

PKC Management Consulting

# BUDGET 2025

#DecodeBudgetwithPKC

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# PREFACE

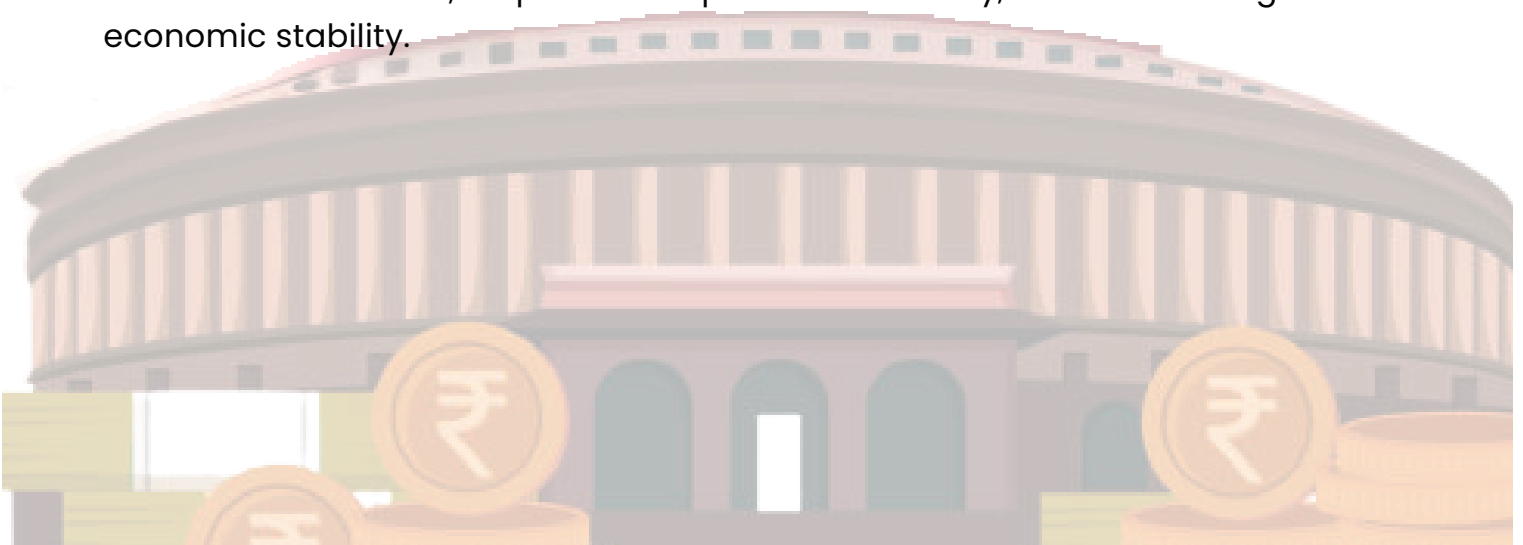
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**"Sound policy and a strong economy go hand in hand, shaping a nation's future." – Alan Greenspan**

The Union Budget 2025-26, presented by Honorable Finance Minister Nirmala Sitharaman, marks her eighth consecutive Budget. Prime Minister Modi described it as a "People's Budget" designed to enhance savings and investment. The Budget prioritizes economic growth, increased middle-class spending power, and sectoral support through targeted initiatives. A high-level committee will be established to review regulatory frameworks, reducing compliance burdens for businesses.

Foreign Direct Investment (FDI) limits in the insurance sector will increase from 74% to 100%. With economic growth slowing and global uncertainties rising, the Budget focuses on resilience through tax reforms, infrastructure development, and business-friendly policies. Key tax measures include increased rebates for the middle class, an extended tax return filing period, and rationalized business trust taxation.

A presumptive taxation scheme is introduced for non-residents providing services to electronic manufacturers. The tonnage tax scheme will now include inland vessels. Transfer pricing assessments will be streamlined, allowing evaluations over a three-year block period. These reforms aim to enhance investment, improve compliance efficiency, and drive long-term economic stability.



