



Union
BUDGET
2025-26

Macro fiscal developments

Supporting medium term growth with a continuing focus on fiscal consolidation

- India to remain a global growth leader
 - Despite a lower real GDP growth of 6.4% in FY25 as compared to 8.2% in FY24, India remains the fastest growing major economy.
 - For FY26, the Economic Survey (FY25) projected India's real GDP growth in the range of 6.3% to 6.8%.
 - The Union Budget FY26 assumes a nominal GDP growth of 10.1% for FY26.
- Tax revenue performance: FY26(BE) over FY25(RE)
 - Gross Tax Revenue (GTR) is budgeted to grow at 10.8% in FY26 (BE) lower than 11.2% in FY25 (RE).
 - Direct tax continue to drive the growth in GTR
 - Growth in Gols GTR is supported by higher buoyancy of direct taxes at 1.25 in FY26 (BE), although moderating from 1.48 in FY25 (RE)
 - Direct tax growth is budgeted to fall to 12.7% in FY26 (BE) as compared to 14.4% in FY25 (RE)
 - Indirect taxes growth to improve to 8.3% in FY26 (BE) from 7.1% in FY25 (RE)
 - Indirect tax buoyancy is budgeted to increase to 0.82 in FY26 (BE) from 0.73 in FY25 (RE) due to an expected improvement in the performance of union excise duties and customs
 - Centre's gross tax revenues to GDP ratio is budgeted to increase marginally to 12% in FY26 (BE) from 11.9% in FY25 (RE). Gol's net tax revenue to GDP ratio is budgeted to remain stable at 7.9% in FY26 (BE).

Highlights



10.1%

Nominal GDP growth
for FY26



10.8%

Budgeted growth in
Gross Tax Revenue
in FY26(BE) over
FY(RE)

- **Profile of government expenditure**
 - GOI's capital expenditure has been budgeted at INR11.2 lakh crore for FY26 (BE) or 3.1% of GDP. This represents an increase of 10.1% over FY25 (RE).
 - The GoI has allocated INR1.5 lakh crore as interest free loans for states.
 - Additional disposable income to the extent of nearly INR1.03 lakh crore is expected to be generated through foregone direct and indirect taxes.
 - Revenue expenditure to GDP ratio is budgeted to be lower at 11% in FY26 (BE) as compared to 11.4% in FY25 (RE).
- **Achieving fiscal consolidation**
 - Fiscal deficit for FY25(RE) improved to 4.8% of the GDP as against 4.9% budgeted earlier.
 - Fiscal deficit for FY26(BE) is budgeted at 4.4% of the GDP.
 - The focus of fiscal consolidation would be on an incremental reduction in the debt GDP ratio rather than any time bound commitment to the GoI's FRBMA as amended in 2018.
- **Furthering the Make in India initiative**
 - National Manufacturing Mission to be set up, providing policy support, execution roadmaps, governance and monitoring framework.
 - Government will take specific policy measures to improve competitiveness of labour-intensive sector: Footwear and leather, sustainable toy manufacturing, and food processing
 - Manufacturing of large-scale electronics and clean-tech such as electrolyzers, solar PV batteries, EV batteries etc. will also be incentivized.
 - The investment and turnover limits for classification of all MSMEs will be enhanced to 2.5 and 2 times respectively.
 - Credit guarantee cover for MSMEs will also be enhanced.
- **Regulatory reforms to enhance Ease of doing business**
 - A high-level committee for regulatory reforms will be set up for a review of all non-financial sector regulations, certifications, licenses and permissions.
 - An investment friendliness index of states will be launched in 2025 to promote competitive cooperative federalism.
 - Jan Vishwas Bill 2.0 to decriminalize over 100 provisions across various laws, building on the 180 provisions decriminalized under the Jan Vishwas Act 2023.
 - The FDI limit for the insurance sector will be increased from 74% to 100%.
 - Basic Customs Duty has been fully exempted on 36 lifesaving drugs and critical minerals like cobalt and lithium-ion battery scrap, with 35 capital goods for electric vehicle battery and 28 for mobile phone battery manufacturing also exempted.

