EY point of view on Union Budget 2025-26

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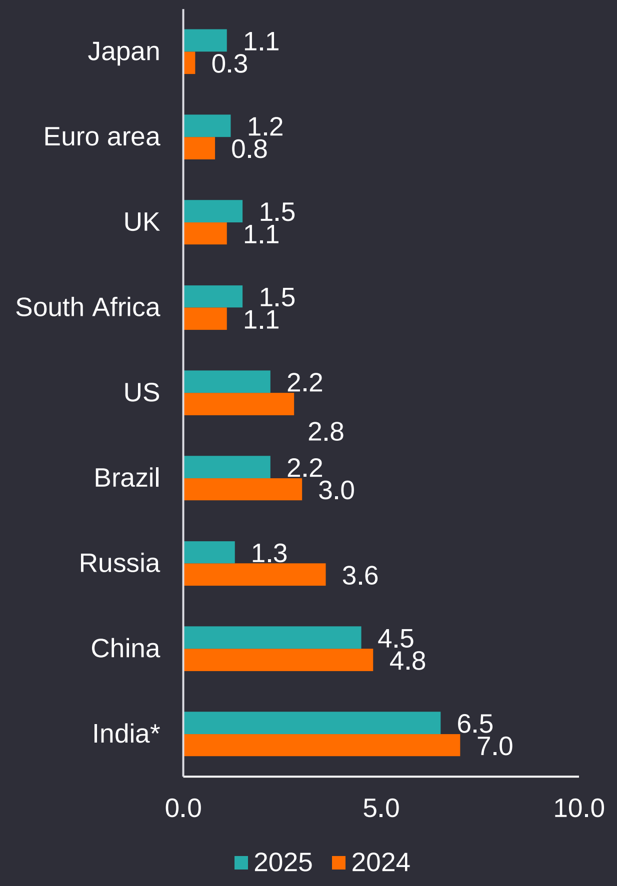
1

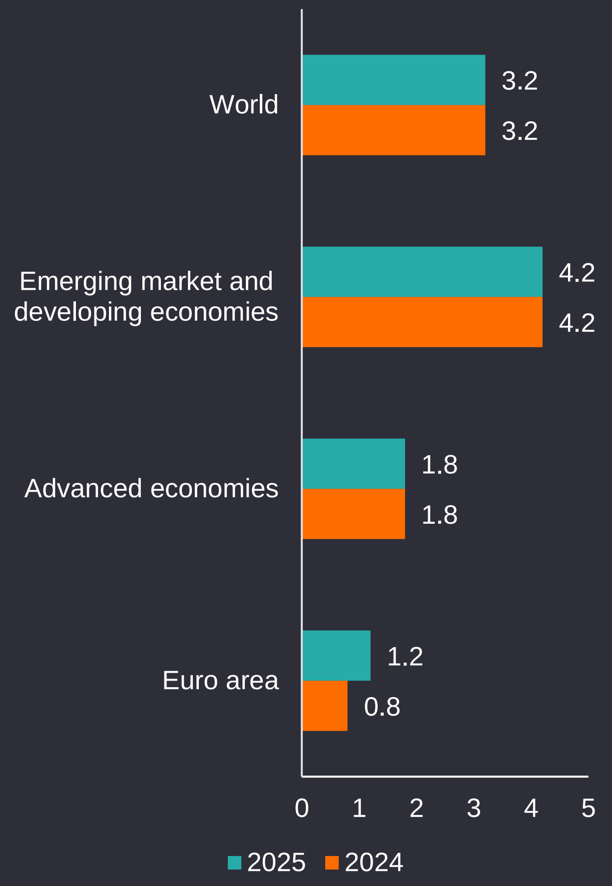
Economy

India's real GDP growth is likely to be around 6.6% in FY25 along with an accelerated fiscal consolidation as compared to budget estimates

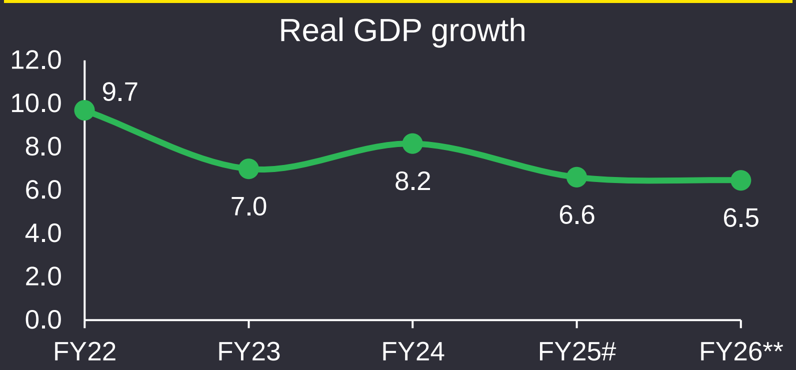
Growth prospects in major economies



Global growth projections (%)



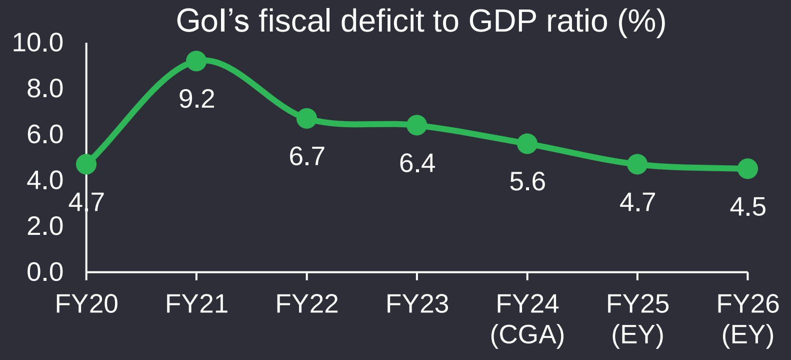
India's growth prospects (%)



As per the RBI (FY25) and the IMF (FY26) for , real GDP is expected to be 6.6% and 6.5% respectively

Source: MoSPI and RBI

GoI moving towards fiscal consolidation



Source: IMF WEO (October 2024)
**Data pertains to fiscal years; # RBI's December 2024 projection for FY25; ** IMF WEO (October 2024) projections for FY26)*

Source: CGA and MoSPI

Emerging growth and fiscal contours: FY26 and the medium-term prospects

Emerging economic growth contours

- Real GDP growth in FY25 is forecasted at 6.6% (RBI) lower than its earlier projection at 7.2%.
- The OECD (December 2024) projects India's real GDP at 6.8% in FY25 and 6.9% in FY26.
- Nominal GDP growth for FY25 is estimated at 9.6% by the IMF.
- As per the IMF (October 2024), India is projected to lead global growth, with an average annual real GDP growth of 6.5% in the medium term.

