SHARP & TANNAN

UNION BUDGET

2025 - 26

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INTRODUCTION

The Union Budget 2025-26 positions India as a self-reliant and a fastest-growing economy.

On the direct taxation front, it focuses on reducing taxes for the middle-class leaving more disposable income, boosting household consumption, savings and investment. On the indirect taxation front, it aims to rationalize tariff structure and address duty inversion to support domestic manufacturing and value addition, promote exports, facilitate trade and provide relief to common people.

A new tax bill is expected soon whose aim is to increase tax certainty and reduce scope for litigation through simplification and concise legislation.

The Budget prioritises four growth engines of the Indian economy, viz. agriculture, MSMEs, investment and exports while announcing supportive and business-friendly policies. It initiates transformative reforms across urban development, power sector and mining while strengthening the taxation, regulatory and financial sector reforms.

The Budget proposals have favourably impacted various sectors, among which are:

Real estate and infrastructure: The policy announcements will boost the investments in the real estate and infrastructure sector to meet the proposed reforms like:

- Developing cities as growth hubs
- Creative redevelopment of cities
- Greenfield airports in Bihar
- Warehousing facility for air cargo
- Launch of a modified UDAN scheme to enhance regional connectivity to 120 new destinations
- Support to the states for meeting the infrastructural needs

Automobiles: BCD is exempted on 35 additional capital goods used for EV battery manufacturing. This will encourage imports of capital goods required for the automobile industry and increase the production of electric vehicles.

Banking, Financial Services and Insurance (BFSI) sector

The FDI limit for the insurance sector is proposed to be raised from 74% to 100%. This enhanced limit will be available to those companies who invest the entire premium in India. This move will secure the market share of the existing insurance companies while increasing the FDI inflows into the sector.

The lending by banks and NBFCs to implement the various MSME and Make in India schemes gives a boost to this sector through:

- Facilitation of short-term loans for 7.7 crore farmers, fishermen and dairy farmers with enhanced loan of INR 5 lakhs.
- Issue of customised credit cards to micro-enterprises and providing loans to the first-time entrepreneurs.
- Term loans of upto INR 20 crores to well-run exporter MSMEs.
- Issue of credit cards with an INR 5 lakh limit for micro-enterprises registered on the Udyam portal.
- Significant enhancement of credit availability with guarantee cover to MSMEs and Startups.

In addition, various reforms are announced for agriculture, digital services, shipping, MSME and the food processing sectors, discussed in the upcoming chapters.

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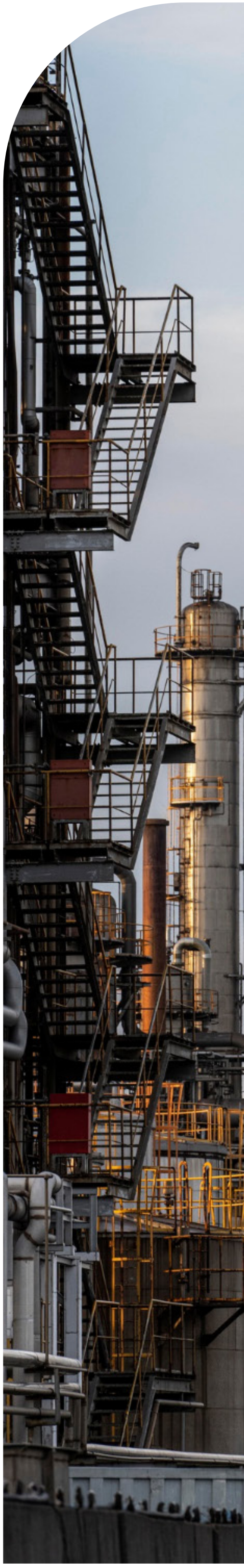


EXECUTIVE SUMMARY

The Union Budget 2025-26 focuses on 4 engines of development namely agriculture, MSME, investment and exports. These development measures mainly focus on the Garib (Poor), Youth, Annadata (Farmer) and Nari (Women) to attain the below mentioned 5 aspirations for Viksit Bharat.

1. Accelerate growth
2. Secure inclusive development
3. Enhance spending power of India's rising middle class
4. Invigorate private sector investments
5. Uplift household sentiments

In the Budget session, the honourable finance minister proposed to introduce a new income-tax bill next week, which will be clearer, more concise, and easier to understand, ensuring tax certainty and reducing litigation.

TAX PROPOSALS

Direct tax proposals - Key highlights

Direct taxes - Corporate

- Period of validity of registration of trust/institution increased from 5 years to 10 years.
- Purchase of goods for the purpose of exports will not be regarded as significant economic presence for non-residents in India.
- The benefit of section 80IAC is extended to start-ups incorporated upto 31.03.2030.
- Carry forward of losses in case of amalgamation to be allowed to the successor company for 8 years succeeding the assessment year in which the loss was originally computed.
- The arm's length price for similar international transactions would now be determined for a block period of 3 years subject to option being exercised by the assessee.
- The time limit to file updated return has been extended from 2 years to 4 years.

Direct taxes - Personal

- Income tax slabs and tax rates changed under the new tax regime.
- No tax for individuals earning income upto INR 12 lakhs. Standard deduction of INR 75,000 for salaried persons remains the same.
- Rebate under section 87A increased from INR 25,000 to INR 60,000.
- ULIP to which exemption under section 10(10D) does not apply will be taxable under the head 'Capital gains.'
- Withdrawal of deposits in National Savings Scheme claimed as deduction in FY 1991-92 and earlier, shall be exempt from tax on or after 29.08.2024.
- Taxpayers can now claim "NIL" Annual value for 2 self-occupied properties without any conditions.
- Threshold limits for TDS deduction have been revised.
- TCS under section 206C(1H) on sale of specified goods is abolished.
- TCS threshold for remittance under Liberalised Remittance Scheme (LRS) has been increased from INR 7,00,000 to INR 10,00,000.
- Higher TDS rate prescribed for non-filers of return of income u/s 206AB and 206CCA has been removed.

Indirect tax proposals

Rationalisation of customs tariff structure for industrial goods

- Removal of 7 tariff rates.
- Not more than one cess or surcharge to apply (hence SW surcharge removed for items on which AIDC surcharge imposed).
- Apply equivalent cess to maintain effective duty incidence on most items and lower cess on certain items.

