achieve 100% coverage. Power sector reforms will include incentives for improving the financial health and transmission capacity of electricity distribution companies. An Asset Monetization Plan 2025-30, targeting ₹10 lakh crore, will recycle capital into new projects. A ₹20,000 crore Nuclear Energy Mission will support the research and development of Small Modular Reactors, with at least five indigenously developed SMRs expected to be operational by 2033. Urban sector reforms related to governance, municipal services, and planning will be incentivized. Infrastructure-related ministries will develop a 3-year pipeline of projects for Public-Private Partnership implementation. To foster innovation, ₹20,000 crore will be allocated for private sector-led research and development initiatives. Mining sector reforms will focus on best practice sharing and the institution of a State Mining Index. The PM Research Fellowship will offer 10,000 fellowships for technological research in IITs and IISc.

v. **Promoting Exports:** An Export Promotion Mission will streamline access to export credit, cross-border factoring, and MSME support to tackle non-tariff barriers in international markets. The BharatTradeNet (BTN) platform will be developed as a unified digital public infrastructure for trade documentation and financing. A national framework will be formulated to guide states in promoting Global Capability Centres in emerging Tier-2 cities. Infrastructure and warehousing upgrades for air cargo, especially for high-value perishable horticulture products, will be prioritized.

vi. **Financial Sector Reforms**: NaBFID will set up a 'Partial Credit Enhancement Facility' for corporate bonds for infrastructure. A revamped Central KYC registry will be rolled out in 2025. Also, the FDI limit for the insurance sector will be raised from 74% to 100%. Grameen Credit Score' framework to serve the credit needs of SHG members and people in rural areas.

Fast Track Mergers: From an M&A perspective, the scope for fast-track mergers will also be widened and the process made simpler. Presently, fast track mergers are only applicable to mergers between small companies i.e., paid up capital of less than INR 4 Cr and turnover of less than INR 40 Cr, and merger involving wholly owned subsidiaries and holding companies. **In our view,** if fast track merger regime is extended to cases where there is no change in economic and beneficial ownership such as mirror image demergers, intra group restructurings, etc., then it would unclog the NCLTs, resulting in faster and more effective approval of deals involving schemes of arrangement and resolution of IBC cases.

vii. **Tax and Regulatory Reforms**: There are certain changes in direct and indirect tax law, as highlighted later. **However, in a major announcement, a proposal is made to introduce new Income Tax Bill later in February 2025.** The Jan Vishwas Bill 2.0 is aimed to decriminalize more than 100 provisions in various laws. A High-Level Committee for Regulatory Reforms will be set up for a review of all non-financial sector regulations, certifications, licenses, and permissions. Lastly, under the Financial Stability and Development Council, a mechanism will be set up to evaluate impact of the current financial regulations and subsidiary instructions.

Budget 2025 at a Glance

INR , lakh Crores

Particulars	2023-24 Actual Estimates	2024-25 Revised Estimates	2025-26 Budget Estimates
Net Tax Revenues	23.3	25.6	28.4
Non Tax Revenues	4.0	5.3	5.8
Total Revenue Receipts(A)	**27.3**	**30.9**	**34.2**
Capital Receipt (excluding Borrowings/ Other Liabilities) (B)	0.6	0.6	0.8
Total Revenue (C=A+B)	**27.9**	**31.5**	**35.0**
Revenue Expenditure (D)	34.9	37.0	39.4
Capital expenditure (E)	9.5	10.2	11.2
Gross Domestic Product	295.4	324.1	357.0
Revenue Deficit (A-D)	-7.7	-6.1	-5.2
% of GDP	-2.6	-1.9	-1.5
Fiscal deficit (C-D-E)	-16.5	-15.7	-15.7
% of GDP	-5.6	-4.8	-4.4

B. Key Mergers & Acquisitions/ Transaction related amendments

1. Restriction on Fresh Lease for Carry Forward of Business Losses

- **Proposed Amendment (with effect from FY 2025-26):** In case of an amalgamation, or succession of private limited company by an LLP, or succession of a partnership firm or a proprietary concern by a company, the period of carry forward of business losses will only be available for 8 years from the date when the predecessor company had originally incurred the losses, and a fresh lease of 8 years would not be available upon merger.