Emerging fiscal contours

- Center's gross tax revenues (GTR) grew by 10.8% during April-October FY25. A growth of 10.9% is required in the remaining five months of the fiscal year for meeting the FY25 budget target.
- If nominal GDP growth remains well below the budgeted level of 10.5%, the growth of government tax revenues may be subdued unless neutralized by higher buoyancy.
- CGA data indicates that in the first seven months, GoI's capital expenditure contracted by (-)14.7%.
- For realizing the budgeted annual growth of 17.1%, GoI's capital expenditure would need to grow by 60.5% in the remaining five months of the fiscal year.

Prospects for fiscal consolidation

- The GoI may do better than its budgeted fiscal deficit target of 4.9% of GDP in FY25. EY estimates it at 4.7%.
- This would facilitate reaching the fiscal deficit target of 4.5% of GDP in FY26.
- GoI's debt GDP ratio is also likely to fall to 54.4%, with external debt estimated at market exchange rates and net of on lending to states.
- Even so, this debt-GDP level is well above the FRBM target of 40%.
- In the medium term, the GoI should aim to bring its fiscal deficit down to 3% of GDP.

Sustaining medium term growth

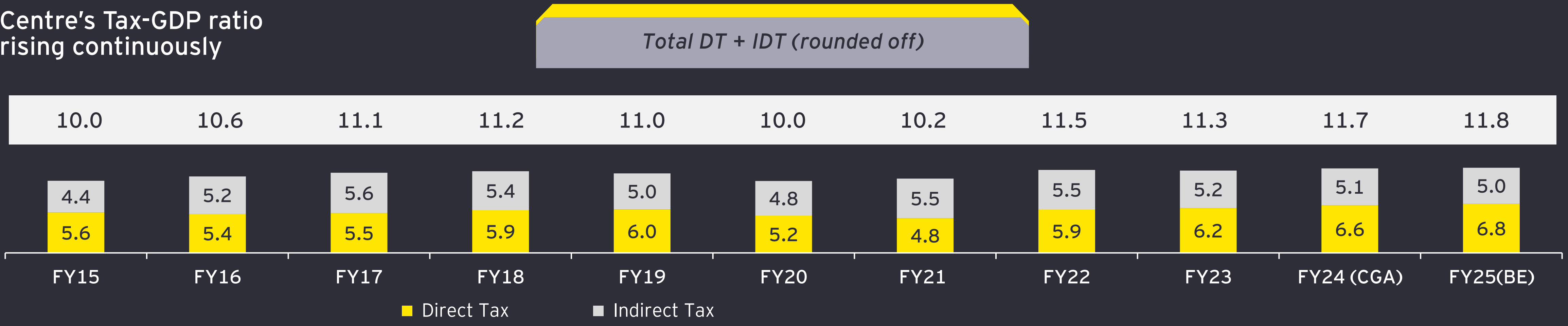
- In the medium term, the real GDP growth target should be 6.5% or above.
- This would call for an aggregate real investment rate (GFCF) of 34% with an ICOR of about 5.2.
- With global economic uncertainties likely to continue, India's growth will largely depend on domestic demand. GoI should ensure robust investment demand and persuade state governments also to increase their capital expenditure growth.
- The private sector should be facilitated to increase its investment rate by progressive reduction in the interest rates.
- Growth in urban demand is falling below that of rural demand. Government's newly introduced employment related schemes should be implemented on a priority basis in order to uplift urban demand.

2

Corporate tax landscape

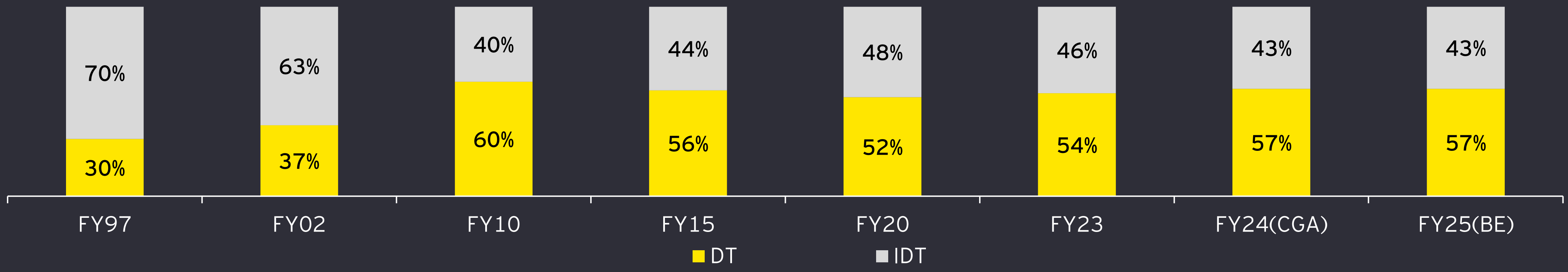
Positive impact of Income tax reforms

Centre's Tax-GDP ratio rising continuously



Note: FY24 numbers have been taken from CGA, other taxes excluding taxes on UTs have been included in direct taxes to calculated the share of Tax to GDP

Share of DT is steadily increasing in the tax-mix



Positive impact of Income tax reforms

12.2% CAGR of direct tax collections in last ten years

- DT collections increased from INR 7 tn in FY15 to INR 19.6 tn in FY24
- 17.9% y-o-y increase in FY24
- 12.3% increase in FY25 (Apr-Oct) over same period last year

1.9 buoyancy in FY24 for direct taxes

- Positive tax revenue growth vis-à-vis GDP growth
- Efficiency in tax collection