Sector-specific proposals

- **Make in India:** BCD exemption to certain inputs for LED/LCD TV, looms for textiles, capital goods for lithium ion battery of mobile phones and EVs.
- **Export promotion:** Duty free inputs for handicraft, marine products and leather sector.
- **Trade facilitation:** Time limit fixed for finalisation of provisional assessment; new provision for voluntary declaration of material facts post clearance and duty payment with interest but without penalty; IGCR

Rules amended to extend time limit to 1 year and file quarterly statement instead of monthly.

Improved access to lifesaving medicines

- 36 lifesaving drugs/medicines: exemption of BCD is extended by 4 years.

S. No	Description (Sector-specific)	New end date
1	Bulk drugs for the manufacture of drugs or medicines [A separate entry is being created for Drugs, medicines, diagnostic kits specified in List 3 with modifications in the list]	31.3.2029
2	Bulk drugs used in the manufacture of polio vaccine and Monocomponent insulins	31.3.2029
3	Bulk drugs used in the manufacture of life-saving drugs or medicines [A separate entry is being created for Drugs, medicines, diagnostic kits]	31.3.2029
4	Drugs, Medicines or Food for Special Medical Purposes (FSMP) used for treatment of rare diseases	31.3.2029

- 6 medicines in 5% duty list.
- 37 medicines and 13 new patient assistance programmes in exempt list.

Key legislative changes in Customs Act, 1962

A new sub-section (IB) is being inserted in section 18 of the Customs Act, 1962 to provide a definite time limit of 2 years for finalisation of provisional assessment. It also provides that this period may be extended by the Commissioner of Customs for a further period of 1 year if sufficient cause is shown.

Implication

This amendment is designed to put a time frame to the conclusion of provisional assessments and avoid delays in the crystallization of the final assessment/final tax impact. This amendment will be effective from the date of assent of the Finance Bill, 2025.

Key legislative changes in the Central GST ('CGST') Act

- **Distribution of ITC by Input Service Distributors:** Clause (61) of section 2 of the CGST Act is being amended to explicitly provide for the distribution of input tax credit by the Input Service Distributor in respect of inter-state supplies on which tax has to be paid on reverse charge basis. This amendment will be effective from 1 April 2025.
- **Amendment to section 17(5)(d)**
  Clause (d) of sub-section (5) of section 17 is being amended to substitute the words 'plant or machinery' with the words 'plant and machinery.' This amendment will be effective retrospectively from 1 July 2017, notwithstanding anything to the contrary contained in any judgment, decree or order of any court or any other authority.

  Comment: This action aims to counteract the impact of the recent Supreme Court judgment in the Safari Retreats case, which broadened the exemption from blocked credits under Section 17(5)(d).

Other proposals (non-tax)

Financial sector reforms

- FDI limit for the insurance sector will be raised from 74% to 100%.
- A forum for regulatory coordination and development of pension products will be set up.
- Requirements and procedures for speedy approval of company mergers will be rationalized. The scope for fast-track mergers will also be widened and the process made simpler.
- To encourage sustained foreign investment and in the spirit of 'first develop India', the current model of Bilateral Investment Treaties will be revamped and made more investor friendly.
- A High-Level Committee for Regulatory Reforms will be set up for a review of all non-financial sector regulations, certifications, licenses, and permissions. The objective is to strengthen trust-based economic governance and take transformational measures to enhance 'ease of doing business', especially in matters of inspections and compliances.
- An Investment Friendliness Index of States will be launched in 2025 to further the spirit of competitive cooperative federalism.

Exports

- National framework to be formulated as guidance to states for promoting Global Capability Centres in emerging tier 2 cities.
- Support to MSMEs to tackle non-tariff measures in overseas markets.
- To facilitate the upgradation of infrastructure and warehousing for air cargo.
- BharatTradeNet: To set up of a unified platform for trade documentation and financing solutions.
- Support for integration with Global Supply Chains.

- Facilitate upgradation of infrastructure and warehousing for air cargo including high-value perishable horticulture produce. Cargo screening and customs protocols will be streamlined and made user-friendly.

Agriculture

- Loan limit under the Modified Interest Subvention Scheme will be enhanced from INR 3 lakh to INR 5 lakh for loans taken through the Kisan Credit Card Scheme.
- Developing Argi Districts Programme under Prime Minister Dhan-Dhaanya Krishi Yojana to cover 100 Districts and likely to help 1.7 crore farmers.
- Makhana Board to be set up in Bihar to improve production, processing, value addition, and marketing of makhana through organisation of Farmer Producer Organisations (FPOs).
- Other initiatives include: the launching of a 6-year Mission for Aatmanirbharta (self-reliance) in pulses, 5-year Mission for Cotton Productivity, National Mission on High Yielding Seeds to be launched.
- Enabling framework for sustainable harnessing of fisheries from Indian Exclusive Economic Zone and High Seas, with special focus on Andaman & Nicobar and Lakshadweep Islands.
- Reopening of three dormant urea plants and setting up a urea plant in Namrup, Assam.
- India Post to be repositioned to act as catalyst for the rural economy and to be transformed as a large public logistics organization.
- Support to National Cooperative Development Corporation for its lending operations in the co-operative sector.

MSME

- Investment and turnover limits for classification of MSMEs to be enhanced – for achieving higher efficiencies of scale, technological upgradation and better access to capital.
- Credit guarantee cover for MSMEs to be enhanced.
- Customised Credit Cards with an INR 5 lakh limit for micro-enterprises registered on Udyam portal.
- New Fund of Funds to be set up with expanded scope and fresh contribution to support Alternate Investment Funds (AIFs) for startups.
- New scheme to be launched for 5 lakh women, Scheduled Castes and Scheduled Tribes first-time entrepreneurs to provide term loans up to INR 2 crore during the next 5 years.
- Establishment of a National Institute of Food Technology, Entrepreneurship and Management in Bihar.
- Introduction of Focus Product Scheme for Footwear & Leather Sectors to facilitate employment, increase in turnover and exports.
- Measures for the toy sector to make India the global hub for toys.
- Setting up of National Manufacturing Mission covering small, medium and large industries for furthering "Make in India" by providing policy support, execution road maps, governance and monitoring framework for central ministries and states.
- Support to clean tech manufacturing to build ecosystem for solar PV cells, EV batteries, motors and controllers, electrolyzers, wind turbines, very high voltage transmission equipment and grid scale batteries.