- **Impact of the Proposed Amendment:** Section 72A which deals with carry forward of business losses and unabsorbed depreciation was anyway restrictive since it provided for carry forward losses incurred by manufacturing entities, banks, power generation/ distribution companies, etc. It did not extend to NBFCs, new age tech companies, service-oriented companies, etc. This amendment would further constrict restricting the carry forward of losses only to the remainder of 8 years upon, inter alia, merger, thereby fettering the said section further.

2. Extension of Sunset Clause to Startups

It is proposed to extend the sunset clause for deduction of 100% profits of an eligible startup under section 80-IAC; this deduction, previously available for start-ups incorporated before April 1, 2025, will now be applicable for those incorporated up to April 1, 2030. The benefit continues for three consecutive years within ten years, subject to a turnover cap of INR 100 crore.

3. Clarification of Taxation of Business Trusts

Dividend, interest and rental income of REITs or InvITs are taxed in the hands of the unit holders and not in the hands of the REITs/ InvITs. However, income of REITs/ InvITs (other than dividend/ interest/ rental income) are taxable at maximum marginal rates, except in cases of short term capital gains on sale of listed equity shares under section 111A, or long-term capital gains on sale of listed/ unlisted equity shares (without grandfathering benefit of cost as on 31 January 2018 for listed shares under section 112). The said exception is sought to be clarified with respect to sale of listed equity shares with grandfathering benefit under section 112A, with effect from FY 2025-26.

4. Removal of TCS on sale of specified goods (including unlisted shares):

Section 206C(1H) of the Act requires any person being a seller who receives consideration for sale of any goods (including unlisted shares) of the value or aggregate of value exceeding Rs 50 lakhs in any previous year, to collect tax from the buyer at the rate of 0.1% of the sale consideration exceeding Rs 50 lakhs, subject to certain conditions.

Proposed Amendment (with effect from 1 April 2025): In order to reduce compliance burden on the taxpayers, it is proposed to remove said provision.

Impact of the Proposed Amendment: While TCS u/s 206C(1H) will no longer apply, buyers (whose business turnover exceeds INR 10 Cr in the preceding financial year) will still be required to deduct TDS u/s 194Q at 0.1% on payments exceeding Rs 50 lakhs in any previous year to a resident seller for the purchase of goods (including unlisted shares).

5. Characterization of income arising from securities transactions as Capital Gains for Investment Funds (Cat I and II AIFs)

Proposed Amendment (with effect from FY 2025-26): With a view to provide certainty in characterization of income arising from securities transactions for Investment Funds (Cat I and II AIFs) as capital gains, the definition of "Capital Asset" has been amended.

Impact of the Proposed Amendment: Any security held by Investment Funds referred to in Section 115UB (i.e. Cat I and II AIFs), if acquired in accordance with the SEBI regulations, will be treated as capital asset and therefore, any income arising from its transfer will be treated as capital gains, eliminating ambiguity in tax characterization.

6. Rationalization of long-term capital gains for non-residents:

The tax rate on long-term capital gains earned by specified funds (i.e., Category III AIFs) and Foreign Portfolio Investors (FPIs) on securities (other than units under Section 115AB) not covered u/s 112A is rationalized to 12.5% (earlier 10%), aligning it with the revised rates applicable to residents. This amendment will take effect from the FY 2025-26.

C. Cross-Border Taxation

1. IFSC Related Amendments

i. **Extension of sunset period for commencement of operations to 31 March 2030 with respect to:**
   a. income arising on transfer of aircraft or ship that was leased by an IFSC Unit;
   b. income attributable to investment division of Offshore Banking Unit;
   c. royalty or interest income of non-resident on account of lease of aircraft or ship to an IFSC Unit; and
   d. capital gains in the hands non-resident or IFSC Unit engaged in leasing of aircrafts or ships, on sale of IFSC company engaged in leasing of aircrafts/ ships.

ii. **Exemption on life insurance policy from IFSC Insurance offices:** It is sought to amend section 10(10D), with effect from 1 April 2025, to remove premium limits (₹2.5L for ULIPs and ₹5L for non-ULIPs) for life insurance policies issued by IFSC Insurance Offices, ensuring parity with foreign-issued policies. Accordingly, any life insurance proceeds received from such policies will be exempt from tax in India, irrespective of the premium amount.