>73 mn record Income tax returns filed (till 31.07.2024)

- Consistent focus on digitalization, widening tax base, plugging tax leakage and simplifying compliances

15 days only taken for processing IT returns

- 65 cr PAN and 75 lakh TAN issued
- E-filing portal manages about 0.5 mn returns at per hour rate

Focus on tax simplification, taxpayer services and certainty - with a firm eye on enhancing revenues

- Committee for comprehensive review of the Income Tax Act 1961 set up in July 2024
- 22 specialised sub-committees are reviewing various aspects of the Income tax law
- More than 6,500 suggestions received by the Committee through the designated portal since it was opened on 6 October 2024
- Committee likely to submit initial recommendations to the Finance Minister in December 2024.
- Government may introduce changes in a piecemeal manner

Considering the large pendency, reducing income tax disputes would continue to be a priority

Cases stuck in dispute at various forums: FY22

1 CIT(A)

Number of cases stuck - 5,02,111 *(5,49,042 as on FY24*)*

Amount Involved - INR 14.2 lakh crore

2 ITAT

Number of cases stuck - 26,812

Amount Involved - INR 3.1 lakh crore

3 High Court

Number of cases stuck - 29,763

Amount Involved - INR 3.3 lakh crore

4 Supreme Court

Number of cases stuck - 4,108

Amount Involved - INR 0.3 lakh crore

>350 Board for Advance Ruling (BAR) applications pending for disposals

>800 Advance Pricing Agreement (APA) applications pending for processing

Mutual Agreement procedure (MAP)

	TP cases	Other cases
Started before 1 Jan 2016	TP cases started before 1 Jan 2016: 2023 End Inventory - 201; Avg. time to close case (months) - 111.8	Other cases started before 1 Jan 2016: 2023 End Inventory - 69; Avg. time to close case (months) - n.a.
As from 1 Jan 2016	TP cases as from 1 Jan 2016: 2023 End Inventory - 323; Avg. time to close case (months) - 35.8	Other cases as from 1 Jan 2016: 2023 End Inventory - 69; Avg. time to close case (months) - 33.9

** CBDT Central Action Plan 2024-25*

Source: Parliamentary Standing Committee report dated March 2023; APA Annual Report, September 2023; EY Analysis; OECD India MAP Statistics, 2023

The entire gamut of withholding taxes likely to be streamlined

- As many as 33 sections deal with different types of payments to residents – applicable TDS rates vary from 0.1% to 30%.
- TDS rates may vary depending upon the status of payees or nature of payments - creates confusion for taxpayers.
- As a part of the simplification exercise, Government may rationalise the TDS structure and rates by having only 3-4 broad categories and lower rates.
- A beginning was made in July 2024 Budget when the TDS rates for certain categories were reduced from 5% to 2%.

Current TDS structure

No. of Sections	Particulars	TDS rate (%)
2	192 (Salary)/ 194P (Senior Citizens Pension)	Normal Slab Rate/ rate in force
2	194O (E-commerce transactions)/194Q (Purchase of goods)	0.1
3	194C (Contracts) / 194IA (Immovable property)/ 194S(Crypto transactions)	1
9	194C (Contracts) / 194DA(non-qualifying life insurance policy)/ 194G(Lottery commission)/ 194H (Commission/Brokerage)/ 194-I (Machinery rent)/ 194IB (Rent payment by individuals)/ 194J (Fees for technical services)/ 194M (Large payments by individuals)/ 194N (Cash withdrawals)	2
2	194D (Insurance commission)/ 194N (Cash withdrawals)	5
14	192A (PF withdrawals)/ 193 (Interest on securities) / 194 (Dividends) / 194A (Interest other than on securities) / 194EE (NSS) / 194-I (Immovable property rent)/ 194IC (Joint Development Agreements)/ 194J (Fees for professional services)/ 194K (Mutual fund dividends)/ 194LA (Compulsory acquisition of immovable property)/ 194LBA (REIT/InVIT income)/ 194LBB (AIF income)/ 194R (Business perquisites)/ 194T (Interest/remuneration to partners)	10
1	194LBC (Securitisation Trust income)	25
4	194B (Lottery winnings)/ 194BA (Online game winnings)/194BB (Horse race winnings)/ 194LBC (Securitisation Trust income)	30

Capital gains provisions may be further rationalised

- In the last Budget, government rationalised the capital gains structure in terms of holding period of assets and tax rates.
- The government may address some of the unintended anomalies to make the rationalisation of capital gains more complete. For instance:

The period of holding for the following capital assets may be rationalised:

- For computation of capital gains arising on slump sale, the holding period for business undertaking may be reduced from 36 months to 24 months. This will be in line with the amendments made in Finance Act, 2024 which reduced the holding period for all capital assets to 12 or 24 months to turn into long term.
- The holding period for unlisted shares transferred under "Offer for Sale (OFS)" by existing promoters/PE investors in an Initial Public Offer is 2 years despite other tax treatment for such shares being identical to listed shares for whom holding period is 1 year. Government may reduce the holding period for unlisted shares transferred under OFS in IPO to 1 year

- As per the Finance (No. 2) Act, 2024 even if unlisted bonds are held for more than 24 months, the gains on transfer shall still be treated as short term capital gains.
- This provision may adversely impact sovereign wealth funds/pension funds that are eligible to claim exemption u/s. 10(23FE) for investment in debt and equity in infrastructure sector. Such funds are exempt only on long term capital gains arising from investment made by it in India, whether in the form of debt or share capital or unit.
- Government may provide an exception to such funds under the new treatment of capital gains for unlisted debentures.