# AT A GLANCE

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- **Income Tax Relief:** No tax for individuals with income up to INR 12 lakh.
- **TDS on Rent:** The threshold for TDS on rent has been increased to INR 50,000 per month.
- **TCS on Goods Sales:** Removal of Tax Collected at Source (TCS) on the sale of goods.
- **Updated Returns Filing:** Time limit for filing updated returns extended from 2 years to 5 years for any financial year.
- **Exemption on Life-Saving Drugs:** 36 additional life-saving drugs included in the list of medicines fully exempt from basic duties.
- **Insurance FDI:** Foreign Direct Investment (FDI) in insurance sector increased from 74% to 100%.
- **Affordable Housing:** 40,000 additional affordable housing units to be completed in FY26.
- **Broadband Connectivity:** Broadband connectivity to be provided to all secondary schools across the country.
- **Credit Guarantee for MSMEs:** Credit guarantee cover for MSMEs enhanced from INR 2 crore to INR 5 crore; Startups eligible for credit guarantees of INR 10 crore to INR 20 crore.
- **Customized Credit Cards for MSMEs:** Introduction of customized credit cards for Udyam registered MSMEs.
- **TCS u/s 206C(1G):** Foreign remittances under LRS- threshold limit increased from Rs.7,00,000 to Rs.10,00,000.



# PERSONAL TAX

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- A new Income Tax Bill is set to be introduced, aiming to simplify the tax system and enhance clarity for both taxpayers and administrators.
- Under Section 87A, a rebate of Rs. 60,000 will be available, thus resulting in a net nil tax payable for people earning up to 12 lakhs p.a.
- Salaried employees and pensioners need not pay tax up to Rs 12.75 lakh, due to the flat standard deduction available to them
- However, this rebate does not apply to incomes taxed at special rates

Tax rates under the new regime		
Income Tax slabs	FY 25-26	Tax savings
Up to 4,00,000	NIL	5,000
4,00,001 – 8,00,000	5%	5,000
8,00,001 – 12,00,000	10%	10,000
12,00,001 – 16,00,000	15%	30,000
16,00,001 – 20,00,000	20%	40,000
20,00,001 – 24,00,000	25%	60,000
Above 24,00,000	30%	



# PERSONAL TAX

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## Extension of time-limit for updated returns

The proposal to extend the time-limit for filing an updated return under Sub-section (8A) of Section 139 of the Income-tax Act is proposed to be extended from the existing 24 months to 48 months from the end of the relevant assessment year.

- A person will not be allowed to file an updated return if a notice to show-cause under Section 148A has been issued after 36 months from the end of the assessment year.
- However, if the subsequent order determines that no notice under Section 148 is necessary, the updated return can be filed within 48 months.
- These amendments will come into effect on April 1, 2025.

Time of Filing	Additional Income Tax Payable
Within 12 months	25% of the aggregate tax and interest
After 12 months but within 24 months	50% of the aggregate tax and interest
After 24 months but within 36 months	60% of the aggregate tax and interest
After 36 months but within 48 months	70% of the aggregate tax and interest

# PERSONAL TAX

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## Deduction under Section 80CCD for NPS (Vatsalya scheme)

- Tax benefits under Section 80CCD extended to NPS Vatsalya contributions.
- Deduction allowed for contributions (up to ₹50,000).
- Exemption for partial withdrawals for specific contingencies.
- Effective from April 1, 2026 (Assessment Year 2026-27 onward).

## Exemption to Withdrawals from National Savings Scheme

BEFORE BUDGET	AFTER BUDGET
<p>Under Section 80CCA, individuals or HUFs could get a tax deduction for deposits made in the National Savings Scheme (NSS) before April 1, 1992. If they withdrew the money and interest later, it would be taxed as income, unless the account was closed due to the depositor's death.</p>	<ul style="list-style-type: none"><li>• The budget proposes to exempt from tax any withdrawals made from August 29, 2024, onwards from deposits (with interest) made before April 1, 1992, where a tax deduction was claimed.</li><li>• This change aims to help people who are facing difficulties due to a recent rule stopping interest payments on NSS accounts after October 1, 2024. The exemption will apply retroactively from August 29, 2024.</li></ul>



# PERSONAL TAX

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## Simplification of Annual Value for Self -Occupied Property

BEFORE BUDGET	AFTER BUDGET
<p>Under Section 23(2) of the Indian Income Tax Act, the annual value of a self-occupied property is considered nil if it is occupied by the owner for residence or if the owner cannot reside in it due to business, profession, or employment.</p>	<ul style="list-style-type: none"><li>• The annual value of a self-occupied property can now be taken as nil, irrespective of whether it is occupied by the owner for residence or if the owner cannot occupy it for any reason. This benefit is available for a maximum of two self-occupied properties owned by a taxpayer, provided no rent or any other benefit is derived from the property.</li><li>• Taxpayers can claim the annual value of up to two self-occupied properties as nil for taxation purposes, without needing to meet the previous condition of being unable to occupy the property due to business, employment, or profession.</li><li>• Effective from April 1, 2025 (Assessment Year 2025-26 onward).</li></ul>