iii. **Extension of capital gains and dividends received by a IFSC unit engaged in ship leasing:** Section 10(4H) and section 10(34B) are sought to be extended to IFSC units engaged in ship leasing (presently, only aircraft leasing). Accordingly, capital gains on sale of shares of a ship leasing IFSC unit by a ship leasing IFSC unit or a non-resident, and dividend received by a ship leasing IFSC unit would be exempt from tax.

iv. **Amendment of Section 10 related to Exempt Income of Non-Residents:** Section 10(4E) is sought to be amended to exempt income earned by non-residents on transfers of non-deliverable forward contracts, offshore derivatives, and related instruments when such transactions involve foreign portfolio investors (FPIs) operating as IFSC units (in addition to transactions with offshore banking units), with effect from FY 2025-26.

v. **Rationalization of Definition of 'Dividend' for Treasury Centres in IFSC:** Section 2(22)(e), which deems loans to shareholders, or to entities owned by common shareholders, as dividend, is sought to exclude applicability of deemed dividend provisions to advances or loans made by corporate treasury centers in IFSC. The said amendment, which will be effective from 1 April 2025, proposes that advances or loans between group entities, where one entity is a finance company or unit in IFSC acting as a global or regional treasury center, and the parent entity is listed on a foreign stock exchange, will not be treated as dividends.

vi. **Simplified Regime for Fund Managers Based in IFSC:** The proposed amendment to section 9A aims to simplify the regime for fund managers based in IFSC by rationalizing the condition on Indian resident participation (restricted to 5%) in eligible investment funds. It allows this condition to be met on either April 1 or October 1, with a 4-month grace period for compliance if not met.

2. Presumptive tax for NRs providing services/ technology to electronics manufacturing

To promote electronics manufacturing in India, a presumptive taxation regime is proposed for non-residents offering services or technology to resident companies. The proposed section 44BBD, which will come into effect from FY 2025-26, will deem 25% of receipts as taxable business income.

3. Extension of Tonnage Taxation benefits to inland vessels

The Tonnage Tax Scheme, introduced through the Finance Act, 2004 under Chapter XII-G of the Income-tax Act, provides the qualifying shipping companies an option to pay tax either under a tonnage tax regime or to continue with normal corporate tax regime. The said provisions are now proposed to be extended to inland vessels with effect from financial year FY 2025-26. Inland vessels will now be classified as "qualified ships" under Section 115VD, making them eligible for the tonnage tax regime, which is expected to attract investments and expand the fleet strength and thereby boost the inland water transportation industry.

4. Introduction of multi-year arms' length price determination for transfer pricing

Transfer Pricing rules require arm's length price (ALP) determination for international and specified domestic transactions. The process involves repetitive assessments for similar transactions over multiple years, leading to high compliance costs for taxpayers and administrative burden on tax authorities. To streamline this process, it is proposed to amend transfer pricing provisions, with effect from FY 2025-26, to provide that once the **ALP is determined for a particular year,** it will automatically **apply to similar transactions for the two consecutive previous years immediately following such previous year.** Assessee can opt for this scheme within a prescribed timeframe, subject to approval by the TPO to ensure consistency. Once opted in, no fresh ALP references will be required for these transactions.

5. **Extension of sunset clause for investments by sovereign wealth funds/ pension funds**

At present, section 10(23FE) provides tax exemptions to specified persons, such as SWFs and PFs, on income from dividends, interest, and long-term capital gains from investments in India, primarily in infrastructure. This section is sought to be amended to extend the sunset clause for making investments from 31 March 2025 to 31 March 2030. Further, it is clarified that long-term capital gains will continue to remain tax-exempt for SWFs and PFs, even if reclassified as short-term gains under Section 50AA

6. **Harmonization of 'Significant Economic Presence' applicability with 'Business Connection'**

Section 9 deems certain incomes to accrue or arise in India, including those from a "business connection" in India. While non-residents are exempt from tax on income from purchasing goods in India for export, Explanation 2A introduced the concept of "significant economic presence", which could unintentionally override this exemption. To address this, it is sought to amend Explanation 2A to explicitly exclude transactions limited to purchasing goods for export from being classified as significant economic presence.