- Section 87A offers a rebate to individuals with a total taxable income of up to Rs 5 lakh under the old regime and Rs 7 lakh under the new tax regime.
- The benefit of rebate u/s. 87A is available for LTCG from listed equity, equity-oriented funds and units of business trust u/s. 112A. However, the rebate does not apply to any LTCG other than s.112A.) or to STCG from listed equity, equity-oriented funds and units of business trusts.
- Since the capital gains tax rates have increased, and to bring parity, government may allow rebate u/s 87A on other income (capital gains) for small taxpayers

Budget 2025:
India Inc.'s key asks

Policy issues

- Continued prudent fiscal & debt management
- Thrust on public capex
- Improve Ease of Doing Business
- Fostering Innovation, Research & Development
- Targeted interventions for sectors with large scale employment potential
- Facilitate green financing

Tax issues

Facilitate Business Restructuring

Section 72A

- The benefit of carry forward and set-off of accumulated loss and unabsorbed depreciation may be extended to service and trading organisations
- In the least, it may be extended to DPIIT registered start-ups approved by a CBDT constituted Expert Committee

Penalty on debatable issues

- No penalty for underreporting or misreporting of income should be applied under section 270A on issues which are debatable in nature and the taxpayer has given bonafide explanation and disclosed all material facts.

Relook at Significant Economic Presence (SEP) provisions

- SEP should be removed from Income tax Act in light of new Pillar One framework.
- Alternatively, suitable guidelines should be issued to clarify the methods for determination of profits attributable to SEP

Buyback related provisions

- The new regime treatment of buybacks as dividend-cum-capital loss should not be applied to buyback out of share premium or buyback out of proceeds of another issue of shares/security i.e., where retained earnings/accumulated profits are not distributed to the shareholders.
- Otherwise, it will lead to artificial taxation of capital receipt as dividend income.

Relook at Micro and Small Enterprises (MSE) provisions

- Current provisions to promote timely payments to MSEs, has turned counterproductive since larger companies in private sector prefer to make purchases from non-MSE units to avoid disallowance under section 43B.
- Section 43B should be rolled back by deleting sub-clause (h) in existing provisions
- Alternatively, the extended date upto due date of filing return of income under section 139(1) may be permitted for payment to Micro and Small Enterprises also

GIFT IFSC

Current status / rationale	Expectations
IFSC allows relocation of offshore ‘funds’ to GIFT City	Enable relocation of holding company structure to GIFT IFSC (also recommended by Committee on Onshoring the Indian Innovation) and provide tax neutral flipping of such companies
Expert Committee has been constituted for Committee Trading	Enable regulations for set up of a Commodity Trading Hub for global supply chain management
Direct listing of shares of Indian companies on IFSC exchanges has been enabled	Provide concessional tax rate of 10% (as against 20% currently) on dividends on shares listed on IFSC exchanges
Issuance of Offshore Derivative Instruments allowed by non-banking units	Provide tax framework on same lines as provided to IBUs in the past
Regulations exist for life insurance companies to set up in IFSC	Provide tax exemption to non-resident policyholders for receipts from IFSC-based insurers

3

Indirect Tax

Issue 1:
Roadmap for digital transformation of Customs Compliance

Issues

- Taxpayers are required to prepare and submit details for filing ‘Bill of entry’ and ‘Shipping bills’ in the ‘.be’/’.sb’ format. The said file is manually submitted on the ICEGATE portal.
- A roadmap may be devised and implemented to further augment the automation drive in Customs

Suggestions

- **Digitalisation via API route** - Requisite details may be filed through Application Programming Interface (‘API’) so as to reap benefits of technology and reduce manual errors. Wherein, API connectivity can be primarily used for uploading data schema for Bill of Entry or Shipping Bill preparation, making custom duty payment, etc.
- **Access to ICEGATE Portal similar to GSTN** - Borrow the successful concept of Goods and Services Providers (‘GSP’) from GSTN, to be able to transmit huge volume of data speedily and securely from Customs Broker's system or importer and exporter's system to/from ICEGATE portal
- **Licensed GSPs can be given access** - Considering that GSPs already have an infrastructure in place and taxpayers are familiar with them and they have requisite skillset and manpower to implement such a large change

Issue 2:
Litigation Resolution : Amnesty Scheme (Customs)

Issues

- Customs litigations are pending at various forums for a very long time and the same requires time and effort to be spent by both the taxpayer and Government in resolving them.

Suggestions

- **Introduction of Amnesty Scheme -** "Ease of doing business" has been one of the biggest agenda of the Central Government. The uncertainty in the legal processes and the time consumed by the Courts and other appellate forums in resolving disputes have been a major challenge to ease of doing business
- Central Government had earlier launched 'Sabka Vishwas (Legacy Dispute Resolution) Scheme, 2019 for settlement of legacy Excise and Service Tax issues. Similarly, various States have introduced settlement schemes under the respective State VAT laws and had monetised the revenue blocked in pending litigation.
- One time dispute/litigation resolution/settlement scheme should be introduced under the Customs Law to settle and resolve the pending disputes.

Issue 3:
Tariff Rationalisation

Issues

- Sector-wise review of existing rate structure to identify cases resulting in Inverted Duty Structure ('IDS') due to current tariff structure or FTAs rate benefit.
- Illustration: Prices of the data cable (HSN 8544 49 92) suffer from inverted duty structure as the raw material – Copper Rod, being major raw materials in manufacture of data cable, classified under ITC (HS) 7408 11 90 are subject to levy of BCD @ 5%. On the other hand, import of data cables (finished goods) is exempted from customs duty in terms of Notification No. 25/2005 – Information Technology Agreement ('ITA') bound goods.
- Due to the above, there arises a situation that import of finished goods suffer no import duty while import of raw material suffers import duty of 5%.

Suggestions

- Undertake duty changes for imported goods basis sector-wise industry consultation and review of existing FTAs and exemption notifications to correct cases resulting in inverted duty structure. The suggestive range of rates may be as follows:

Items	Suggested Range of Rates
Duty on inputs or raw materials	Nil to 2.5%
Duty on intermediates	2.5% to 5%
Duty on final products	7.5% to 10%

- To incentive the domestic industry to manufacture the Data Cable in India rather than importing, inverted duty anomaly on Data Cable may be removed by reducing import duty on raw material

Issue 4:
Implementation of online module for Bill of Entry amendment & duty payment

Issues

- There are multiple instances, wherein post clearance of imported goods to domestic area, importer is required to deposit the differential duty and Bill of Entry is to be amended to reflect the said payment of the differential duty. Few of the said instances are:
  - De-bonding of STPI goods;
  - On account of change in tariff classification or duty rate;
  - On account of post-import transfer price adjustments at year end;
  - Post conclusion of litigation proceedings u/s 28 of the Customs Act, 1962;
  - Post closure of the SVB proceedings; and
  - Non –fulfilment of export obligation under EPCG/AA schemes.
- At present the importers are required to make the manual payment via TR-6 challan and thereafter approach the customs appraising authority for amendment/re-assessment of the Bill of Entry. The aforesaid activity is time consuming task and need multiple follow-ups for closure.