Investment

Investing in people

- Expansion of Capacity in IITs.
- Day care cancer centres in all district hospitals.
- 50,000 Atal Tinkering Labs to be set up in government schools in next 5 years.
- Broad band connectivity to all Government secondary schools and primary health care centres in rural areas.
- Centre of Excellence in Artificial Intelligence for education with a total outlay of INR 500 crore.
- Expansion of medical education: 10,000 additional seats with the goal of adding 75,000 seats in the next 5 years.
- Social Security Scheme for welfare of online platform workers. Arrangement for their identification cards and registration on the e-Shram portal.

Investing in the economy

- Each infrastructure-related ministry to come up with a 3-year pipeline of projects that can be implemented in PPP mode. States encouraged to do so and can seek support from the IIPDF (India Infrastructure Project Development Fund) scheme to prepare PPP proposals.
- 50-year interest free loans to states for capital expenditure and incentives for reforms to support States for infrastructure.
- Incentivising electricity distribution reforms and augmentation of intra-state transmission capacity by states.
- Shipbuilding Financial Assistance Policy to be revamped.

- Extension of the Jal Jeevan Mission to provide potable drinking water, urban sector reforms and setting up of Urban Challenge Fund.
- Maritime Development Fund to be set up for long-term financing of maritime industry.
- Greenfield airports in Bihar, financial support for the Western Koshi Canal ERM Projects.
- Nuclear Energy Mission for Viksit Bharat: Amendments to the Atomic Energy Act and the Civil Liability for Nuclear Damage Act will be taken up for active partnership with the private sector.
- Allocating INR 20,000 crore to implement private sector driven Research, Development and Innovation initiative.
- Tourism:
    - Top 50 tourist destination sites to be developed in partnership with states.
    - Introducing streamlined e-visa facilities.
    - MUDRA loans for homestays.
    - Medical tourism and Heal in India will be promoted in partnership with the private sector along with capacity building and easier visa norms.

Investing in innovation

- Various measures relating to allocation of funds for research, development and innovation, PM Research Fellowship Scheme, Gene Bank for Crops Germplasm, National Geospatial Mission etc., announced.

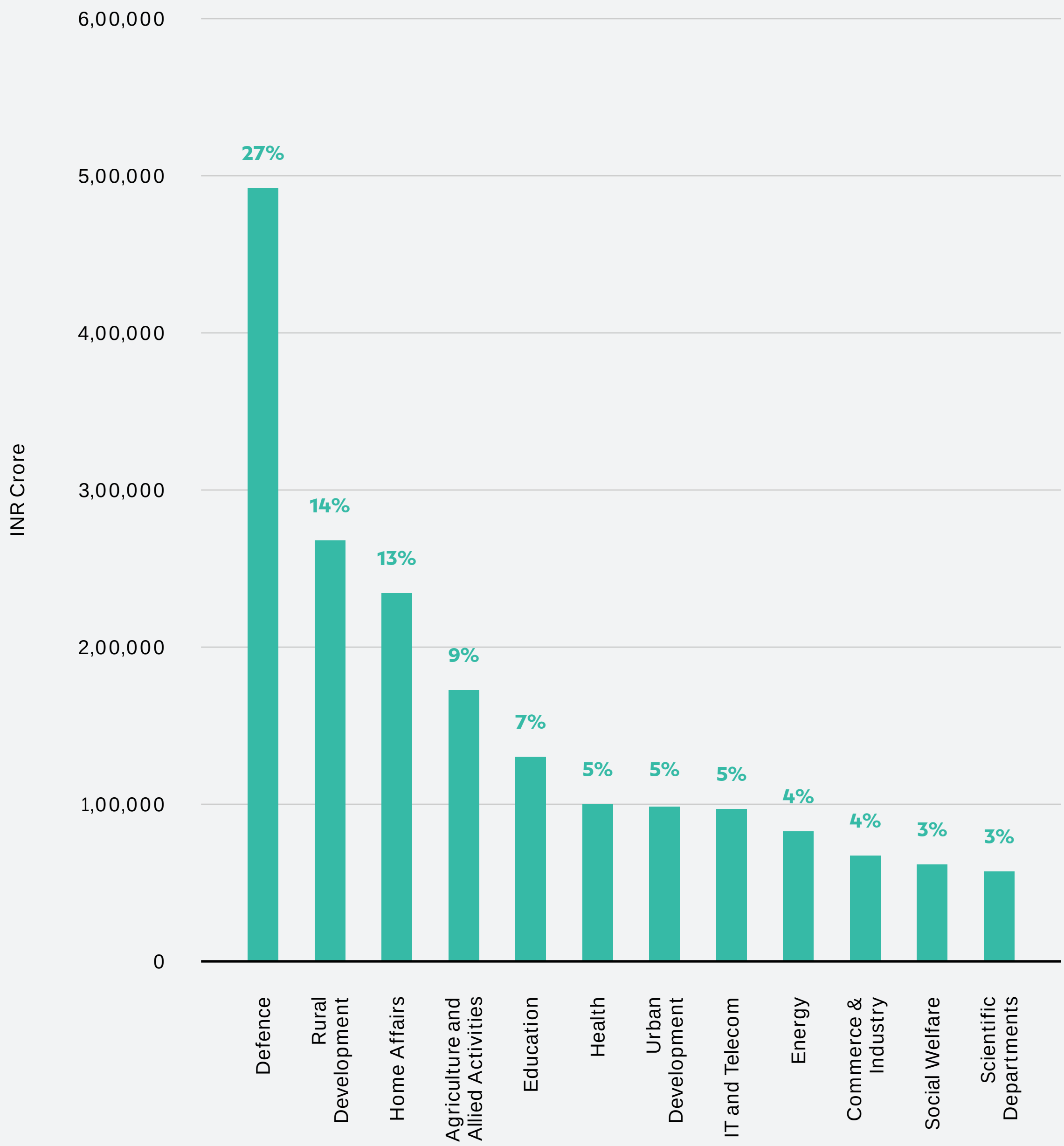
BUDGET HIGHLIGHTS

FIVE ASPIRARTIONS FOR VIKSIT BHARAT

- ACCELERATE GROWTH
- SECURE INCLUSIVE DEVELOPMENT
- ENHANCE SPENDING POWER OF INDIA'S RISING MIDDLE CLASS
- INVIGORATE PRIVATE SECTOR INVESTMENTS
- UPLIFT HOUSEHOLD SENTIMENTS