Highlights



**INR11.2
lakh crore**

Government's Capex
in FY26(BE)



4.4% of GDP

Fiscal deficit target
for FY26

Supporting MSMEs
and furthering
Make in India

Union
BUDGET
2025-26

Corporate Tax amendments

Embracing simplification and compliance efficiency

- In line with the intent to simplify the Income Tax Act, 1961 (ITA) as announced last year, Budget 2025 reaffirms the commitment to comprehensively review the same. In this regard, a new income tax bill will be introduced into Parliament next week to create a more concise and understandable tax code, aimed at reducing disputes, litigation, and providing tax certainty to taxpayers.
- Some of the key corporate tax proposals announced in FB 2025 are as below:
 - No changes made to the corporate tax rates.
 - Cut-off date for investment by Sovereign Wealth Fund and Pension Fund for availing exemption on investment income extended from 31 March 2025 to 31 March 2030.
 - Extension of sunset date of incorporation for eligible start-up to avail profit linked tax holiday from 31 March 2025 to 31 March 2030.
 - Tonnage Tax Scheme extended to Inland Vessels.
 - Rationalization of rates and threshold for applicability of WHT/ TCS.
- Higher WHT/ TCS rates for non-filers of ROI withdrawn.
- Exemption from prosecution for delayed payment of TCS where payment of TCS is made on or before due date for filing the quarterly TCS statement.
- Extended validity of registration for small charitable trust from existing five years to 10 years w.e.f. 1 April 2025.
- Taxpayers now allowed to file updated return to rectify errors or omissions in cases where additional income is to be offered to tax even three years after the end of the relevant FY but before the expiry of five years.
- Standard timeline of six months from end of connected proceedings introduced for initiation of penalty proceedings.
- Block Assessment provisions introduced vide Finance Act (FA) (No. 2), 2024 in respect of search initiated or requisition made on or after 1 September 2024, further rationalized by clarifying that higher tax rate of 60% will apply only to undisclosed income together with penalty at 50% of such tax payable.

Highlights



WHT/ TCS
thresholds increased

Sunset date for profit-linked tax holiday for start-ups extended till 31 March 2030

3 5

years years

Updated Return filing
permitted till 5 years
from end of relevant FY

- There are no changes proposed in the Corporate Tax rates. Tax rates are summarized below:

Description	Existing rate* (%)	Proposed rate* (%)	Change
A) Domestic company			
Regular tax			
Companies having turnover not exceeding INR400 crore in financial year 2023-24 (2022-23 for tax year 2024-25)			
▪ Total income <= INR1 crore	26 ¹	26 ¹	No change
▪ Total income more than INR1 crore to INR10 crore	27.82 ²	27.82 ²	
▪ Total income > INR10 crore	29.12 ³	29.12 ³	
Companies having turnover > INR400 crore in financial year 2023-24 (2022-23 for tax year 2024-25)			
▪ Total income <= INR1 crore	31.2 ⁴	31.2 ⁴	No change
▪ Total income more than INR1 crore to INR10 crore	33.38 ⁵	33.38 ⁵	
▪ Total income > INR10 crore	34.94 ⁶	34.94 ⁶	
New manufacturing companies set up and registered on or after 1 October 2019, not availing incentives (optional regime) and commence manufacturing on or before 31 March 2024	17.16 ⁷	17.16 ⁷	No change
Other domestic companies not availing incentives (optional regime)	25.17 ⁸	25.17 ⁸	No change
B) Minimum Alternate Tax (Refer Note 1)			
Regular			
▪ Total income <= INR1 crore	15.6 ⁹	15.6 ⁹	
▪ Total income more than INR1 crore to INR10 crore	16.69 ¹⁰	16.69 ¹⁰	
▪ Total income > INR10 crore	17.47 ¹¹	17.47 ¹¹	
C) Foreign company			
Regular tax			
▪ Total income <= INR1 crore			
▪ Total income more than INR 1 crore million to INR10 crore	36.4 ¹²	36.4 ¹⁵	No change
▪ Total income > INR 10 crore	37.13 ¹³	37.13 ¹⁶	
	38.22 ¹⁴	38.22 ¹⁷	

* These rates are inclusive of applicable surcharge.