Suggestions

- **Implement online module for amendment of Bill of Entry & payment of custom duty** - Implementation of online module for payment of differential custom duty/ interest/ other amounts and online amendment of Bill of Entry would certainly be a key step towards "ease of doing business" for importers/exporters in above mentioned circumstances
- The said payment should be linked with the BoE as well as the IGST paid should get reflected in GSTR-2B of the taxpayer

Issue 5:
Manufacture and Other Operations in Warehouse Regulations, 2019 ('MOOWR 2019')

Issues

- MOOWR, 2019 was introduced in line with 'Make in India' objective. Procedural rationalisation/clarification is required to provide clarity and ease of doing business

Suggestions

- **Policy changes**
  - Introduction of Section 65A to the Customs Act, 1962 [implementation date yet to be notified], so as to make IGST payable on goods imported into a MOOWR unit would impact the working capital of business enterprises & hence make the scheme less viable compared to other export promotion schemes under the Foreign Trade Policy. The same may be withdrawn to drive home the Make in India Policy
  - Allowance of depreciation benefit on clearance for capital goods to non-bonded area for the purpose of custom duty payment
- **Rationalisation of clearance procedure**
  - Allow payment of customs duty on a periodic basis as against each consignment; say fortnightly to ease the frequency of such compliance and through single TR-6 Challan;
  - Tagging of multiple in-bond BoE to ex-bond BoE/ shipping bill: Enable the functionality on Customs EDI portal for tagging the multiple in-bond BoE with single ex-bond BoE for domestic clearance or to a shipping bill for export of goods

Issue 6:
Free Trade Agreements (FTA) Imports

Issues

- At present in terms of Section 28DA of the Customs Act, 1962 read with Rule 6(4) of the CAROTAR, 2020 read & Circular No. 38/2016-Customs, dated 22nd August 2016, all importers are required to furnish BG for provisional clearance of the goods, in cases where the Certificate of Origin is put under verification
- Non-availability of the FTA equivalent benefits on the goods cleared from Special Economic Zone to DTA area. Aforesaid, leads to disparity, despite the fact the SEZ's in India plays a significant role in domestic manufacturing, employment generation & corporate tax contributor

Suggestions

- **Relaxation on furnishing of Bank Guarantee requirement**
  - Amendment of Section 28DA of the Customs Act, 1962 to empower Government to provide relaxation from the requirement of furnishing of Bank Guarantee (BG) to facilitate trade
  - Alternatively, AEO certificate holders shall be waived off from furnishing of the BG in terms of Section 143AA of the Customs Act, 1962
- **Allow identical duty benefits to SEZ unit for domestic clearance**
  - Allow identical duty benefits in line with concession/exemption available under any of the FTA signed by India, to bring SEZ manufacturing unit on parity and boost SEZ manufacturing in India

Issue 7:
EOU - Exit from scheme and related De-bonding of goods

Issues

- The issue is with reference to the duties payable at the time of clearance of imported capital goods from an EOU/ STPI Unit, for which exemption was availed; the said imports being made prior to implementation of GST
- At the time of debonding thereof, such capital goods can be cleared on payment of an amount equal to CVD/SAD along with Basic Customs duty (BCD) as leviable at the time of import for clearance of goods procured prior to 1 July 2017), as per clarification provided by Circular No. 50/2018-Customs, dated 06 December 2018
- However, no input tax credit for such duty paid (CVD/SAD) is available now with implementation of GST

Suggestions

- Companies be allowed to discharge IGST on such debonding of capital goods imported prior to the GST implementation, the credit for which could be availed to the extent permissible under the law. Necessary amendments shall be made in Circular No. 50/2018-Customs, dated 06th December 2018
- Denial of credits of duty paid on debonding of goods creating a cascading impact was never intended
- Charging IGST on the clearance of capital goods, irrespective of the import period (i.e., whether goods were imported pre-GST of post-GST), will create a level playing field for the exporters
- While IGST would be paid in such cases under TR-6 challan, EOUs may be denied credit of such IGST payments in view of Circular No. 16 of 2023 which states that TR-6 challan is not a prescribed document under GST law for availing input tax credit.

Issue 8:
Revamp of SVB Process

Issues

- The Government has revamped the SVB process vide its Circular No. 05/2016 - Customs dated 09 February 2016
- However, following areas needs to be addressed to further smoothen the process of SVB:
  - Actual time taken for finalization of SVB proceeding is more than time prescribed in circular
  - No time limit defined for appointment of common adjudicating authority
  - No functionality for adjustment of Extra Duty Deposit (EDD) amount with the custom duty payable

Suggestions

- **Digitalisation and Customs EDI changes**
  - Online submission of SVB questionnaire and issuance of Investigation Report (IR) within prescribed timelines
  - Allow adjustment of EDD amount with the custom duty payable on finalization of the SVB proceedings
- **Procedural Changes**
  - Prescribe time limit for the appointment of the common adjudicating authority by the Board. It may also consider providing for the appointment of the common adjudicating authority, without referring to CBIC, on certain basis such as:
    - Port where importer has paid the maximum duty during current/previous financial year
    - Port where the importer is registered with SVB
    - Copy of IR should be given to the importer. At present the IR is directly shared with the appraising group for issuance of SCN or finalization of the pending Bills of Entry.
  - Instructions may also be issued to provide copy of all documents / information relied upon in the IR especially the NIDB data in case alleged imports by other importers are relied in the IR

Issue 9:
RoDTEP

Issues

- Measures to enhance existing RoDTEP scheme and introduction of new export incentive scheme for service sector
- RoDTEP scrips are not eligible for utilization for payment of Integrated Goods and Services Tax ('IGST'), Social Welfare Surcharge (SWS) and GST Compensation Cess. RoDTEP scrips at present can only be used for payment of BCD as leviable under First Schedule to the Customs Tariff Act, 1975, as per para 4.56 N. No. 19/2015-20, dated 17th August 2021