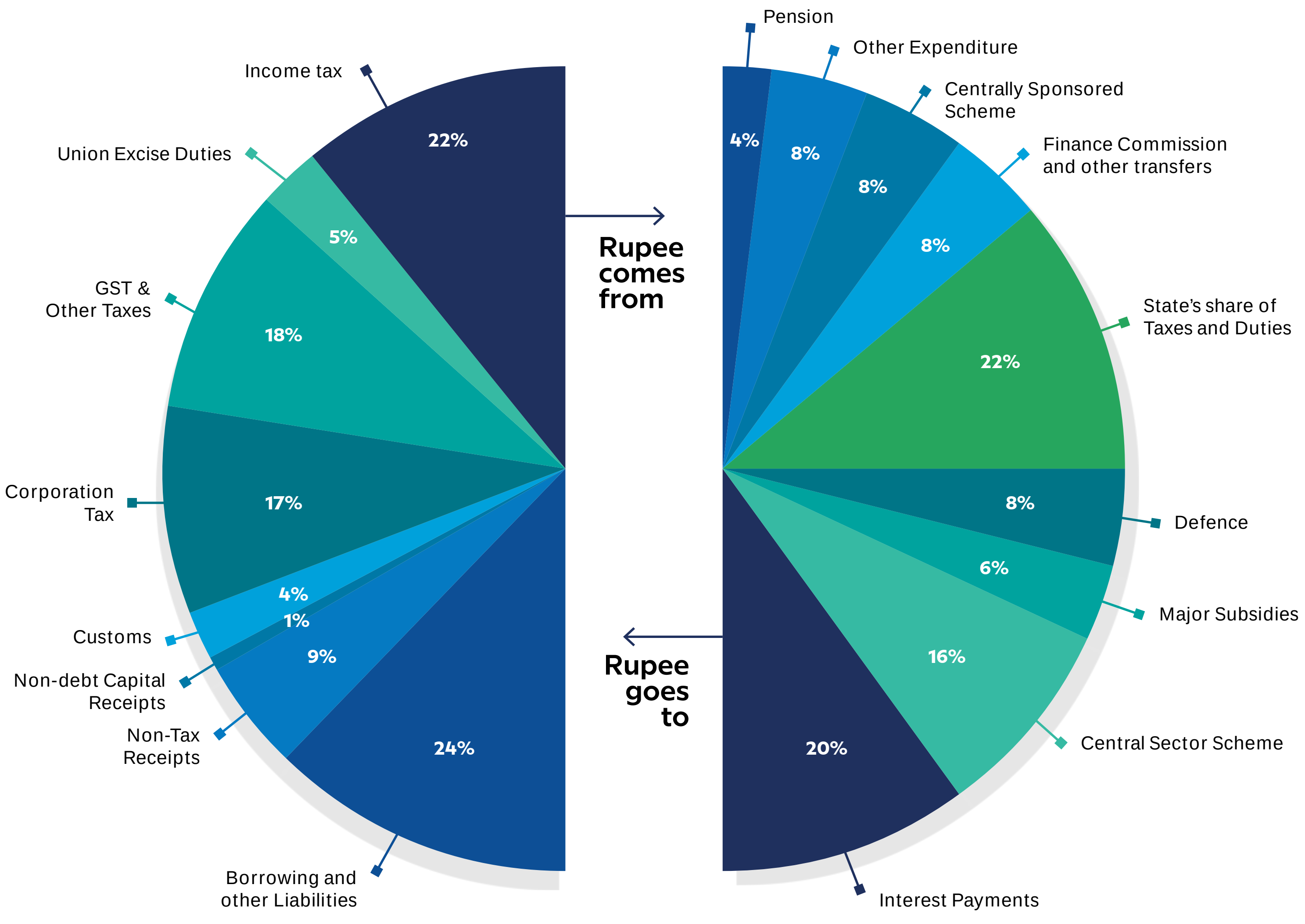
BUDGET HIGHLIGHTS

EXPENDITURE ON MAJOR ITEMS



Source: Key features of Budget 2025-26

RUPEE IN & OUT

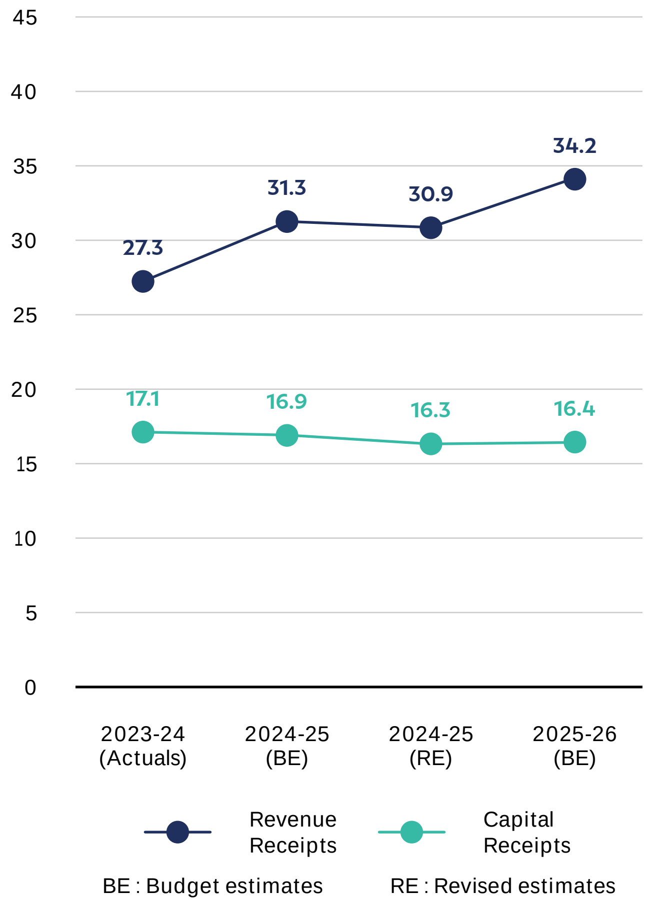


Source: Key features of Budget 2025-26

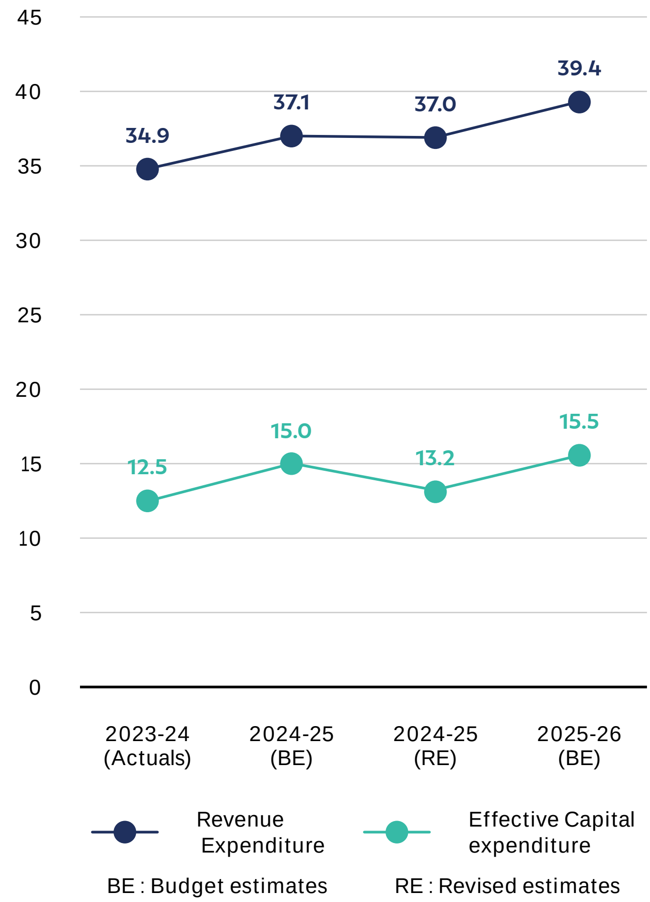
BUDGET HIGHLIGHTS

RECEIPTS & EXPENDITURE

RECEIPTS
INR TRILLION



EXPENDITURE
INR TRILLION



Source: Key features of Budget 2025-26

KEY POLICY ANNOUNCEMENTS

ENGINES OF DEVELOPMENT

1. Agriculture

2. MSME

3. Investment

4.Exports

5. Financial Reforms

Development measure

1. Spurring agricultural growth and building rural prosperity

Key announcements

- Introduction of Prime Minister Dhan-Dhaanya Krishi Yojna which aims at developing Agri Districts Programme. The scheme is likely to cover over 100 districts and help 1.7 crore farmer families.
- A 5-year mission to be developed and introduced to facilitate improvements in productivity and sustainability of cotton farming.
- Facilitation of short-term loans for 7.7 crore farmers, fishermen and dairy farmers with enhanced loan of INR 5 lakhs.
- Targeted development and propagation of seeds with high yield, pest resistance and climate resistance.
- Makhana Board to be set up in Bihar to improve and focus on production, processing, value addition and marketing and organization of FPOs.
- Proposed a launching of a 6-year mission to promote 'Atmanirbharta in pulses' with focus on Tur, Urad and Masoor.
- Proposal made to focus on Indian Post as a catalyst for the rural economy.

Impact

- Facilitate availability of long-term and short-term credit.
- Enhance agricultural productivity.
- Improve irrigation facilities.
- Adopt crop diversification and sustainable agriculture practices (including those in cotton farming).
- Augment post-harvest storage at the panchayat and block level.
- Boost to the agriculture sector.
- Rejuvenating the textile sector.
- Expanding the range of postal services will give a boost to the services sector.

2. Supporting MSMEs and furthering Make in India

Key announcements

- Customized credit cards with INR 5 lakh limit for micro enterprises that are registered on the Udyam portal.
- Proposed to provide loans upto INR 2 crores during the next 5 years to 5 lakh first time entrepreneurs including women, scheduled caste, scheduled tribes.
- Manufacturing mission with mandate to focus on key matters including ease and cost of doing business, promotion of a vibrant and dynamic MSME sector, clean-tech manufacturing for climate-friendly development.
- The focus product scheme for footwear and leather sector is expected to facilitate employment for 22 lakh persons and generate turnover over 4 lakh crores.
- Focus on the toy sector: Developing manufacturing clusters, enhancing skills, and creating innovative, high-quality toys under the 'Made in India' brand.
- The establishment of a National Institute of Food Technology in Bihar will boost farmers' incomes, promote skilling, and create entrepreneurship and job opportunities for youth.
