

# Union Budget 2025

## Insight into Key Direct & Indirect Tax Amendments

February 1, 2025



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The Finance Minister in her speech, has announced that a new Income-tax Bill will be introduced soon, replacing the Income-tax Act, 1961



## Direct Tax Amendments



# Individual Taxation

**Tax Slabs for FY 2024-25**

Sl.No	Total income	Rate of tax
1	Up to INR 3,00,000	Nil
2	From INR 3,00,001 to INR 7,00,000	5%
3	From INR 7,00,001 to INR 10,00,000	10%
4	From INR 10,00,001 to INR 12,00,000	15%
5	From INR 12,00,001 to INR 15,00,000	20%
6	Above INR 15,00,000	30%

**Tax Slabs for FY 2025-26**

Sl.No	Total income	Rate of tax
1	Up to INR 4,00,000	Nil
2	From INR 4,00,001 to INR 8,00,000	5%
3	From INR 8,00,001 to INR 12,00,000	10%
4	From INR 12,00,001 to INR 16,00,000	15%
5	From INR 16,00,001 to INR 20,00,000	20%
6	From INR 20,00,001 to INR 24,00,000	25%
7	Above INR 24,00,000	30%

- An assessee opting for the new tax regime with an income exceeding INR 24,00,000 is entitled to a tax benefit of INR 1,10,000

## Increase in Rebate Thresholds

- Section 87A of the IT Act offers a rebate on income tax for resident individuals whose total income, subject to tax under the new tax regime, does not exceed INR 7,00,000
- The total income threshold of INR 7,00,000 is proposed to be increased to INR 12,00,000
- An individual who is a resident of India will not be required to pay tax if their income, chargeable to tax under the new tax regime, does not exceed INR 12,00,000 (or INR 12,75,000 for salaried individuals, considering the standard deduction)
- Rebate not applicable to incomes taxable at special rates (like capital gains)

# Socio Economic Welfare Measures

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## Increase in limits for Perquisite Taxation for Employees

- Thresholds for salary/gross total income are proposed to be increased for calculating taxable perquisites to limits – to be prescribed by rules
- More employees will become eligible for tax-free perquisites on any amenities or benefits received from their employers, as well as for expenses incurred by the employer for travel outside India for the medical treatment

## Deduction in respect of deposits under National Savings Scheme (NSS)

- Section 80CCA of the IT Act currently taxes withdrawals (including accrued interest) from National Savings Scheme (NSS) accounts if deductions were claimed for deposits made on or before FY 1991-92
- Department of Economic Affairs' notification, effective October 1, 2024, stopped interest accrual on NSS balances, leading to taxable withdrawals from NSS accounts
- Proposed amendment provides a tax exemption on withdrawals (including accrued interest) made on or after August 29, 2024, for deposits on or prior to FY 1991-92
- Amendment effective from August 29, 2024, aligning tax provisions with the cessation of interest accruals

# Socio Economic Welfare Measures

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## Deduction under section 80CCD for contributions made to NPS Vatsalya

- Contributions made by parents or guardians to their minor child's pension account under the NPS Vatsalya Scheme are now covered under Section 80CCD(1B) This deduction remains within the existing limit of INR 50,000 per FY
- Withdrawals from the minor's account (including accruals) are taxable in the year of receipt in the hands of the parent/guardian
- Full exemption on withdrawal applies in the event of the minor's death
- 25% of the contributed amount will be tax-exempt incase of other withdrawals, subject to the conditions under the Pension Fund Regulatory and Development Authority Act, 2013

## Annual value of the self-occupied property simplified

- Current conditions requiring the owner to be employed or engaged in business/profession in a different location for non-occupation are proposed to be eliminated
- Simplifies the benefit by allowing taxpayers to claim 'Nil' annual value for any two-house properties they own, without restrictions

# Rationalization of Capital Gains

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## Categorization of income from Sale of Securities in the hands of Cat I and Cat II AIFs