Suggestions

- **Extension of validity:** RoDTEP scheme to be extended till 30 September 2025 for AA/EOU/SEZ units in lines with DTA units.
- **Modification of RoDTEP Scheme:**
  - Allow debit of IGST and cess through scrips
  - Alternatively, allow cash refunds similar to duty drawback scheme
  - Upward revision of RoDTEP rates post consultation with industry to commensurate the actual embedded taxes & duties
- **Introduction of incentive scheme for service:** Introduce an incentive scheme for service exporters

Issue 10:
Allow payment of IGST, SWS, Compensation Cess through Duty Credit Scrips

Issues

- As per Customs Notification No. 24/2015 dated 08th April 2015, Notification No. 25/2015 dated 08th April 2015 and FAQs issued, duty credit scrips (MEIS/ SEIS) cannot be used for the payment of IGST, SWS and Compensation Cess

Suggestions

- Allow duty credit scrips for payment of IGST, SWS and Compensation CESS and necessary amendment shall be made in Foreign Trade Policy and Customs Notification
- The above change would allow the exporters to utilize the Duty Credit scrips, which would eliminate blockage of working capital since presently payment is being made in cash

Issue 11:
Penalty for Fraudulent utilization of ITC for claiming refund

Issues

- A new section 114AC and clause (ja) in Section 113 has been inserted in the Customs Act vide Finance Act 2021 to provide for confiscation and prescribe penalty (equivalent to 5 times the refund amount) in a specific case where any person has obtained any invoice by fraud, collusion, wilful misstatement or suppression of facts to utilise ITC on the basis of such invoice for discharging any duty or tax on goods entered for exportation under claim of refund of any duty or tax
- Section 114AC would result in:
- Uncertainty in continuation of business for bona-fide importers/exporters;
- Multiple litigations on similar issues under both GST and Customs
- Power of confiscation of goods would result in a lot of hardships for bonafide importers/exporters and impact the on-going business

Suggestions

- With regard to penalty, an explanation may be inserted to provide that the said confiscation and penalty under Customs law is not imposable where penalties are already provided in the GST law
- Penalty should be aligned to the penalties imposable under the GST law

Issue 12:
Ease of renewal : AEO Certification

Issues

- Renewal of AEO-T2 / AEO-T3 certification

Suggestions

- Renewal of AEO-T2 and T3 certification is being carried out by going through the whole process as in the case of a new AEO-T2 / T3 certification.
- It is suggested that in case there are no major changes in the sites / SOPs of an entity, renewal may be granted based self-declaration and on verification of latest financials, litigation etc. rather than going through the entire process all over again.
- Further, AEO certification should not be denied in a routine manner based on pending litigations under GST or the erstwhile Central Excise or Service Tax laws. A thorough review of the pending litigations may be done and AEO certification may only be refused if they relate to deliberate and wilful suppression, fraud etc. as prescribed under Circular No. 33 of 2016.

Issue 13:
Audit

Issues

- Timelines for closure of audit objection / issuance of SCN after issuance of Pre-Consultative Notice

Suggestions

- Timelines may be put in place to close the audit objection / issuance of SCN, (as applicable) from the time pre-consultative notice is issued so that there is a visibility to the importer / exporter as to whether the identified issue has been proceeded with or otherwise.
- The number of pre-consultative interactions should also be limited to ensure that the timelines, as specified are adhered to.
- Instructions may be issued laying down procedure and timelines for TBA, PBA and Theme based audit.

Issue 14:
Decriminalization of offences

Issues

- Decriminalisation of offences, as the GST law already contains adequate penal provisions for deterrence against evasion of taxes.
- Further, the applicability of prosecution provisions is currently based on absolute amount of tax evasion which may not be substantial in many cases.

Suggestions

- A negative list of areas may be provided which may specify the cases where prosecution provisions should not be made applicable such as (interpretational issues, clerical errors, etc.)
- The applicability of prosecution provisions should not be based on absolute amount of tax evasion but based on certain percentage of the tax payable.

Issue 15:
ITC rationalization

Issues

- Blockage of ITC resulting into cascading of taxes has been an issue. The recent judgement of Safari retreats of Honourable Supreme Court has opened the discussion on allowing credits of inputs and input services used in constructing Immovable property, which is used for providing services
- For same legal entity – there is an accumulation of ITC in some registrations & cash payment in others - working capital blockages. Further, Closure of state registration(s) also results in increase of cost as accumulated ITC
- Mandatory payment of GST liability under reverse charge mechanism ('RCM') through E-Cash Ledger ('ECL') results in working capital blockage

Suggestions

- Re-evaluation of Section 17(5) to allow ITC as long as they are being used for business purposes
- To reduce unintended blockage of ITC, there are several avenues that could be considered -
  - Allowing transfer of credits from one state to another
  - Refund of accumulated ITC at the end of the financial year to help the industry
  - Expanding IDS to include ITC refund on services
- Monetization of credits by issuing tradeable against accumulated credits
- Payment of GST liability under RCM should be allowed to be paid through E-Credit Ledger ('ECRL')

Issue 16:
Dispute resolution – Amnesty scheme under GST

Issues

- Introduction of Amnesty scheme under GST is a welcome move by the Government to manage Litigations under GST, however, scope expansion of the scheme would further attract the taxpayer's participation

Suggestions

- Issue based settlement instead of notice or order-based settlement under the amnesty scheme.
- Applicability of the scheme in case of notices or orders pertaining to only interest and/or penalty is a welcome clarification, however, the same should be extended to interest on self-assessed tax.