- Proposal has been made towards the significant enhancement of credit availability with guarantee cover to MSMEs and Startups
- Revision in classification criteria for MSME's as under.

(Rs. in crores)

Particulars	Investment		Turnover	
	Current	Revised	Current	Revised
Micro Enterprises	1	2.5	5	10
Small Enterprises	10	25	50	100
Medium Enterprises	50	125	250	500

Impact

- Enhancing the investment and turnover limits for classification of all MSMEs will help them achieve higher efficiencies of scale, technological upgradation and better access to capital.
- **Stimulating the BFSI sector:** Enhancement in the credit guarantee cover, issue of customised credit cards to micro-enterprises and providing loans to the first-time entrepreneurs will stimulate the lending by banks and NBFCs.
- **Boost in manufacturing and exports:** Focus on footwear, leather products and toy manufacturing will promote the exports from these sectors and create job-opportunities. The manufacturing activity will receive a much-needed boost in the coming years.
- **Impetus to food processing industry:** The establishment of the 'National Institute of Food Technology, Entrepreneurship and Management'

will provide fillip to the food processing industry, in addition to skilling and employment.

3. Investing in people, economy, and innovation

People

- 5 national centres of excellence for skilling to be set up with global expertise and partnership.
- Expansion of capacity in IITs and in the field of medical education with the goal of adding 10,000 additional seats during the year and 75,000 additional seats in the upcoming 5 years in medical education.
- 50,000 Atal Tinkering Labs to be set up in the government schools in the next 5 years.
- Centre for excellence in artificial intelligence for education with total outlay of INR 500 crore.

Economy

- An outlay of INR 1.5 lakh crores, 50-year interest free loans are proposed to be provided to states to focus on capital expenditure and incentives for reforms.
- The Jan Jeevan mission is to be extended till 2028 to achieve 100 % coverage.
- Incentivization distribution reforms and augmentation of intra-state transmission. Additional borrowing limits provided to states contingent on these reforms.
- Asset monetization plan for 2025-30 was proposed, with intention to plough back capital of INR 10 lakh crore in new projects.
- Urban Challenge Fund with an outlay of INR 1 lakh crore to promote 'Cities as growth hubs.'
- Maritime Development fund with a corpus of INR 25,000 crore to focus on long-term financing with upto 49% contribution by the government.
- Amendments to the Atomic Energy Act and the Civil liability for Nuclear Damage Act will be taken up.
- Top 50 tourist destinations to be developed in partnership with states to promote tourism with focus on employment led growth.