- Cat I and Cat II AIFs enjoy pass through taxation for dividend, interest and capital gains and these incomes are taxed directly in the hands of the AIF unitholders
- Any business income arising to AIF is taxable at Maximum Marginal Rate of 39% and onwards distribution of this income to AIF unitholders is exempt from tax
- There was a debate on the categorization of the income from sale of securities held by the AIF as business income or capital gains, especially where the holding periods were short, or AIF has controlling stake
- Proposed amendment seeks to classify all securities held by Cat I and/or Cat II AIF as 'capital asset' – this is inline with the earlier amendment made for FII
- Consequently, gains from transfer of securities shall be taxed capital gains – long term/ short term in the hands of the AIF unitholders

## Alignment of Long-Term Capital Gains (LTCG) Tax Rate for FIIs and Specified Funds under Section 115AD

- LTCG arising to FIIs and Specified Funds (including AIFs) from sale of securities, other than listed equity shares, listed units of equity oriented mutual funds and listed units of business trust, are subjected to tax at 10%
- While the Finance (No. 2) Act, 2024 amended the tax rate on long-term capital gains under Section 112 and 112A of the IT Act to 12.5%, the corresponding change was not made in Section 115AD
- FIIs and Specified Funds exiting investments held in aforesaid listed securities will be taxed at 12.5% from April 1, 2025 (aligned with LTCG rate)
- Gains from transfer of long-term listed equity securities (including units of equity-oriented funds and REIT) shall continue to be taxed at 12.5%

## Extension of Tax Exemption for Sovereign Wealth Funds and Pension Funds

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- 'Specified persons' are eligible for exemption on certain income like interest, dividend, long term capital gains on their investment in infrastructure sector, if such investment is made by March 31, 2025
  - 'Specified persons' include Abu Dhabi Investment Authority, wholly owned subsidiary of Abu Dhabi Investment Authority, sovereign wealth funds and pension funds
- Sale of unlisted debt securities or market linked debentures or specified mutual funds were deemed as short-term capital gains under Section 50AA, irrespective of the holding period for specified persons as well and no exemption was available
- Capital gains from unlisted debt securities/ market linked debentures/ specified mutual funds even if deemed as short-term capital gains under Section 50AA, would be eligible for exemption if the same qualifies as a long-term capital (i.e. more than twenty four months) asset based on its period of holding
- Sunset date for investment by specified persons has been extended to March 31, 2030



# Trust Related Amendments

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## Extending the registration period of Smaller Trusts/ Institutions

- Registration for trusts or institutions is granted for a period of 5 years and if the activities of the trust or institution have not yet commenced, then the provisional registration shall be valid for 3 years
- At the expiry of the registration or provisional registration, the trust or institution must reapply for further registration
- Registration period is proposed to be extended to 10 years (instead of 5 years) for trusts with income under INR 5 crores (without giving effect to the provisions of Sections 11 and 12 of the IT Act)
  - Income during the last two years preceding the year in which the application is made will be considered

## Relaxation to the grounds for cancellation of registration under Section 12AB

- Currently, incomplete applications are regarded as a "specified violation" and can lead to the cancellation of registration granted under Section 12AB of the IT Act to charitable trusts/ institutions
- Grounds for cancellation of registration are proposed to be relaxed by excluding incomplete applications from the ambit of "specified violation", enabling the Trusts to complete applications for registration

## Enhancement of threshold limit for "substantial contribution"

- If a charitable trust or institution uses its income for the benefit of persons listed in Section 13(3), such income will not be eligible for exemption
- Section 13(3), amongst others, includes any person who has made a substantial contribution (exceeding INR 50,000) to the trust or institution up to the end of the relevant year, relative of such person or concern in which such person has substantial interest
- Substantial contribution threshold has been increased to INR 1 lakh during the relevant year, or more than INR 10 lakhs in total by the end of the relevant year