Issue 17:
Centralization of compliances

Issues

- Multiple audit/ scrutiny by different jurisdictions in each such state leads to multiple interpretations of issues as well
- Authorities in every state (Centre/ state jurisdiction) follow different audit procedures and data requirement list which creates a lot of issues for such taxpayers.
- The faceless assessments introduced in Customs and Income tax can be brought to GST by bringing in Centralized Audits

Suggestions

- The Centre Government may consider re-formulating single window LTU's and provide a "red carpet" treatment for large taxpayers. Large taxpayer Units (LTUs) are self-contained tax administration offices, acting as single window clearance points for large taxpayers.
- Centralizing the audit process with possible rotation between centre and state jurisdictions
- Issue guidelines to standardize the audit documentation requirement and prescribe a uniform process

PLI wishlist and expected financial outlay

S.No.	PLI Scheme	Government Ministry	Expected Financial Outlay
1	Electronic Components	Ministry of Electronics and Information Technology (MeitY)	INR 25,000 crores
2	Semiconductor Incentive Scheme 2.0	Ministry of Electronics and Information Technology (MeitY)	INR 43,265 crores
3	Drone Ecosytem	Ministry of Civil Aviation	INR 500 crores
4	Lithium Ion Cell Ecosystem	Ministry of Heavy Industries	INR 8000
5	BESS Cell	Ministry of Heavy Industries	INR 4500
6	Rail Components	Ministry of Railways	INR 1,500 crores
7	Furniture	Ministry of Commerce and Industry	-
8	Toys	Ministry of Commerce and Industry	INR 3,489 crores
9	Footwear and Leather	Ministry of Commerce and Industry	INR 2,600 crores

4

Personal Tax

Directions emerging from the last 4 Union Budgets*

1 Tax regime

- Increased focus on Concessional Tax Regime (CTR)
- Minimal changes were seen under old tax regime
- CTR proves beneficial for high income earners, by reducing the maximum marginal rate from 42.744% to 39%

2 Capital Gains

- Asset classes have been consolidated for long term capital gain tax purpose
- Surcharge has been simplified for long term capital gains
- Holding period of assets have got rationalized and simplified

3 NPS made attractive

- No changes were made towards NPS under old tax regime
- Efforts are being made to provide additional deduction for employer's contribution to NPS

4 Data and Digital experience for taxpayers

- Average time for processing IT returns reduced to 10 days for FY 2023-24 (16 days in FY 2022-23)
- Consistent focus on digitalization and simplifying compliance processes
- Transparency in availability of data to taxpayers – requisite data reflected in AIS and TIS of taxpayers to assist them in accurate tax return filing
- Faster refunds - Refunds amounting to INR 3.79 lakh crore issued in FY 2023- 24 showing an increase of 22.74% over FY 2022-23

5 TCS mechanism

- Increasing the ambit of taxes through TCS route
- Adjustment of TCS against TDS on salary is a welcome move for taxpayers

* Union Budgets from 2022 to 2024

Direct Tax Collections

Personal tax collections have grown at a CAGR of 25.23% during FY 2023 -24

Financial Year	Net Collection (INR Cr)
2019-20	4,92,717
2020-21	4,87,560
2021-22	6,96,604
2022-23	8,33,307
2023-24	10,45,139

ITR Filings for FY 2023-24 Surpass 7.28 Crore, Marking a 7.5% Increase Over FY 2022-23

Financial Year	Due Date	No of returns filed
2019-20	10-Jan-21	5,78,45,678
2020-21	31-Dec-21	5,77,39,682
2021-22	31-Jul-22	5,82,88,692
2022-23	31-Jul-23	6,77,42,303
2023-24	31-Jul-24	7,28,80,318

Source: PIB press release

Pain points for taxpayers

Short processing time for filing of tax returns

Form 16s are issued by 15th of June and taxpayer is required to file his original India tax return by July 31st. This time frame is short and poses pressure for the taxpayers. Timelines for issuance of Form 16 and due date to file India tax return to be revisited

Form 26AS, Annual Information Statement & Tax Information Statement

Delay in availability of updated forms (Form 26AS, AIS and TIS) causes difficulty to taxpayers for filing the accurate tax returns

Reduction of the time limit for e-verification

The timeline for e-verification has been reduced to 30 days from 120 days of filing the tax return. If a taxpayer does not verify the return within this period, then a fee of INR 5,000 under Section 234F will be applied

Technical Issues with the E-Filing Portal

-Non- responsiveness of portal / Slow Page Loading
-Frequent timeouts and loss of data

Set Off of Refunds against outstanding demand

Adjustment of refunds against erroneous demands is a big concern amongst the taxpayers. Even where the taxpayer disagrees to outstanding demand, interest continues to accrue and refund gets adjusted with the demand (though not genuinely payable)

ESOPs tax deferral

The benefit of tax payment deferment as regards ESOPs to the stage of sale (as against exercise stage) is merely eligible for start-ups. This position requires to be revisited and extended for all the organizations

Housing – Capping of interest deduction

Capping of INR 2 lakhs towards the set-off of house property loss in case of 'self-occupied' house property (old regime) causes difficulty for the taxpayers and results in higher tax payable

Budget expectations on the personal tax front

- Increase in the basic exemption limit from INR 3 lakhs to INR 5 lakhs in the new tax regime and reduction in tax rates, to provide more disposable income in the hands of taxpayers
- Perquisite valuation for Electrical Vehicles - Valuation Rules under Rule 3 of the Income Tax Rules to be specifically clarified for EVs

Budget wish list on the personal tax front

Clarity on taxation of Virtual Digital Assets

- Introduce clear guidelines and tax structure for cryptocurrency transactions and Non-Fungible Tokens (NFTs)
- Guidelines related to loss incurred towards VDAs

Housing

- Remove the cap of INR 2 lakhs towards the set-off of house property loss against other heads in the same year
- Include tier 2 cities (Hyderabad, Pune, Bengaluru, Ahmedabad, Gurgaon etc.) in the list of metro cities for HRA exemption calculation purposes (from 40% to 50% of basic salary)