# TDS AND TCS

Sr. No	Section	Current Threshold upto 31.03.2025	Proposed Threshold with effect from 01.04.2025
1	193 - Interest on securities	Nil	Rs. 10,000/-
2	194A - Interest other than Interest on securities	<ul style="list-style-type: none"> <li>Rs. 50,000/- for senior citizen</li> <li>Rs. 40,000/- in case of others when payer is bank cooperative society and post office</li> <li>Rs. 5,000/- in other cases</li> </ul>	<ul style="list-style-type: none"> <li>Rs. 1,00,000/- for senior citizen</li> <li>Rs. 50,000/- in case of others when payer is bank, cooperative society and post office</li> <li>Rs. 10,000/- in other cases</li> </ul>
3	194 - Dividend for an individual shareholder	Rs. 5,000/-	Rs. 10,000/-
4	194K - Income in respect of units of a mutual fund or specified company or undertaking	Rs. 5,000/-	Rs. 10,000/-
5	194B - Winnings from lottery, crossword puzzle, etc.	Aggregate of amounts exceeding Rs. 10,000/- during the financial year	Rs. 10,000/- in respect of a single transaction
6	194BB - Winnings from horse race		
7	194D - Insurance commission	Rs. 15,000/-	Rs. 20,000/-
8	194G - Income by way of commission, prize etc. on lottery tickets		
9	194H - Commission or brokerage		



# TDS AND TCS

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Sr. No	Section	Current Threshold upto 31.03.2025	Proposed Threshold with effect from 01.04.2025
10	194-I Rent	Rs. 2,40,000/- during the financial year	Rs. 50,000/- per month or part of a month
11	194J - Fee for professional or technical services	Rs. 30,000 /-	Rs. 50,000 /-
12	194LA - Income by way of enhanced compensation	Rs. 2,50,000 /-	Rs 5,00,000 /-



# TDS AND TCS

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## Amendment in TCS on Forest Produce

BEFORE BUDGET	AFTER BUDGET
<p>Under section 206C(1), TCS at 2.5% is collected on the sale of timber obtained under a forest lease, timber obtained by other means, and any other forest produce (excluding timber or tendu leaves).</p>	<ul style="list-style-type: none"><li>• The term "forest produce" will be defined as per the applicable State Act or the Indian Forest Act, 1927, and TCS will apply only to forest produce (excluding timber or tendu leaves) obtained under a forest lease.</li><li>• The TCS rate will be 2% for both timber or other forest produce (excluding tendu leaves) obtained under a forest lease, and timber obtained by other means, effective from April 1st, 2025.</li></ul>

## Removal of TCS on Sale of Goods

BEFORE BUDGET	AFTER BUDGET
<p>Under Section 206C(1H), Tax Collection at Source (TCS) is applicable on the sale of specified goods where the value exceeds Rs. 50 lakhs in a financial year. At the same time, Tax Deduction at Source (TDS) under Section 194Q applies to the same transaction, creating confusion for the seller who is required to ensure the buyer's TDS compliance.</p>	<p>To reduce the compliance burden, it is proposed that TCS under Section 206C(1H) will no longer apply on transactions where the value exceeds ₹50 lakhs in a financial year. This change aims to eliminate the overlap between TCS and TDS on the same transaction.</p> <p>The amended provision will take effect from April 1, 2025.</p>



# TDS AND TCS

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## Amendment on TDS Penalties

BEFORE BUDGET	AFTER BUDGET
<ul style="list-style-type: none"><li>• Section 206AB: Requires higher TDS rates for non-filers of income tax returns.</li><li>• Section 206CCA: Requires higher TCS rates for non-filers of income tax returns.</li></ul>	<ul style="list-style-type: none"><li>• Stakeholders reported that it's difficult to verify whether the deductee/collectee has filed their return, leading to higher deductions/collections, capital blockage, and increased compliance burden.</li><li>• Omit Sections 206AB and 206CCA to eliminate higher TDS/TCS for non-filers, simplifying the process for deductors and collectors.</li><li>• The amendments will take effect from April 1, 2025.</li></ul>



# LITIGATIONS

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## Amendments in provisions of Block assessment for search and requisition cases