# Rationalisation of Withholding Tax Provisions

Section	Particulars	Change in threshold limit	
		Old	New
193	Interest on securities	Nil*	10,000
194	Dividends	5,000	10,000
194A	Interest other than 'Interest on securities'		
	• For senior citizens^	50,000	1,00,000
	• Others^	40,000	50,000
	• Other cases	5,000	10,000
194B	Winnings from lottery or crossword, etc.	> 10,000 during the FY	10,000 per transaction
194BB	Winnings from horse race		
194D	Insurance commission	15,000	20,000
194G	Commission, etc on sale of lottery tickets	15,000	20,000
194H	Commission or brokerage	15,000	20,000
194-I	Rent	2,40,000 during the financial year	50,000 per month or part of the month
194J	Fee for professional or technical services	30,000	50,000
194K	Income in respect of units (mutual fund or specified company)	5,000	10,000
194LA	Payment of compensation on acquisition of certain immovable property	2,50,000	5,00,000

^If the payer is a bank, cooperative society and post office as prescribed under the provisions of Section 194A of the Income-tax Act, 1961

# Rationalisation of Withholding Tax/ TCS Provisions

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## Removal of Higher TDS/ TCS for Non-Filers of Return of Income

- Abolition of 0.1% TCS on sale of goods (that used to apply where TDS was not applicable owing to turnover thresholds)
  - Typically used to cover even sale of shares, businesses, etc.
- Abolition of TCS on remittance of funds related to education abroad to the extent funded by loan from specified financial institutions (earlier 1.5%)
- Increase in TCS applicability threshold from INR 7 lakhs to INR 10 lakhs for remittances under LRS
- Threshold for applicability of higher rate of TCS (20%) on sale of overseas tour program packages increased from INR 7 lakhs to INR 10 lakhs

## Removal of Higher TDS/ TCS for Non-Filers of Return of Income

- Sections 206AB and 206CCA mandate higher TDS/TCS rates for non-filers of income tax returns
- Deductors/ collectors are required to verify the Income-tax return compliance status of deductees/collectees, increasing compliance burden and operational inefficiencies
- Sections 206AB and 206CCA will be omitted, removing higher TDS/ TCS rates for non-filers
- Henceforth, higher withholding rates will apply only in cases where no PAN is available (Section 206AA)

## Exemption from prosecution for delayed payment of TCS

- Waiver of prosecution provisions where taxes collected at source during a quarter have been deposited with the Government before the due date for filing TCS returns for such quarter

# Assessment Provisions

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## Block Assessment Provisions

- The proposed amendment to Section 158BB appears to enable the Assessee to declare undisclosed income in the return furnished under Section 158BC
- Virtual digital assets proposed to be included in the ambit of undisclosed income for search and requisition assessment cases
- The time limit for block assessment is extended from 12 months from end of the month in which the last of the authorisations for search was executed to 12 months from end of the quarter
- Penalty provisions under Section 271AAB applicable to search initiated post December 15, 2016 would not be applicable in respect of searches initiated on or after September 01, 2024

## Other Provisions

- Period from the date a court grants a stay (by order or injunction) until the date the specified tax authority receives the certified copy of the order vacating that stay is excluded when computing the time limit for concluding the specified proceedings
- Timelines for imposing penalty rationalized to six months from the end of the quarter in which the orders pertaining to assessment/appeal/revision have been passed
- Assessing Officer (AO) is empowered to levy penalties instead of the Joint Commissioner by amending Sections 271C, 271CA, 271D, 271DA, 271DB, and 271E
  - AO must obtain prior approval from the Joint Commissioner, if penalty exceeds INR 10,000 for Income-tax Officers and INR 20,000 for ACIT/ DCIT

# Multi-Year Arm's Length Price (ALP) Determination

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- Introduction of multi-year ALP determination provisions by Transfer Pricing Officer (TPO) for similar transactions
- ALP computed by TPO of a previous year will apply to the next two consecutive years
- Assessee must opt for this scheme in a prescribed format, this option is only available where ALP is assessed by TPO, not at the discretion of the assessee
- TPO shall validate the option within a month
- AO to recompute income based on multi-year ALP without fresh reference to the TPO, if option is exercised by the Assessee
- Reduces compliance burden on businesses and administrative workload on tax authorities
- Facilitates tax certainty and faster TP assessments
- A positive reform that enhances efficiency and predictability in transfer pricing by allowing multi-year ALP determination by TPO
- While it reduces compliance and administrative burden, the Assessee does not have discretion to adopt any other ALP other than the ALP by the TPO