Further simplification of the personal tax regime

- Provide clarity on taxation of employer's contribution to specified funds in excess of INR 7.5 lakhs and 'accretions' thereon -clarify aspects such as identification of fund to which excess contributions are made, meaning of 'accretions' in case of Superannuation Fund/NPS and computation methodology
- Defer the TDS (under section 194A) on the interest earned on the employees' PF contributions of more than INR 2.5 lakhs per annum to the stage of withdrawal/cessation of employment as against TDS on accrual basis, in line with the stage of taxation of the underlying interest amount
- Introduce a provision in law for tax treaty relief at the withholding stage by the employer
- Increase the scope of deduction in respect of purchase of electric vehicles (quantum of interest deduction and removal of sunset period for sanction of loan)
- TDS rate structures to be rationalised - Lay down a roadmap for rationalisation of TDS rates structures. Also, there should be a list of payments which will not be liable to TDS like payments to senior citizens etc.
- Cascading impact of GST on medical expenses and insurance premiums to be examined
- Introduce an option to revise the belated India tax return

ESOPs tax deferral

- Extend the benefit of tax payment deferment as regards ESOPs to the stage of sale (as against exercise stage) to all employers and not merely eligible start-ups covered u/s 80-IAC of the Act

Other aspects

- Revert to the previous belated/revised tax return filing deadline
- Streamline compliances as regards TDS procedures related to the purchase of immovable property from/payment of rental income to NR individuals
- Increase tax-free threshold for gifts from INR 50,000 to INR 100,000
- Measures to expedite disposal of pending appeals
- Bring in accountability provisions in relation to the taxpayers' interactions with the CPC for various issues/grievances

Annexures

Tax regime

Year	Changes introduced
2022	Old regime - Tax rebate under Section 87A was increased to INR 12,500 for individuals earning up to INR 5 lakh, from INR 5,000 for income between 3.5 lakh to INR 5 lakh effectively making their tax liability zero. No changes with respect to Concessional Tax Regime ('CTR')
2023	CTR has been made as default regime. Further, following changes were introduced with regards to CTR: ▪ Enhancement in the basic exemption limit to INR 3 lakhs from the existing limit of INR 2.5 lakhs ▪ Rebate limit enhanced to INR 7 lakhs from the existing limit of INR 5 lakhs (i.e., tax relief of up to INR 25,000) ▪ Standard deduction of INR 50,000 was introduced ▪ Maximum surcharge rate reduced from 37% to 25% in case of taxpayers having taxable income exceeding INR 5 Cr (maximum marginal rate reducing from 42.744% to 39%)
2024	▪ CTR - change in the tax structure with reduced slabs (refer next slide) ▪ CTR - Standard deduction limit enhanced to INR 75,000 from existing INR 50,000

CTR- Change in Surcharge and the tax structure with reduced slabs

FY 2023-24	FY 2024-25
Up to INR 3 lakh – Nil INR 3,00,001 to INR 6,00,000 - 5% INR 6,00,001 to INR 9,00,000 - 10% INR 9,00,001 to INR 12,00,000 - 15% INR 12,00,001 to INR 15,00,000 - 20% Above INR 15,00,000 - 30%	Up to INR 3 lakh – Nil INR 3,00,001 to INR 7,00,000 - 5% INR 7,00,001 to INR 10,00,000 - 10% INR 10,00,001 to INR 12,00,000 - 15% INR 12,00,001 to INR 15,00,000 - 20% Above INR 15,00,000 - 30%
Surcharge Up to INR 50 lakh – Nil INR 50 lakh to INR 1 Crore - 10% INR 1 Crore to INR 2 Crore - 15% Above INR 2 Crore - 25%	**Surcharge** Up to INR 50 lakh – Nil INR 50 lakh to INR 1 Crore - 10% INR 1 Crore to INR 2 Crore - 15% Above INR 2 Crore - 25%

Capital Gains

Year	Changes introduced
2022	Capping of surcharge on long term capital gain at 15%
2023	No Changes
2024	▪ Long-term capital gains on sale of all financial and non-financial assets will attract a tax rate of 12.5% as against the existing rate of 10%/ 20% The limit of exemption for long-term capital gains has been enhanced to INR 1.25 lakh per year from the existing threshold of INR 1 lakh per year for STT-paid equity shares and units of equity-oriented funds ▪ Short-term capital gains rates on sale of equity oriented mutual funds and equity shares have been increased to 20% from the existing rate of 15%. Short-term capital gains on the sale of other financial assets will be taxed at the applicable rates ▪ Increase in rates of securities transaction tax on sale of an option in securities from 0.0625% to 0.1% of the option premium and on sale of a futures in securities from 0.0125% to 0.02% of the price at which such "futures" are traded

Deductions / exemptions

Year	Changes Introduced
2022	No Changes
2023	A maximum exemption limit of INR 10 crores was introduced (under section 54 & 54F). If the cost of the new property is more than INR 10 crores, the cost of such an asset shall be deemed to be INR 10 crores
2024	Currently, the employer's contribution to NPS is allowed as a deduction (i.e., non-taxable) for up to 10% of the employee's salary. The deduction limit was enhanced for deduction up to 14% for employees opting for CTR

Data and Digital experience for taxpayers

Year	Changes Introduced
2022	Litigation management and faceless scheme was introduced to alleviate the administrative difficulties faced by the taxpayer and faster disposal of pending appeals
2023	▪ Selective approach towards scrutiny cases ▪ Plan to strengthen the grievance redressal mechanism was laid out
2024	With the objective of reducing litigation and settling pending disputes, 'Direct Tax Vivad Se Vishwas Scheme' was re-introduced

Other Changes

Year	Changes Introduced
2022	▪ Updated tax returns - Introduced for filing at any time within 2 years from the end of the relevant assessment year to provide an opportunity to correct omissions/mistakes. However, such return cannot be filed if it has the effect of decreasing the total tax liability or results in refund or increases the refund due in the previously filed original/belated/revised return ▪ Introduction of taxability of Virtual Digital Assets
2023	▪ TCS percentage - Enhanced to 20% from existing 5% ▪ Leave Encashment limit - Increased to INR 25 lakhs from 3 lakhs
Interim Budget 2024	Waiver of outstanding direct tax demand: ▪ i. INR 25,000 up to fiscal year 2009-10 ▪ ii. INR 10,000 up to fiscal year 2010-11 to 2014-15
2024	Penal provisions under the Black Money Act shall not apply for resident individual taxpayers in respect of assets (other than immovable property) where the aggregate value of such asset or assets does not exceed INR 20 lacs

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