The Finance (No. 2) Act, 2024, introduces block assessment provisions (Chapter XIV-B, Sections 158B to 158BI) for searches initiated or requisitions made on or after September 1, 2024. Key amendments include:

- **Definition of Undisclosed Income** – The term virtual digital asset is added to Section 158B.
- **Abatement and Revival of Proceedings** – Section 158BA aligns provisions to include "re-computation," "reference," and "order" in cases of annulled proceedings.
- **Pending Assessments** – The term "pending" is replaced with "required to be made" to clarify assessment requirements before a subsequent search.
- **Computation of Block Period Income** – Section 158BB revises references from "total income disclosed" to "undisclosed income" and ensures that declared income before a search is credited in the block period.
- **International and Domestic Transactions** – Income from international or specified domestic transactions is excluded from block assessments due to difficulty in determining arm's length pricing.
- **Time Limit for Block Assessment** – The deadline is changed from 12 months after the month of search execution to 12 months after the quarter of execution, ensuring coordinated assessments for related cases.
- These amendments take effect from February 1, 2025.



# LITIGATIONS

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## Amendment to Section 271AAB

BEFORE BUDGET	AFTER BUDGET
<p>Section 271AAB imposes a penalty for searches initiated after December 15, 2016 but does not apply to cases assessed under Section 158BC (Block Assessment).</p>	<p>To eliminate any ambiguity, Section 271AAB has been explicitly amended to specify that it will not apply to searches initiated on or after September 1, 2024. Such searches will instead fall under Block Assessment (Chapter XIV-B).</p> <p>This amendment will take effect from September 1, 2024.</p>

## Other Amendments

Provision	BEFORE BUDGET	AFTER BUDGET
<p><b>Time Limit for Approval for Retention of Seized Books/Documents (Section 132(8))</b></p>	<p>Approval must be taken within 30 days from the assessment/reassessment/r ecomputation order.</p>	<p>Approval must be taken within one month from the end of the quarter in which the order is passed.</p>
<p><b>Definition of Execution of Search Authorization (Section 132)</b></p>	<p>Uses "authorisation" (singular).</p>	<p>Changed to "authorisations" (plural).</p>



# LITIGATIONS

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Provision	BEFORE BUDGET	AFTER BUDGET
<b>Reference to Execution of Search (Section 132B)</b>	Refers to Explanation 2 of Section 158BE.	Refers to Explanation to Section 158B to reflect changes introduced by block assessment provisions.
<b>Time Limit for Imposing Penalties (Section 275)</b>	Various time-limits based on proceedings (e.g., in appeal before ITAT, JCIT, etc.).	Unified time limit: 6 months from the end of the quarter in which the connected proceeding has been completed or the appeal/revision order has been received.
<b>Commencement and End Date of Stay (Various Sections)</b>	Ambiguity in calculating the time period stayed by court orders.	Clear definition: Stay period starts from the day the stay order is issued and ends when the certified copy of the order vacating the stay is received.
<b>Carry Forward of Losses in Amalgamation (Sections 72A &amp; 72AA)</b>	No specific limit on carry forward of losses from predecessor entity in case of successive amalgamations.	Losses from predecessor entity are limited to 8 years after the assessment year for which the loss was first computed.



# TRANSFER PRICING

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BEFORE BUDGET	AFTER BUDGET
<p>Repetitive transactions across multiple years lead to a high compliance burden on the assessee and administrative load on the TPO, as the same ALP analysis is done year after year.</p>	<p>To reduce the burden, it's proposed that the ALP determined for one year will apply to similar transactions in the following two years. Assesseees must exercise an option for this, and the TPO will validate it.</p> <p><b>Key Amendments:</b></p> <ul style="list-style-type: none"><li>• Assesseees will opt for applying the ALP for the next two years.</li><li>• TPO will confirm and apply the same ALP for the two consecutive years.</li><li>• If reassessment is needed, the ALP will be applied to the recomputed total income.</li></ul> <p>The amendments will take effect from April 1, 2026, for assessment years 2026-27 and onward.</p>





# TAX ADMINISTRATION

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## Increase in Limits for Perquisites Calculation