# Extension of the Time-limit for Updated Return

- Updated return can be filed to disclose any unassessed or untaxed income by payment additional taxes
- The time-limit allowing an assessee to file updated return is proposed to be increased from 24 months to 48 months
- Updated return cannot be filed if a show-cause notice under Section 148A (notice issued by tax authority suggesting that income has escaped assessment) is issued after 36 months from the end of relevant AY
- However, if it is determined that the case does not warrant a notice under Section 148, the updated return can be filed up to 48 months

Time period within which updated return is filed	Additional Tax*
<b>Current Provisions</b>	
Within 12 months	25%
Post expiry of 12 months upto 24 months	50%
<b>Proposed Amendment</b>	
Within 12 months	25%
Post expiry of 12 months upto 24 months	50%
Post expiry of 24 months upto 36 months	60%
Post expiry of 36 months upto 48 months	70%

\*Note: Additional tax shall be payable as a % of aggregate tax and interest applicable on the unassessed income

# Other Amendments

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## Carry Forward of Business Losses in Case of Amalgamation

- Currently, merger of eligible entities results in a fresh lease of 8 years carry forward of business losses of the transferor company post amalgamation
- Proposed amendments restrict fresh 8 years period for carry forward of business losses post-amalgamation or business reorganization
- Cap of 8 years shall be considered from the year of original losses in the predecessor/ transferor entity
- Amendment aligns provisions with general business loss carry forward position and demerger, ensuring uniformity in loss carry-forward rules
- Eliminates indefinite carry forward or evergreening of tax losses through successive mergers or business reorganization
- No impact on carry forward of unabsorbed depreciation on amalgamation, given unabsorbed depreciation can be carried forward indefinitely

## Virtual Digital Asset (VDA)

- Finance Bill 2025 proposed to expand the definition of virtual digital assets under Section 2(47A) to include any crypto asset that relies on cryptographically secured distributed ledger technology
- This ensures that all forms of digital assets, even those not explicitly covered earlier, fall under the tax framework
- Finance Bill has proposed to introduce Section 285BAA casting an obligation on a reporting entity (to be prescribed) to furnish information in respect of transaction of crypto-asset

# Other Amendments

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## Extension of Start-up Tax Holiday under Section 80-IAC

- Eligible start-ups are entitled to a tax-free window on business income for any 3 consecutive years out of a block of 10 years from the date of its incorporation
- One of the conditions to qualify as an eligible start-up includes, inter alia, incorporation/ registration of such entity before April 1, 2025
- It is proposed to extend the eligibility criteria to start-ups incorporated/ registered before April 1, 2030

## Removal of time limit for issuance of Directions for Faceless Schemes

- Section 92CA, 144C, 253, 255 of the Act provides that the Central Government may issue directions for applicability or non-applicability of the provisions under respective sections in accordance with the faceless schemes to be introduced
- However, it is currently provided that no such guidelines shall be issued post March 31, 2025
- The end date for providing guidelines w.r.t the faceless schemes is proposed to be omitted

## Income from redemption of Unit Linked Insurance Policy

- The redemption of unit linked insurance policy where the premium did not exceed INR 2,50,000 but exceeded 10% of the assured amount was not specifically made taxable under the head 'capital gains' or 'income from other sources'
- It is now proposed to tax the redemption of such ULIPs under the head 'Capital Gains'

# Other Amendments

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## Significant Economic Presence

- Non-residents engaged solely in the business of purchase of goods in India for the purpose of export will not be considered to have a "significant economic presence", ensuring such activities do not create a business connection in India
- This amendment brings consistency with existing provisions of Section 9 in relation to business connection