D. Changes in Individual Taxation

1. Tax rates under the New Regime for individuals / HUF / AOP (w.e.f. F.Y. 2025-26)

Existing		Proposed	
Income slab (INR)	**Tax rate**	**Income slab (INR)**	**Tax rate**
Up to 3,00,000	Nil	Up to 4,00,000	Nil
3,00,001 – 7,00,000	5%	4,00,001 to 8,00,000	5%
7,00,001 – 10,00,000	10%	8,00,001 to 12,00,000	10%
10,00,001 – 12,00,000	15%	12,00,001 to 16,00,000	15%
12,00,001 – 15,00,000	20%	16,00,001 to 20,00,000	20%
More than 15,00,000	30%	20,00,001 to 24,00,000	25%
		More than 24,00,000	30%

- There is no change in the tax structure under the old tax regime.
- Rebate u/s 87A available till the income of INR 12,00,000 (i.e. INR 60,000); rebate not available on income from capital gains.
- Given standard deduction of INR 75,000 already available to salaried individuals, no tax for salaried individuals for income up to INR 12,75,000 (excluding income from capital gains).

2. Rule based limits in certain perquisites

It is proposed to amend Section 17, with effect from FY 2025-26, to allow the power to set rules for increasing the gross total income limit for employees so that:

a. the amenities and benefits received by employees (excluding directors or a person who has substantial interest in the company) would be exempt from being treated as perquisites (current limit being Rs. 50,000);
b. the expenditure incurred by the employer for travel outside India on the medical treatment of such employee or his family member would not be treated as a perquisite (current limit being Rs. 2,00,000)

3. Extension of exemption of self-occupied property to two properties

With effect from FY 2025-26, the annual value the annual value of a house or part of it will be considered nil if the owner lives in it or cannot occupy it for any reason. Previously, non-occupation was only allowed if the owner had to reside elsewhere due to their employment, business, or profession, in a building not belonging to them.

4. Rationalization of TDS Rates

- Changes in TDS Rate: TDS rate under section 194LBC (income payable by a securitisation trust to an investor, being a resident) of the Act is proposed to be reduced from 25% and 30% to 10% as this sector is sufficiently organized and regulated.

- Changes in TDS Threshold (w.e.f. 1 April 2025):

Section		Current Threshold	Proposed Threshold
193	Interest on Securities	NIL	Rs. 10,000
194A	Interest (other than Interest on Securities)	(i) Rs. 50,000/- for senior citizen;	(i) Rs. 1,00,000/- for senior citizen
		(ii) Rs. 40,000/- in case of Others when payer is bank, cooperative society and post office	(ii) Rs. 50,000/- in case of others when payer is bank, cooperative society and post office
		(iii) Rs. 5,000/- in other cases	(iii) Rs. 10,000/- in other cases
194	Dividend (Individual Shareholder)	Rs. 5,000	Rs. 10,000
194K	Income from units of mutual fund or specified company or undertaking	Rs. 5,000	Rs. 10,000
194B	Winning from lottery etc.	Rs. 10,000 (aggregate for the whole financial year)	Rs. 10,000 (single transaction)
194BB	Winning from horse race		

194D	Insurance commission	Rs. 15,000	Rs. 20,000
194G	Income by way of commission, prize etc. on lottery tickets	Rs. 15,000	Rs. 20,000
194H	Commission on brokerage	Rs. 15,000	Rs. 20,000
194-I	Rent	Rs. 2,40,000 during the financial year	Rs. 50,000 per month or part of the month
194J	Fee for professional or technical services	Rs. 30,000	Rs. 50,000
194LA	Income by way of enhanced compensation	Rs. 2,50,000	Rs. 5,00,000

5. Rationalization of TCS Provisions on LRS

It is proposed to increase the threshold limit for collection of tax at source by an authorized dealer in respect of amount remitted under the Liberalised Remittance Scheme from Rs. 7,00,000 to Rs. 10,00,000. Further, it is also proposed to remove TCS on remittances made for educational purposes, where such remittance is out of loan taken from a specified financial institution.

6. Profits on redemption of non-exempt ULIP taxable as capital gains

Section 10(10D) provides an exemption on the sum received under a life insurance policy, including bonus on such policy, where the premium payable for any year does not exceed 10% of the actual capital sum assured; this exemption is available only if the annual premium is up to INR 2,50,000. It has been clarified that the unit-linked life insurance policies (ULIPs) not eligible to claim the above exemption shall be considered as a capital asset, and the profits and gains from the redemption of such ULIPs will be taxable as capital gains.

