

'Union Budget 2025': A Summary of Key Direct and Indirect Tax proposals

USISPF Tax Forum advocacy wins – Budget 2025

Direct Tax Wins

- **New Income Tax Bill**
- **Rationalization of TDS/TCS** for Ease of Doing Business
- Scope of **safe harbor regime** under transfer pricing expanded
- **Block assessment** for transfer pricing cases
- New scheme to determine **Arm's length Price**
- Scheme of **presumptive taxation** extended for non-resident providing services for electronics manufacturing facility
- Harmonization of **Significant Economic Presence** applicability with Business Connection
- Clarity around taxation of **category I and II AIFs**
- Tax and Regulatory **Incentives for IFSC**
- Extension of the benefits provided under Section 80-IAC of the Income Tax Act to **startups** for another period of five years.

Customs Wins

- **Removal of seven tariff rates**, now only eight remaining tariff rates including 'zero' rate
- Inputs/ parts and sub-parts of PCBA, camera module, connectors and inputs or raw materials exempted from customs duty
- **Expanded Exemptions on customs duty on Life-Saving Drugs**
- Customs duty on **Ethernet Switches Carrier-Grade** slashed from 20% to 10%
- BCD on **Parts of electronic toys** reduced from 70% to 20%
- BCD on **Laboratory chemicals** reduced to 70% from 150%
- **Digitalization of all processes** made operational
- **Fixed time-limit** of two years, extendable by a year, under provisional assessment under Customs Act, 1962
- **Time limit** extended for end use of goods imported at concessional rate of duty

I. Key Relevant Updates

Direct Taxation¹: Reshaping Compliance & Investment

S. No.	Budget Proposals	Key points
<i>Rationalization of TDS/TCS provisions</i>		
2	Omission of higher TDS / TCS for non-filers of ROI	Higher TDS/ TCS for deductees / collectees who have not filed Return of Income ('ROI') omitted. Higher rate continues for no PAN and inoperative PAN cases
3	Rationalization of TDS thresholds	<ul style="list-style-type: none"> • TDS applicability thresholds introduced / increased - <ol style="list-style-type: none"> a. Commission or brokerage - from INR 15,000 to INR 20,000 b. Rent- from INR 2,40,000 (annual basis) to INR 50,000 (monthly basis). c. Fee for professional or technical services - from INR 30,000 to INR 50,000. d. Winnings from lottery, crossword puzzle, horse race - from INR 10,000 in a FY to INR 10,000 in respect of single transaction. e. Interest on securities - INR 10,000 f. Interest other than interest on securities - from INR 5,000 to INR 10,000 (other than cases where payer is bank, co-operative society or post office) g. Dividend for an individual shareholder - from INR 5,000 to INR 10,000.
4	TCS on sale of goods omitted	TCS of 0.1% on sale of goods omitted with the intent to reduce compliance burden, considering overlap with TDS on purchase of goods.
5	Decriminalization of TCS proceedings for delay in deposit of TCS	No criminal proceedings where taxes collected are deposited on or before the statutory due date of TCS return for respective quarter.
6	TCS applicability on remittances	<ul style="list-style-type: none"> • Threshold for TCS on remittances under the Liberalized Remittance Scheme ('LRS') increased from INR 7,00,000 to INR 10,00,000. • TCS to not apply on remittances for education purposes out of loan taken from specified Financial Institutions.
<i>Penalty and prosecution</i>		
7	Certain penalties to be imposed by Assessing Officer	Certain penalties (failure to deduct TDS/ collect TCS, acceptance/ payment of cash beyond prescribed limit etc.) which could be imposed only by Joint Commissioner, shall now be imposable by the Assessing Officer.
8	Rationalization of timeline to impose penalty	To rationalize and provide a single timeline for imposition of penalties, timeline of six months from the end of the quarter in which the connected proceedings are completed, or the order of appeal is received/ passed has been prescribed.

¹ Direct Tax inputs taken with support from KPMG India.