## Gains from listed securities in the hands of Business Trusts

- Long term capital gains on capital assets such as listed securities, units of equity-oriented MF, units of business trust under Section 112A was not specifically excluded from the income which is taxed at MMR for a business trust
- It is being proposed that capital gains from capital assets provided in Section 112A shall be taxed at the rate of 12.5%++ instead of MMR



## IFSC Specific Direct Tax Amendments



# IFSC Specific Direct Tax Amendments

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## Extension of sunset dates for several tax concessions pertaining to IFSC

The sunset dates for commencement of operations of IFSC units for several tax concessions or relocation of funds to IFSC, as mentioned below, are proposed to be extended to March 31, 2030 in place of March 31, 2025

- Section 80LA tax holiday on business profits to an eligible assessee, including a unit set up in IFSC engaged in leasing aircraft or a ship
- Section 10(4D) exemption to specified funds on specified income that is attributable to the units held by a non-resident (not having a permanent establishment in India) or is attributable to investment division of an offshore banking unit set up in IFSC
- Section 10(4F) exemption on income by way of royalty or interest on account of leasing of an aircraft or a ship, paid by an IFSC unit
- Section 10(4H) exemption on income arising from transfer (within a specified period) of equity shares of domestic company, being an IFSC unit, engaged primarily in the business of leasing of an aircraft (sunset was March 31, 2026)
- Exemption on relocation of specified offshore funds to IFSC as defined under Section 47(viia), subject to certain conditions

# IFSC Specific Direct Tax Amendments

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## Extension of relocation benefit to Retail Scheme and Exchange Traded Funds

- The IT Act currently provides tax exemption (for the fund as well as its shareholders/ interest holders) for relocation of specified foreign funds to IFSC who register as AIFs in the IFSC
- This exemption is now proposed to be extended to relocation of funds to IFSC who register themselves as Retail Scheme or Exchange Traded Funds

## Exemption for transfer of Specified Securities to an FPI

- Section 10(4E) provides tax exemption to non-residents for income from transfer of specified securities entered into with an offshore banking unit of an International Financial Services Centre
- Specified securities include non-deliverable forward contracts or offshore derivative instruments or over-the-counter derivatives, or distribution of income on offshore derivative instruments
- This exemption is now proposed to be expanded to transactions entered into with Foreign Portfolio Investor being an IFSC unit as well

## Remedial window for satisfaction of conditions to claim 'no business connection' by a Fund and Fund Manager

- A non-resident fund to be eligible for the exemption from business-connection based taxation, inter-alia, should not have Indian resident investors holding more than 5% in the fund
- For ease of administration, amendments are proposed to be introduced to determine the 5% thresholds on 2 dates in a year (1 April and 1 October)
- A remedial window of 4 months has been provided to adhere to the 5% threshold in case of a breach

# IFSC Specific Direct Tax Amendments

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## Rationalisation of definition of 'dividend' for Treasury Centers in IFSC

- Under the current provisions of the income-tax law, any loan provided by a closely held company to its shareholders/ related entities (subject to thresholds) is considered as dividend
- There is an exemption for loans provided in the ordinary course of business by companies, whose principal activity is lending
- There was no similar enabling provision for Treasury Centres established in IFSC
- It is proposed to exclude loans between group entities, where one is an IFSC finance company/ unit set-up as a corporate treasury centre, if the parent entity/ principal entity of the group is listed in stock exchanges outside India (except in specified jurisdictions), subject to prescribed conditions

## Exemption on life insurance policy from IFSC Insurance Offices

- Section 10(10D) provides exemption on any sum received under a life insurance policy (including those issued by IFSC Insurance Offices), subject to specified cap on the premium payable
- It is proposed to amend the Section 10(10D) to provide that the proceeds received on life insurance policy issued by IFSC insurance intermediary office shall be exempted without any cap on the maximum premium payable

