INDIA

BUDGET 2025-26

P C Ghadiali and Co LLP

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Budget 2025 at a glance

The Finance Minister has stated that a new income tax bill will be introduced which will be leaner and simple to understand for tax payers and tax administrators.

Key highlights under Income Tax

Rates of tax applicable for FY 2025-26:

Every Individual, HUF, AOP & BOI (New Regime)	Tax Rates (with surcharge & cess)
Up to 4,00,000	Nil
4,00,001 to 8,00,000	5.20%
8,00,001 to 12,00,000	10.40%
12,00,001 to 16,00,000	15.60%
16,00,001 to 20,00,000	20.80%
20,00,001 to 24,00,000	26.00%
24,00,001 to 50,00,000	31.20%
50,00,001 to 1,00,00,000	34.32%
1,00,00,001 to 2,00,00,000	35.88%
Above 2,00,00,000	39.00%
Every Individual, HUF, AOP & BOI (Old Regime)	**Tax Rates (with surcharge & cess)**
Up to 2,50,000	Nil
2,50,001 to 5,00,000	5.20%
5,00,001 to 10,00,000	20.80%
10,00,001 to 50,00,000	31.20%
50,00,001 to 1,00,00,000	34.32%
1,00,00,001 to 2,00,00,000	35.88%
2,00,00,001 to 5,00,00,000	39.00%
Above 5,00,00,000	42.74%

There would be no tax on income upto ₹ 12 lakhs under the new regime after claiming relief u/s 87A.

Comparison of Rebate u/s 87A under Old Regime and New Regime

	Old Regime	New Regime
Total Income (Including Special rate income)	Upto 5 Lacs	Upto 12 Lacs
Rebate u/s 87A	₹12,500	₹60,000
Rebate available on?	Tax on Total Income including Special Rate Income like Capital Gain, etc.	Tax on Income taxable at normal rates only. Therefore, tax on Capital Gain, etc will not enjoy the benefit of rebate.

Accordingly, taxpayers earning ₹ 12 lakhs save ₹ 80,000 while those earning ₹ 18 lakhs and ₹ 25 lakhs save ₹ 70,000 and ₹ 1,10,000 respectively because of new tax slabs.

Charitable Trusts: Key Amendments Applicable from FY 2024-25

- **Extended Re-registration Period:**

  The validity of trust registration under Section 12AB is proposed to be increased from **5 years to 10 years** for specified trusts with income (before exemptions under Sections 11 & 12) not exceeding ₹ **5 crores in each of the two preceding years.**

- **Relief in 'Specified Violation' for Cancellation:**

  Incomplete registration applications will no longer be treated as a **specified violation**, preventing automatic cancellation and tax liability on accreted income.

- **Modification in 'Specified Persons' Under Section 13(3):**
  - Only donors contributing ₹ **1 lakh+ in a year** or ₹ **10 lakh+ in total** will be treated as specified persons.
  - Their relatives and associated concerns will no longer be classified as specified persons and hence no reporting required for them.

Business Trusts (REITs, InvITs etc.):

- It has been clarified that capital gains will be charged at their specified rates for equity-oriented funds.

Taxation Clarity on ULIP Redemption

- **ULIPs as Capital Assets:**

  It has been clarified by the department that Unit Linked Insurance Policies (ULIPs) **not eligible** for exemption under **Section 10(10D)** will now be classified as **capital assets** under **Section 2(14)** and therefore the income will be taxed under Capital Gains.

- **Inclusion Under Equity-Oriented Funds:**

  Non-exempt ULIPs will be considered **equity-oriented funds** under **Section 112A**, impacting tax calculations on long-term capital gains.

Harmonisation of Significant Economic Presence applicability with Business Connection:

It has been clarified by the government that that the transactions or activities of a non-resident in India which are confined to the purchase of goods in India for the purpose of export shall not constitute significant economic presence of such non-resident in India.

Capital Gains: (w.e.f. AY 2026-27)

- Amendment to section 2(14)-Capital Assets:

  This change has added the words "investment fund" in clause (b) of Section 2(14). The effect of this would be that the securities held by the investment fund would now be treated as "capital assets" and charged to tax under the head capital gains on transfer.

- Amendment in Sec. 115AD- Tax on income / capital gain of FII:

  LTCG of a specified fund or Foreign Institutional Investors (FII) on transfer of securities not covered u/s. 112A, shall be calculated @ 12.5% instead of 10%.

For startups:

Last date for the incorporation of start-ups eligible for claiming tax holiday is now extended to 31 March 2030.

Amendments relating to IFSC

- The sunset dates for commencement of operations of IFSC units to qualify for concessions has been extended to March 31, 2030.
- Life insurance policies and ULIPs issued by units in IFSC will enjoy tax exemption without any limit of premium of ₹ 5 lakhs and ₹ 2.5 lakhs respectively.
- Exemption of Capital Gains u/s. 10(4H) and Dividend u/s. 10(34B) available to a unit engaged in aircraft leasing, shall also be extended to units engaged in ship leasing.
- Section 2(22), specify that loans or advances between group entities, where one is a finance unit in the IFSC and the parent entity is listed abroad, will not be considered as "dividends" for tax purposes. This aims to prevent deemed dividend provisions from applying in such cases.
- Simplified regime for IFSC-based fund managers u/s. 9A. The condition limiting Indian residents' participation in a fund to 5% will be revised to check compliance on April 1st and October 1st each year, with a 4-month window for correction. Additionally, other conditions can be relaxed for fund managers in IFSC starting operations by March 31, 2030. The aim is to make IFSC-based fund managers more competitive globally.
- Section 10 (4E), to exempt income of non-residents from the transfer of non-deliverable forward contracts, offshore derivatives, or related income distributions entered into with Foreign Portfolio Investors (FPIs) in IFSC units. This amendment aims to further incentivize IFSC operations.