S. No.	Budget Proposals	Key points
10	Extension of processing time for immunity applications	<ul style="list-style-type: none"> Time limit for disposing applications for immunity from penalties and prosecution increased from 1 month to 3 months from the end of month in which application is submitted. Intent to ensure that taxpayers have adequate time to present their case.
<i>Updated tax return</i>		
11	Extended timeline to file updated tax return	Time limit to file updated return extended from 24 months to 48 months from the end of relevant Assessment Year ('AY').
<i>Other proposed amendments</i>		
12	Extension of timeline for tax benefits to Startups	Time limit to incorporate eligible startups extended from 1 April 2025 to 1 April 2030.
13	Significant Economic Presence ('SEP') applicability relaxed	Activities of non-resident in India confined to purchase of goods in India for purpose of export shall not constitute SEP.
14	Presumptive taxation for non-resident providing services for electronic manufacturing	<ul style="list-style-type: none"> Presumptive taxation introduced for non-residents providing services / technology to a resident company establishing or operating electronics manufacturing facility or a connected facility for such manufacturing. 25% of the receipts to be deemed to be income of non-resident in India, taxable at 35% plus applicable surcharge and cess.
15	Crypto assets	<ul style="list-style-type: none"> Reporting requirements introduced in respect of transactions in crypto-assets. Definition of virtual digital asset expanded to include any crypto-asset being a digital representation of value that relies on a cryptographically secured distributed ledger or a similar technology to validate and secure transactions.
16	Search & seizure	<ul style="list-style-type: none"> Time limit for retaining seized books of accounts or documents amended to one month from end of quarter in which assessment/ reassessment/ recomputation order is passed. Prior approval from the specified Income Tax Authority would be required for retention exceeding prescribed time. 'Undisclosed income' to include Virtual Digital Assets.
17	Carry forward and set-off of losses in case of amalgamation/ business reorganization	Loss in case of amalgamation or business re-organization to be carried forward for a period of 8 AYs succeeding the AY for which the loss was first computed by the amalgamating company / original predecessor entity and not from the year of amalgamation / re-organization.

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18	Clarification on period of stay by court	Stay period clarified to commence from the date the stay was granted and to end on the date the certified copy of the order vacating stay is received by specified authority.
<u>Transfer Pricing</u>		
21	Reference to Transfer Pricing Officer ('TPO') for arm's length price ('ALP') determination	If TPO determines ALP for any FY, assessee provided with an option to select applicability of ALP for next two consecutive years. If such option is selected, no reference to TPO can be made for the said 2 years.
22	Safe Harbour Rules	Announced in the Budget speech that safe harbour rules will be expanded with a view to reduce litigation and provide certainty in international taxation.

Indirect Taxation: Streamlining Customs & Trade Facilitation

Some of the key changes proposed from customs perspective are summarized below:-

S. No.	Budget Proposal	Key Points
<u>Ease of Doing Business</u>		
1.	Digitalization of All Processes, Including Appellate Orders	The digitalisation will enhance efficiency in tax administration.
2.	Jan Vishwas Bill 2.0: Decriminalization of Over 100 Provisions	Bill will help in reducing legal risks for businesses.
<u>Customs Procedural Reforms</u>		
3.	Fixed time limit for Provisional Assessment (2 years, extendable by 1 year)	Certainty to businesses and minimize operational delays in import processes.
4.	Provision for Voluntary Compliance	Allowing businesses to declare material facts post-clearance and pay duties with interest without fear of punitive actions.
5.	Extended Time for End-Use Compliance	Greater flexibility in production planning and supply chain management.
<u>Rationalization of Customs Duties</u>		
6.	Rationalization of Customs Tariff Structure for Industrial Goods	Enhance predictability, reduces tax complexity, and lowers costs for businesses.
7.	Incentives for Mobile Phone manufacturing	Strengthening of India's mobile phone manufacturing ecosystem.
8.	Incentives for Healthcare and Pharma	Enhanced healthcare affordability and accessibility.
9.	Incentives for Electronics	Will make domestic TV industry more competitive.

S. No.	Budget Proposal	Key Points
10.	Exemption on Critical Minerals (Cobalt, Lithium-Ion Battery Scrap, Lead, Zinc, etc.)	Reduces dependency on imports, and promotes investment in processing industries.
11.	Exemption on Shuttle-Less Looms for the Textile Industry	Enhance competitiveness, encourage innovation, and support the production of specialized textile products.
12.	Rectification of Inverted Duty Structure in Electronics	Boost local manufacturing, reduce import reliance, and correct duty imbalances.
13.	Incentives for Battery Manufacturing (EV and Mobile Phones)	Promote self-reliance, and support India's green energy transition.
14.	Extended Exemption for Shipbuilding Raw Materials	Ensures long-term investment in India's maritime industry, enhances global competitiveness, and creates jobs.
15.	Reduction of BCD on Carrier Grade Ethernet Switches (20% to 10%)	Reducing cost, support in expanding digital networks, and strengthen India's broadband penetration.
16.	Exemptions in the Leather Industry	Lower production costs, boost exports, and generate employment in the leather processing sector.
17.	Reduction in BCD on Marine Products	Will enhance India's competitiveness in global seafood markets, supports coastal economies, and promotes industry growth.
Other Major Reforms		
18.	Strengthening Domestic Maintenance, Repair & Overhaul (MRO) for Railways	Aligns railway MRO with aircraft and ship repair regulations, encouraging domestic servicing.
19.	High-Level Committee for Regulatory Reforms	The committee will help in simplifying business operations by reviewing and removing unnecessary regulations, enhancing compliance efficiency, and support a business-friendly environment.
20.	Export Mission Promotion	Establishing a mission with sectoral and ministerial targets, jointly led by the Ministries of Commerce, MSME, and Finance, will facilitate export growth by improving access to export credit, cross-border factoring support, and helping MSMEs overcome non-tariff barriers.