Consequently, where STT is paid on redemption, the ULIP will be considered as a unit of an equity-oriented fund and long-term capital gains will be taxable at 12.5% (plus applicable surcharge and cess), and not as normal income.

7. Extension of Time Limit to file Updated Return

It is proposed to revise the timeline for filing updated return under section 139(8A) from 24 months to 48 months; consequently, the revised timelines and resultant additional tax payable shall be as follows:

Time Limited (from the end of relevant AY)	Additional Income Tax Payable (% of the aggregate tax and interest payable)
12 months	25%
12-24 months	50%
24-36 months	60%
36-48 months	70%

E. Key Indirect Tax Proposals

I. Key GST Related Changes

1. **ITC Distribution through ISD Mechanism:** The definition of Input Service Distributor (ISD) will be amended to allow the distribution of input tax credit (ITC) paid under the Reverse Charge Mechanism (RCM) for inter-state supplies, effective from 1 April 2025.

2. **Track and Trace Mechanism for High-Evasion Goods:** A new definition of 'Unique Identification Marking' has been introduced to support the implementation of a Track and Trace Mechanism for specified goods prone to tax evasion. This mechanism will help monitor the movement of goods through the supply chain using unique marks on products or packaging.

3. **Retrospective Amendment Nullifying the Safari Retreat Judgment:** The blocked credit provision under Section 17(5)(d) will be retrospectively amended from July 1, 2017, by replacing the term 'plant **or** machinery' with 'plant **and** machinery.' This amendment overrules the Supreme Court's *Safari Retreat* judgment, which allowed ITC for mall construction when used for rental services.

4. **Pre-Deposit for Penalty-Only Appeals:** For appeals involving penalties without any tax or interest demand, a 10% mandatory pre-deposit of the penalty amount will now be required to file an appeal before the Appellate Authority or Appellate Tribunal.

5. **Output Tax Reduction Linked to Recipient's ITC:** Section 34 of the CGST Act will be amended to ensure that a supplier can reduce their output tax liability through a credit note only if the recipient correspondingly reduces their input tax credit.

6. **Amendment to Schedule III for SEZ/FTWZ Transactions:** Transactions involving the supply of goods warehoused in Special Economic Zones (SEZs) or Free Trade Warehousing Zones

(FTWZs) before clearance for exports or Domestic Tariff Area (DTA) supply will be treated as neither goods nor services, effective July 1, 2017. No refunds will be granted for tax already paid on such transactions.

7. **No GST on Vouchers:** The time of supply provisions related to vouchers will be omitted, clarifying that GST is not applicable on transactions involving vouchers.

II. Key Customs Duty Proposals

1. **Time-Limit for Provisional Assessment:** A time limit of **2 years** has been prescribed for provisional assessment. An extension of 1 year can be provided under certain conditions.

2. **Abolishment of Settlement Commission:** The Customs, Central Excise, and Service Tax Settlement Commission (CCESC) will be abolished w.e.f. April 1, 2025. Pending applications will be dealt with by the newly proposed 'Interim Boards for Settlement'.

3. **Increase in Time-Limit for End Use of Imported Inputs:** The current 6-month time limit for fulfilling the end use of imported inputs will be extended to 1 year.

4. **Voluntary Declaration by Importers/Exporters:** New provisions allow importers/exporters to declare or revise facts post-clearance. Entries related to goods can be revised within a prescribed time frame and subject to certain conditions.

5. **Changes in Customs Duty Rates:**

   a. **Amendments to the First Schedule of the Customs Tariff Act, 1975:** Tariff rates of 25%, 30%, 35%, and 40% are proposed to be reduced to 20%.

   b. **Social Welfare Surcharge:** Exemption granted on 82 tariff lines, subject to a cess.

   c. **Life-Saving Drugs and Medicines:**
      - 36 new drugs and medicines added to the Basic Customs Duty (BCD)-exempted list.
      - 6 life-saving medicines included in the 5% BCD category.

   d. **Interactive Flat Panel Display (IFPD):** BCD increased from 10% to 20%.

   e. **Capital Goods Exemptions:** BCD exemption extended to:
      - 35 additional capital goods for EV battery manufacturing.
      - 28 additional capital goods for mobile phone battery manufacturing.

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