Presumptive taxation:

Extended for non-resident providing services for electronics manufacturing facility to Indian Companies. 25% of their gross receipts will be treated as net profit from such business.

- For international transactions where transfer pricing is applicable, arm's length price can now be determined for a period of 3 years at a time.
- A payer had to deduct a higher rate of TDS was introduced where the recipient of money was a not filing income-tax returns. It was creating operational difficulty to check the income-tax filing status of each vendor. Hence this provision has been removed.
- Reporting of transactions in Virtual Digital Assets (Crypto, NFTs, etc.) – All transactions of VDAs to be reported in a form / return which will be prescribed by the government.

- To prevent evergreening of losses through restructuring arrangement (amalgamation / conversion), it is proposed that accumulated loss of predecessor entity shall be carried forward in the hands of successor entity for a maximum period of 8 years from the year when such loss was first incurred by predecessor entity.
- Updated Return:
  - Extension of Time Limit: Updated return can now be filed within 48 months from the end of the relevant assessment year (previously 24 months).
  - Additional Income Tax: 60% of tax and interest if filed after 24 months but within 36 months. 70% of tax and interest if filed after 36 months but within 48 months.

  Though the increased time limit is a welcome move, the additional tax amount appears to be too high to promote voluntary disclosure of additional income. The extended period seems to be beneficial in case foreign income has not been disclosed and there is exposure of penalty under the Black Money Act.

Rate of TCS on foreign remittances under LRS:

Nature of payment	Existing	Proposed from 01.04.2025
Remittance for the purpose of Education*		
➢ Outward Remittance is a loan obtained from any financial institution as defined in section 80E	Nil up to ₹ 7 lakhs	Nil
	0.5% above ₹ 7 Lakhs	Nil
➢ Other than above i.e. when the remittance is not out of loan from any financial institution as defined in section 80E	Nil up to ₹ 7 lakhs	Nil up to ₹ 10 lakhs
	5% above ₹ 7 Lakhs	5% above ₹ 10 Lakhs
Remittance for the purpose of Medical Treatment*		
➢ Remittance for Medical treatment	Nil up to ₹ 7 lakhs	Nil up to ₹ 10 lakhs
	5% above ₹ 7 Lakhs	5% above ₹ 10 Lakhs
Remittance for any other purpose		
➢ Remittance for any other purposes	Nil up to ₹ 7 lakhs	Nil up to ₹ 10 lakhs
	20% above ₹ 7 Lakhs	20% above ₹ 10 Lakhs
Rate of TCS on purchase of overseas tour package*:		
➢ Purchase of Overseas tour program package	5% till ₹ 7 Lakhs	5% till ₹ 10 Lakhs
	20% thereafter	20% thereafter

Changes in TDS

Section	Threshold		Rate	
	Existing	Proposed	Existing	Proposed
193 - Interest on securities	Nil	10,000	10%	
194A - Interest other than Interest on securities				
(i) For Banks/Post Office/Co-operative society				
- For senior Citizen	50,000	1,00,000	10%	
- For others	40,000	50,000	10%	
(ii) Other cases	5,000	10,000	10%	
194 - Dividend paid to individual	5,000	10,000	10%	
194K - Income in respect of units of a mutual fund or specified company or undertaking	5,000	10,000	10%	
194B - Winnings from lottery, crossword puzzle, etc.	Aggregate 10,000 in a year	10,000 per transaction	30%	
194BB - Winnings from horse race				
194D - Insurance commission	15,000	20,000	5% - Other than Domestic Company 10% - Domestic Company	
194G - Income by way of commission, prize etc. on lottery tickets	15,000	20,000	2%	
194H - Commission or brokerage	15,000	20,000	2%	
194-I Rent	2,40,000/- for the year	₹ 50,000/- per month or part of a month	10%	
194J - Fee for professional or technical services	30,000	50,000	10%	
194LA - Income by way of enhanced compensation	2,50,000	5,00,000	10%	
194LBC - Income in investment on securitization trust			25%/30%	10%
206C(1H) TCS on Sale of Goods. Omitted since TDS u/s 194Q applicable	50,00,000	Omitted	0.10%	Omitted

Key highlights under GST

- Tax liability cannot be reduced on issuing a credit note, if the party on whom the credit note is issued has not accepted it and made the reversal in GSTR 3B.
- In case of only penalty assessment (where there is no demand of tax but only penalty), a pre deposit of 10% will be required to file an appeal.
- Under GST law, vouchers were taxable and tax was payable at the time of issuance of voucher. However, as per the recent notifications, there is no tax liability at the time of issuance of vouchers and the tax is payable only upon the actual sale of the product/ service.
- Input service distributors to distribute the Input tax credit in respect of inter-state supplies on which Reverse charge is applicable.
- Input Tax credit for inputs, input services and capital goods used for construction of immovable property (mall) solely to be used for the purpose of earning rentals not for own use was allowed as per the Supreme Court judgement. However, the proposed change has made retrospective amendment leading to overruling of the Supreme Court judgement. Thus, input tax credit in respect in relation to construction activity of immovable property is not allowed.

207, Arun Chambers, Tardeo, Mumbai - 400 034

+91 22 4333 5000

info@pcghadiali.com

www.pcghadiali.com