## Exemption to capital gains and dividend for ship leasing units in line with aircraft leasing units in IFSC

- Exemption is provided to non-residents and an IFSC unit engaged in the business of leasing of an aircraft on capital gains tax on transfer of equity shares of domestic companies being an IFSC unit
- Dividend paid by a company being an IFSC unit engaged in aircraft leasing, to a unit of IFSC engaged in aircraft leasing is also exempt
- The above exemptions have been extended to units engaged in the business of ship leasing



# Indirect Tax Amendments

# Legislative Amendments pursuant to GST Council Meetings

## Input Tax Credit and ISD Mechanism

- Section 17(5)(d) of the CGST Act is proposed to be amended to replace the term **"plant or machinery"** with **"plant and machinery"**, effective retrospectively from July 01, 2017
  - Judgement of Hon'ble Supreme Court in the case of Safari Retreats is sought to be nullified
- Amendment in Input Service Distributor (ISD) definition to explicitly provide for distribution of input tax credit in respect of inter-state supplies liable to tax under reverse charge, effective from April 1, 2025

## Vouchers and Credit notes

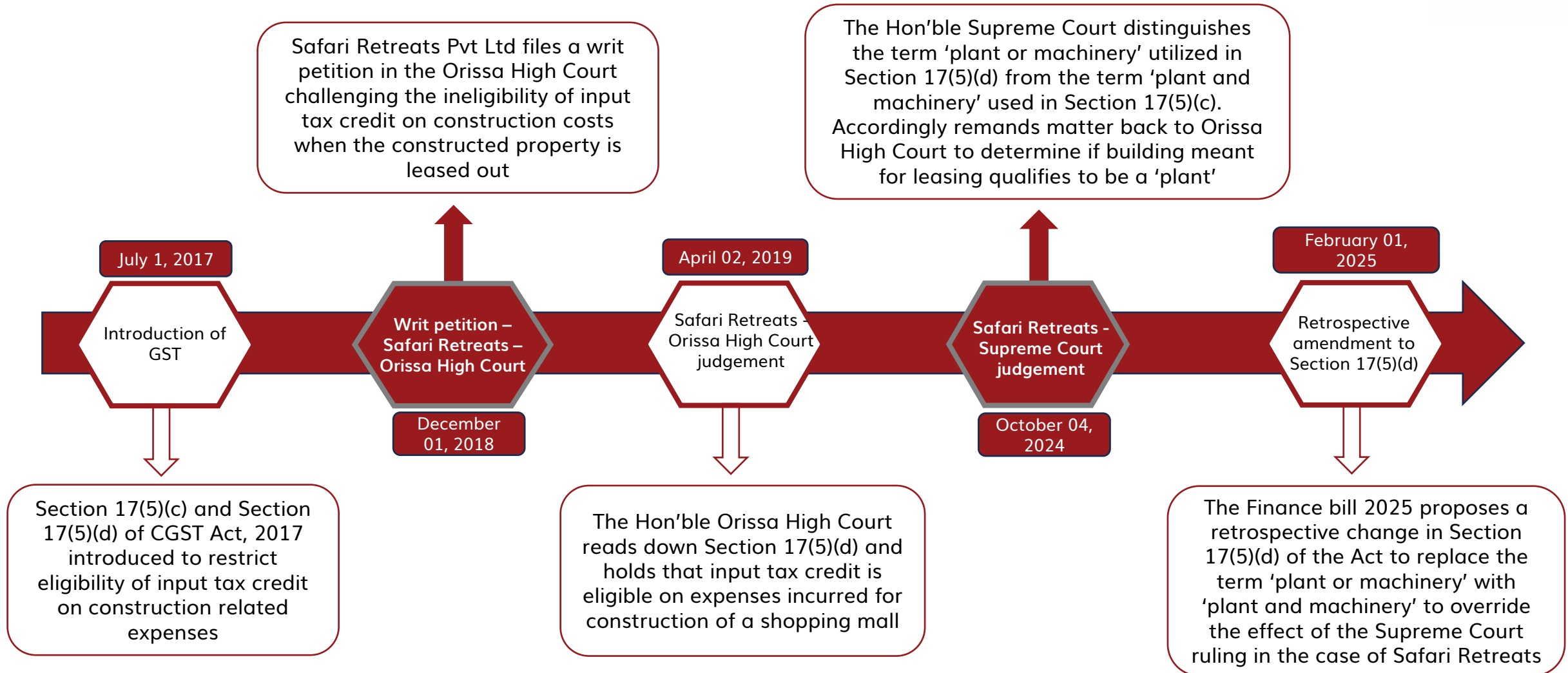
- Provisions related to time of supply of vouchers are proposed to be deleted. This is pursuant to GST Council's Recommendation and recent circular clarifying that transaction in vouchers does not qualify as supply of goods or services
- As similar to the Credit Notes (CNs) for post sale discounts, the condition for reversal of corresponding input tax credit has been inserted in respect of all CNs, if availed, by the registered recipient, for the purpose of reduction of tax liability of the supplier in respect of the said CNs