Innovation

- Under PM Research fellowship, it has been put forth to provide 10,000 fellowships for technological research in IITs and IISc.
- An outlay of INR 20,000 crore has been proposed to implement private sector driven research, development, and innovation initiative.
- Set up of National Digital Repository of Indian knowledge systems for sharing knowledge, that will promote the documentation and conservation of our manuscript heritage.

Impact

- A holistic approach to improving India's educational and workforce development infrastructure has been adopted. If successfully implemented, they have the potential to significantly transform the labour market, boost innovation, and enhance India's position in the global economy.
- **Infrastructure, healthcare and education to get a boost:** The provision of INR 1.5 lakh crore in 50-year interest-free loans to states is a significant financial stimulus aimed at enhancing capital expenditure for infrastructure development and incentivizing reforms. This will provide states with much-needed resources to invest in growth-promoting sectors like infrastructure, healthcare, and education.
- As India strengthens its position in both technology innovation and cultural preservation, it is likely to gain greater global recognition in areas like advanced research, heritage conservation, and cross-disciplinary learning.

4. Promoting exports

Key announcements

- **Export promotion mission:** Setting sectoral and ministerial targets to improve access to export credit, providing cross-border factoring support, and helping MSMEs address non-tariff barriers in foreign markets.
- **BharatTradeNet (BTN):** A digital public infrastructure will be set up for international trade, streamlining trade documentation, financing, and integration with global supply chains.
- **National framework for GCC:** A guideline for states to develop Global Capability Centres (GCCs) in emerging tier-2 cities.
- **Air cargo warehousing:** Enhancing infrastructure and warehousing for air cargo, including facilities for high-value and perishable horticulture products.

Impact

- **Boosts trade and exports:** Strengthening India's global trade presence and reducing trade barriers.
- **Enhances MSME Growth:** Providing financial and regulatory support to small businesses.
- **Encourages investment:** Digital infrastructure and trade facilitation will attract investments.
- **Regional development:** Growth in tier-2 cities and improved logistics will balance economic development.
- **Employment generation:** Increased exports, GCC

expansion, and logistics improvement will create jobs across multiple sectors.

5. Financial sector reforms and development

Key announcements

- 'Grameen Credit Score' framework to serve the credit needs of SHG members and people in rural areas.
- NaBFID to set up a 'Partial Credit Enhancement Facility' for corporate bonds for infrastructure.
- Revamped Central KYC registry to be rolled out in 2025.
- Rationalisation of requirements and procedures for speedy approval of company mergers.
- FDI limit for the insurance sector will be raised from 74% to 100%

Impact

- **Financial inclusion:** Easier rural credit access and improved KYC processes will bring more people into the formal economy.
- **Accelerated infrastructure growth:** Enhanced credit facilities will improve long-term infrastructure investments.
- **Insurance sector reform will attract foreign investment:** The additional FDI inflows into India due to the opening of the insurance sector (from the present 74% to 100%) applies to those companies who invest the entire premium in India. This will thus secure the market share of the existing insurance companies, while increasing the FDI inflow through foreign investments in the insurance sector.

TAX PROPOSALS

Direct tax proposals

Direct taxes - Corporate

- To reduce the compliance for small trusts or institutions whose total income (without giving effect to section 11 and 12) does not exceed INR 5 crores in any of the 2 preceding previous years, the period of validity of registration of trust/institution has been increased from 5 years to 10 years.
- The purchase of goods in India made only for the purpose of export from India would be considered for determining significant economic presence in India. Hence, would not constitute business connection in India.
- The benefit of the existing provisions of section 80IAC providing for 100% deduction of the profits and gains from eligible business by eligible start-up for 3 consecutive years out of 10 years, has been extended (for start-ups incorporated before 01.04.2025) to start-ups incorporated before 01.04.2030.
- In amalgamation, any loss forming a part of the accumulated loss of the predecessor entity which becomes the loss of the successor entity, shall be carried forwards by the successor company for 8 years succeeding the assessment year in which the loss was originally computed, and not 8 years after amalgamation.
- It is at the disposal of the taxpayers to opt for a 3-year Arm's length price (ALP) determination for similar international transactions or specified domestic transactions i.e. ALP would be determined for a block period of 3 years i.e. determined in the base year would automatically apply for 2 subsequent years. (Applicable from 01.04. 2026.)
- The time limit to file updated return has been extended from 2 years to 4 years. Additional income tax of 60% of tax and interest shall be payable if updated return is filed after 2 years but before 3 years, and 70% if filed after 3 years but before 4 years. If notice u/s. 148A is received within 3 years period, then updated return cannot be filed until order u/s. 148A is received stating it is an unfit case for reopening.

Direct taxes - Personal

- Income tax slab size alongwith the tax rates has been revised under the new tax regime under section 115BAC(1A). Due to change in the slab rates, tax rebate under section 87A has also been increased from INR 25,000 to INR 60,000.
- Income earned by the individuals upto INR 12 lakh other than the income chargeable at special rates under the new regime will be not be taxable.
- ULIPs that do not qualify for exemption under section 10(10D) will now be considered as capital asset as defined under section 2(14). Accordingly any profits on redemptions will be taxable under the head 'Capital gains' under section 45(1B).
- Individuals or HUF are exempted from tax on withdrawals on or after 29.08.2024 from National Savings Scheme, provided the withdrawal is out of deposits claimed as deduction in FY 1991-92 and earlier. This exemption is with respect to withdrawal of deposits along with the interest accrued thereon made before 01.04.1992.
- Relief provided to taxpayers as "annual value" for two self occupied properties can be considered as 'NIL' if the owner occupies it for his own residence or cannot actually occupy it due to any reason. Earlier this benefit was available only for one self occupied property.
- Rationalisation of TDS and TCS provisions
    - Major increase in threshold limits
        - Interest other than interest on securities under section 194A for senior citizens has been increased from INR 50,000 to INR 1,00,000
        - Dividend for individual shareholder increased form INR 5,000 to INR 10,000
        - Threshold limit for TDS on rent under section 194I has been increased from INR 2,40,000 in a financial year to INR 50,000 in a month or part of a month.
    - No TCS under section 206C(1H) to be collected by the seller on sale of any goods of the value or aggregate of value exceeding INR 50 lakhs in any previous year.
    - TCS threshold for remittance under Liberalised Remittance Scheme (LRS) has been increased from INR 7,00,000 to INR 10,00,000.