PROVISION	AMENDMENT	EFFECTIVE DATE
<b>Obligation to Furnish Information in Respect of Crypto-Asset</b>	<ul style="list-style-type: none"><li>• Introduces the obligation for reporting entities to furnish information about crypto-asset transactions.</li><li>• Includes rectification of defects, failure to furnish statements, and timely corrections.</li><li>• Expands the definition of virtual digital assets to include crypto-assets relying on cryptographically secured distributed ledger.</li></ul>	April 1, 2026
<b>Increasing Time Limit for Passing Order under Section 115VP</b>	Extends the time limit for the Joint Commissioner to pass an order for tonnage tax scheme from one month to three months from the end of the quarter in which the application is received.	April 1, 2025
<b>Excluding Period for Court Stay in Calculating Time Limit</b>	Excludes the time for which proceedings were stayed by a court order from the time limit to pass an order under section 206C(7A).	April 1, 2025
<b>Exemption from Prosecution for Delayed TCS Payment</b>	Proposes no prosecution for non-payment of tax collected at source if the payment is made on or before the prescribed time for filing the quarterly statement.	April 1, 2025
<b>Imposing certain Penalties by the Assessing Officer</b>	Penalties under these sections to be imposed by the Assessing Officer, instead of the Joint Commissioner, with prior approval from the Joint Commissioner for higher penalty amounts.	April 1, 2025



# MICRO, SMALL AND MEDIUM ENTERPRISES

(Rs. in Crores.)

Category	INVESTMENT		TURNOVER	
	Current	Revised	Current	Revised
MICRO	1	2.5	5	10
SMALL	10	25	50	100
MEDIUM	50	125	250	500

## Increase in credit guarantee covers

(Rs. in Crores.)

Category	Current	Revised
Micro and Small Enterprises	5	10
Startups*	10	20

\*With the guarantee fee being moderated to 1 per cent for loans in 27 focus sectors.



# GOODS AND SERVICE TAX

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- **Input Tax Credit (ITC) Distribution for Inter-State Supplies** - Input Service Distributors (ISD) can now distribute ITC for inter-state supplies subject to reverse charge.



- **Reversal of Input Tax Credit on Credit Notes** - A reduction in liability on a credit note is not allowed if the recipient has not reversed the availed Input Tax Credit (ITC) or if the tax burden has been transferred to another person.
- **Mandatory 10% Pre-Deposit for Appeals in Penalty-Only Cases** - A 10% pre-deposit of the penalty amount is required to file an appeal before the Appellate Authority or the GST Appellate Tribunal when the order pertains solely to a penalty and no tax demand is involved.
- **"Plant or Machinery" Definition** - The term "plant or machinery" has been retrospectively substituted with "plant and machinery" in Section 17(5)(d) of the CGST Act, 2017.
- **Clarification on SEZ & FTWZ Goods** - Goods warehoused in Special Economic Zones (SEZs) or Free Trade Warehousing Zones (FTWZs) will not be treated as supply until cleared for export or Domestic Tariff Area (DTA). No tax refund is available for transactions made prior to clearance, with this provision effective retrospectively from July 1, 2017.
- **Unique Identification Marking for Track & Trace Mechanism** - A new clause (116A) will define Unique Identification Marking to implement a Track & Trace system for goods and section 122B is inserted to provide penalty for its contraventions.
- **Local Authority Definition** - Inclusion of 'Local Fund' and 'Municipal Fund' in the definition of Local Authority.

# CUSTOMS DUTY REFORMS

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## 1. Healthcare & Pharmaceuticals

- 36 lifesaving drugs & medicines fully exempted from Basic Customs Duty (BCD).
- 6 lifesaving drugs added to the list with a concessional 5% duty.
- Full exemption & concessional duty extended to bulk drugs used in manufacturing these medicines.
- 37 more medicines and 13 new Patient Assistance programmes added for BCD exemption.

## 2. Critical Minerals

- Cobalt powder, lithium-ion battery scrap, lead, zinc, and 12 other critical minerals are fully exempted from BCD.
- The exemption aims to boost domestic manufacturing and create jobs.

## 3. Textiles Industry

- Two more types of shuttle-less looms have been added to the list of fully exempted textile machinery.
- The duty on knitted fabrics has been revised from "10% or 20%" to "20% or ₹115/kg, whichever is higher."

## 4. Electronics Goods

- Basic Customs Duty (BCD) on Interactive Flat Panel Display (IFPD) increased from 10% to 20%.
- BCD on Open Cell and Other components reduced to 5%.

## 5. Lithium Ion Battery Manufacturing

- 35 capital goods for EV battery manufacturing added to the exempted list.
- 28 capital goods for mobile phone battery manufacturing added to the exempted list.





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