## Miscellaneous

- Section 107(6) and 112(8) of CGST Act is being amended to provide for 10% mandatory pre-deposit of penalty amount for filing appeals before Appellate Authority and Appellate Tribunal against an order involving only demand of penalty without any demand for tax
- New section 148A is inserted for implementation of the Track and Trace Mechanism for ensuring effective monitoring and control of supply of specified commodities, with corresponding penal provisions
- Retrospective amendment w.e.f. July 1, 2017 in Schedule III of the CGST Act to provide that supply of goods warehoused in a SEZ or FTWZ to any person before clearance for exports or to the Domestic Tariff Area shall neither be treated as supply of goods nor as supply of services



# Key Milestones in eligibility of ITC on Construction Expenses



## Amendments in Customs Law

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- A new sub-section (1B) is inserted in Section 18 of Customs Act, 1962 to provide a definite time limit of two years for finalisation of provisional assessment by the proper officer; extendable by one year if warranted
- A new sub-section (1C) is inserted in the above section to provide for certain grounds on which the time-limit of two years for finalizing provisional assessment shall remain suspended
- New Section 18A is introduced to enable importers and exporters, after clearance of goods, to voluntarily declare material facts and allowing the self revision of entries related to such goods by paying duty with interest but without penalty, subject to prescribed conditions
- Provisions related to 'Interim Board' are introduced into the Customs and Central Excise Law. The powers and functions of the existing Settlement Commission shall be exercised or performed by the Interim Board
- End date for receipt of applications before Settlement Commission prescribed as March 31, 2025. All pending applications before Settlement Commission shall be disposed by Interim Board to be constituted
- Customs (Import of Goods at Concessional Rates or For Specified End Use) Rules, 2022 are being amended to increase the time-limit for fulfilling end-use of imported inputs from existing 6 months to 1 year and to provide for filing of quarterly statement instead of monthly statement

# Amendments in Customs Tariff

## Rate benefits

- Exemption of Social Welfare Surcharge (SWS) has been provided on certain goods such as footwear, motor vehicle, articles of gold, silver, etc.
- Relief has been provided by way of reduction in Basic Customs Duty for certain goods in various sectors

### Motor Vehicle

Motor Car (from 125% to 70%)

Motor Vehicle for transport of 10 or more (from 25%/40% to 20%)

Motor Vehicle for transport of goods (from 25%/ 40% to 20%)

### Drug Sector

Exemption/ concessional rate benefit on life saving drugs or medicines extended upto 31.03.2029

(from 5% to 'Nil')

### Minerals Sector

Molybdenum, Tungsten, Zirconium and Vanadium Ores and concentrates

(from 2.5% to 'Nil')

### Consumer Goods

Knitted fabric [from '10% or 20%' to '20% or ₹115 per kg' (whichever is higher)]

Footwear (from 35% to 25%)

### Gems and Jewellery

Platinum findings

(from 25% to 5%)

# Thank You

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