TAX PROPOSALS

Indirect tax proposals

Overall rationalisation of customs tariff structure for industrial goods

- Elimination of 7 tariff rates to simplify the customs tariff structure. Post this, there will only be 8 remaining tariff rates.
- Introduction of a rule where only one cess or surcharge will apply, leading to the removal of the Social Welfare Cess (SWC) on items that are already subject to the Agriculture Infrastructure Development Cess (AIDC).
- Implementation of an equivalent cess on items where Basic Customs Duty (BCD) is reduced, ensuring the overall duty incidence remains consistent.
- Cess revenues will be fully retained by the Central Government, whereas BCD is to be shared with the state governments.

Changes in Basic Customs Duty

A	Increase in tariff rates (effective from 02.02.2025 through a declaration under the Provisional Collection of Taxes Act, 2023)				
S. No	Tariff item	Commodity	Rates of Duty		Possible impact
			Existing	New	
	Textiles				
1	6004 10 00 6004 90 00 6006 22 00 6006 31 00 6006 32 00 6006 33 00 6006 34 00 6006 42 00	Knitted Fabrics	20% / 10%	20% or INR 115/kg, whichever is higher	Increase in the prices of imported knitted fabrics.
	IT & Electronics				
2	8528 59 00	Interactive Flat Panel Displays (Completely Built Units)	10%	20%	Increase in the prices for imported TV panels.

B	Decrease in tariff rates (effective from 02.02.2025 unless otherwise specified) through a declaration under the Provisional Collection of Taxes Act, 2023				
S. No	Tariff item	Commodity	Rates of Duty		Possible impact
			Existing	New	
1	3824 60	Sorbitol other than that of sub- heading 2905 44	30%	20%	Beneficial for pharmaceutical products that contain sorbitol.
2	6403	Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather	35%	20%	This could be beneficial for the footwear industry.
3	8702	Motor vehicles for transport of 10 or more persons	40%	20%	This could benefit the manufacturing of large vehicles for public transport.
4	8703	Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading 8702)	125%	70%	This could be beneficial for public transport vehicles; however, these goods will now be subject to a 67.5% Agriculture Infrastructure Development Cess (AIDC).
5	8704	Motor vehicles for transport of goods	40%	20%	Decrease the cost of goods transport vehicles.

C	Tariff rate changes (without change in the existing effective rate of duty) to be effective from 01.05.2025 unless otherwise specified				
S. No	Tariff item	Commodity	Rates of Duty		Possible impact
			Existing	New	
1	1520 00 00	Glycerol Crude, glycerol waters, glycerol lye	30%	20%	This could be beneficial for the manufacturing of soaps using glycerine, the food industry, and certain pharmaceuticals.
2	2711 12 00	Liquefied Propane	15%	2.5%	Beneficial for Petrochemicals Industry.
3	2711 13 00	Liquefied Butane	15%	2.5%	
4	27 11 19 10	LPG (for non-automotive purpose)	15%	5%	Beneficial for Petrochemicals Industry, Hotels and Restaurants (cooking).
5	2711 19 20	LPG (for automotive purpose)	15%	5%	Will help to reduce fuel cost for vehicles that use LPG vehicles that use LPG.
6	2711 19 90	Other liquified petroleum gas	15%	5%	Would lower the import costs and make it more accessible for consumers and industries. Will promote cleaner energy use and reduce domestic prices.
7	2809 20 10	Phosphoric Acid	20%	7.5%	Beneficial for fertilizer industry, for which this is a key RM.

Other proposals involving changes in Basic Customs Duty rates (to be enabled through notifications)

A	Changes in Basic Customs Duty (to be effective from 02.02.2025)				
S. No	Tariff item	Commodity	Rates of Duty		Possible impact
			Existing	New	
	Aquafarming & Marine Exports				
1	0304 99 00	Frozen Fish Paste (Surimi) for use in manufacture of Surimi Analogue products, for export	30%	5%	Will help to boost marine exports.
2	2301 20	Fish Hydrolysate for use in manufacture of aquatic feed	15%	5%	Will lower import costs, making aquatic feed more affordable for the aquaculture industry.
	Leather				
3	4104 11 00 4104 19 00 4105 10 00 4106 21 00 4106 31 00 4106 91 00	Wet blue leather (hides and skins)	10%	Nil	Will significantly reduce import costs for the leather industry. It will help lower production expenses, benefiting manufacturers and enhance competitiveness in the global leather market.
	Gems and Jewellery				
4	7113	Platinum Findings	25%	5%	Will lower import costs for manufacturers of jewellery and other platinum-based products.
	Metal Scrap & Lithium-Ion Battery Waste and Scrap				
5	7802	Lead waste and scrap	5%	Nil	Will lower the costs for recycling industries. It promotes the use of recycled materials, supporting sustainability while making raw materials more affordable for manufacturing processes.
6	7902	Zinc waste and scrap	5%	Nil	
7	8105 20 30	Cobalt powders	5%	Nil	Beneficial for industries that use Cobalt powder as input, including the aerospace, chemical, ceramic, and steel industries.
8	8549 13 00 8549 14 00 8549 19 00	Waste and scrap of Lithium-Ion Battery	5%	Nil	Beneficial for EV manufacture
	IT and Electronics				
9	Any chapter	Inputs or parts/sub-parts for use in the manufacture of the Printed Circuit Board Assembly, Camera module and connectors of cellular mobile phones and inputs and raw materials for use in the manufacture of specified parts of cellular mobile phones i.e on Wired Headset, Microphone and Receiver, USB Cable and Fingerprint reader/ Scanner of Cellular Mobile Phone.	2.5%	Nil	This will help lower the overall cost of manufacturing mobile phones and encourage growth in the mobile device industry by making key components more affordable.

A	Changes in Basic Customs Duty (to be effective from 02.02.2025)				
S. No	Tariff item	Commodity	Rates of Duty		Possible impact
			Existing	New	
10	Any chapter	35 capital goods for use in the manufacture of lithium-ion battery of EVs and 28 capital goods for use in the manufacture of lithium-ion battery of mobile phones in the list of exempted capital goods	As applicable	Nil	35 new capital goods are being added by notification 11/2025, to the list of exempt goods for use in manufacture of Lithium Ion batteries for EV vehicles. This is to boost EV vehicles manufacturing.
11	Any chapter	To amend entry S. No 6D of Notification No 57/2017-Customs and incorporate 'any chapter' in column (2) for goods used to manufacture mechanics of mobile phone	As applicable	10%	Various rates for manufacturing of mobile phones (lying in different chapters) are all being standardized and reduced to 10%
	Automobiles				
12	8702	Motor vehicles for transport of 10 or more persons	25% / 40%	20%	Beneficial for public transport vehicles. However, these goods will also attract 20% AIDC from 01.02.25
13	8703	Motor cars and other motor vehicles with CIF value more than US $40,000 or with engine capacity more than 3000 cc for petrol run vehicles and more than 2500 cc for diesel run vehicles or with both.	100%	70%	However, these goods will also attract 40% AIDC from 01.02.25
14	8704	Motor vehicles for transport of goods	25% / 40%	20%	Beneficial for goods transport vehicles mfg. However, these goods will also attract 20% AIDC from 1/2/25
15	8711	Motor cycles with engine capacity not exceeding 1600cc in CBU form	50%	40%	Beneficial for imported motor cycles, However, all used motor cycles (of all capacities) will attract an AIDC of 40%
16	8711	Motor cycles with engine capacity not exceeding 1600cc in SKD form	25%	20%	Beneficial for imported motor cycles
17	8711	Motor cycles with engine capacity not exceeding 1600cc in CKD form	15%	10%	
18	8711	Motor cycles with engine capacity of 1600cc and above in CBU form	50%	30%	
19	8711	Motor cycles with engine capacity of 1600cc and above in SKD form	25%	20%	
20	8711	Motor cycles with engine capacity of 1600cc and above in CKD form	15%	10%	

B	Changes in Basic Customs Duty (to be effective from 02.02.2025)				
S. No	Tariff item	Commodity	Rates of Duty		Possible impact
			Existing	New	
1	4104 41 00 4104 49 00 4105 30 00 4106 22 00 4106 32 00 4106 92 00	Crust leather (hides and skins)	20%	Nil	Will help to boost leather exports .

Extension of BCD exemptions (that were expiring on 31.03.2025) after review

S. No	Description	New end date
1	Ships and vessel for breaking up	31.03.2035
2	Raw materials, components, consumables or parts, for use in the manufacture of ships/vessels	
3	Bulk drugs for manufacture of drugs or medicines [A separate entry is being created for Drugs, medicines, diagnostic kits specified in List 3 with modifications in the list]	31.03.2029
4	Bulk drugs used in the manufacture of polio vaccine and Monocomponent insulins	
5	Bulk drugs used in the manufacture of life saving drugs or medicines [A separate entry is being created for Drugs, medicines, diagnostic kits]	
6	Drugs, Medicines or Food for Special Medical Purposes (FSMP) used for treatment of rare disease	
7	Good specified in List 36 imported by testing agencies specified in List 37, for the purpose of testing and/or certification	
8	Crude Glycerin for use in manufacture of Epichlorohydrin (a medicine)	31.03.2027
9	Denatured ethyl alcohol for use in manufacture of industrial chemicals	
10	Fish meal for use in manufacture of aquatic feed	31.03.2027
11	Goods for the manufacture of telecommunication grade optical fibres or optical fibre cables	
12	Textile machinery (with addition of two new machineries)	
13	Parts and components for use in manufacturing of textile machineries	
14	Goods for use in the manufacture of Open cell of LCD and LED TV panel	
15	Seeds for use in manufacturing of rough Lab-Grown Diamonds [IGCR condition removed]	31.03.2026
16	Parts of wind operated electricity generators, for the manufacture or the maintenance of wind operated electricity generators [The entry has also been modified]	
17	Permanent magnets for manufacture of PM synchronous generators above 500KW for use in wind operated electricity generators	

Key legislative changes in Customs Act ,1962

A new sub-section (IB) is being inserted in section 18 of the Customs Act, 1962 to provide definite time limit of two years for finalisation of provisional assessment. It also provides that this time period may be extended by the Commissioner of Customs for a further period of one year if the sufficient cause is shown.

Implication:
This amended is designed to put a time frame to conclusion of provisional assessments and avoid delays in crystallization of the final assessment/final tax impact. This amendment will be effective from date of assent of the Finance Bill.

Other amendments: Services provided or agreed to be provided by insurance companies by way of reinsurance services under Weather Based Crop Insurance scheme (WBCIS) and the Modified National Agricultural Insurance Scheme (MNAIS) exempt from service tax for the period 01.04.2011 to 30.06.2017.

Key legislative change in CGST Act

1. Distribution of ITC by Input Service Distributors

Clause (61) of section 2 of the CGST Act is being amended to explicitly provide for distribution of input tax credit by the Input Service Distributor in respect of inter-state supplies on which tax has to be paid on reverse charge basis.

This amendment will be effective from 01.04.2025.

2. Amendment to section 17(5)(d)

Clause (d) of sub-section (5) of section 17 is being amended to substitute the words “plant or machinery” with words “plant and machinery”. This amendment will be effective retrospectively from 01.07.2017, notwithstanding anything to the contrary contained in any judgment, decree or order of any court or any other authority.

Comment: This is being done to nullify the effect of the recent SC judgement in the case of Safari Retreats , which had expanded the scope of the exclusion from blocked credit bar as imposed by S 17(5) (d) .

SEZ and FTW warehoused goods before clearance for export

a. New clause (aa) to be inserted in para 8 of schedule III.

b. Supply of goods warehoused in a SEZ or in a FTWZ to any person before clearance for exports or to the DTA shall be treated neither as supply of goods nor a supply of services.

c. Amendment w.r.ef. 01.07.2017, no refund of tax already paid treating the same as supply will be available.

Amendment to proviso to section 34 (GST Credit Notes)

Proviso to sub-section (2) of section 34 is being amended to explicitly mandate the condition of reversal of corresponding input tax credit in respect of a credit-note, if availed, by the registered recipient, for the purpose of reduction of tax liability of the supplier in respect of the said credit note (issued to reduce the taxable value of the original supply invoice). Thus, unless the recipient reverses the corresponding ITC amount, the reduction in the original (as per invoice) taxable value/tax liability of the supplier, arising out of the credit note, will not be allowed.

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