¹25% plus 4% cess

² 25% plus 7% surcharge plus 4% cess on tax and surcharge

³25% plus 12% surcharge plus 4% cess on tax and surcharge

⁴30% plus 4% cess

⁵30% plus 7% surcharge plus 4% cess on tax and surcharge

⁶30% plus 12% surcharge plus 4% cess on tax and surcharge

⁷15% plus 10% surcharge plus 4% cess on tax and surcharge

⁸ 22% plus 10% surcharge plus 4% cess on tax and surcharge

⁹15% plus 4% cess

¹⁰15% plus 7% surcharge plus 4% cess on tax and surcharge

¹¹15% plus 12% surcharge plus 4% cess on tax and surcharge

¹²35% plus 4% cess

¹³35% plus 2% surcharge plus 4% cess on tax and surcharge

¹⁴35% plus 5% surcharge plus 4% cess on tax and surcharge

¹⁵35% plus 4% cess

¹⁶35% plus 2% surcharge plus 4% cess on tax and surcharge

¹⁷35% plus 5% surcharge plus 4% cess on tax and surcharge

Note:

MAT is not applicable to 15% CTR company and 22% CTR company. Presently, there is no MAT on foreign companies having no PE in India or having no registration requirement under any other law in India or foreign companies whose total income comprises solely of profits and gains from business or profession which are subject to presumptive basis of taxation under normal computation (shipping, aircraft, oil and gas, civil construction and turnkey power projects). If MAT is applicable to foreign companies, rates of surcharge will differ. MAT is applicable at the rate of 9% (instead of 15%) plus applicable surcharge and cess with respect to units located in IFSC.

Extension of sunset date of incorporation for eligible start-up to avail profit linked tax holiday

- Presently, the ITL provides that an eligible start up incorporated on or before 31 March 2025 shall be eligible for a deduction of 100% of its profits for any three consecutive tax years out of 10 years, beginning from the year of incorporation, at the option of the taxpayer subject to satisfaction of certain conditions.
- FB 2025 now extends the sunset date of incorporation from 31 March 2025 to 31 March 2030 of eligible start-up for availing the profit linked tax holiday.
- This amendment is effective from FY 2024-25.

Extension of date for making investment by Sovereign Wealth Fund (SWF) and Pension Fund (PF) for availing exemption on certain investment income

- Presently, under the ITL, notified SWF and PF, which fulfil certain conditions, are exempt from tax on dividend, interest, long-term capital gains and on certain other incomes arising from an investment made by it in India provided the investment is made between 1 April 2020 and 31 March 2025.
- Pursuant to representations from stakeholders for extension of benefit, FB 2025 has extended the cut-off date for investment to avail exemption from 31 March 2025 to 31 March 2030.
- Further, there was ambiguity on exemption for capital gains arising from long term unlisted debt investments, which were deemed to be short-term capital gains under the ITL as only long-term capital gains are exempt.
- FB 2025 now excludes such income, which arises from long-term debt investments made in India, but which is deemed to be short-term capital gains under the ITL from the total income of the SWF if the conditions for exemption are otherwise met.
- These amendments are effective from FY 2024-25.

Extension of Tonnage Tax Scheme to inland vessels registered under Inland Vessels Act, 2021

- Presently, under the ITL, a taxpayer engaged in the business of operating qualifying ships has the option to compute income basis the tonnage of the ship and such income is deemed to be business income.
- Pursuant to representations from stakeholders to incentivize inland water transport vessels fleet, which is a capital-intensive industry, FB 2025 now extends the tonnage tax scheme, including all provisions contained therein, to Inland Vessels registered under Inland Vessels Act, 2021.
- This amendment is effective from FY 2025-26.
- Further, FB 2025 now increases the time limit available with the tax authority to verify the documents and information and pass an order for eligibility of the taxpayer to opt from Tonnage Tax Scheme from one month from the end of the month in which the application to opt for tonnage tax was received to three months from the end of the quarter in which such application was received on or after 1 April 2025.
- This amendment is effective from 1 April 2025.

Rationalization of WHT/ TCS compliances

- Reduction of WHT/ TCS rates under various provisions
 - To improve the ease of doing business and better compliance by taxpayers following reductions in WHT/ TCS rates on payments have been made by FB 2025, w.e.f. 1 April 2025 (FY 2025-26):

Nature of payment	Existing WHT/ TCS(%)	Proposed WHT/ TCS (%)
WHT in income payable to resident in respect of investment in securitization trust	25% (Individual/ HUF Payee) 30% (Others)	10%
TCS on timber or any other forest produce (not being tendu leaves) obtained under a forest lease and timber obtained by any mode other than under a forest lease	2.5%	2%
TCS on LRS Remittances for purpose of education, financed by loan from specified financial institutions	0.5%	NIL
WHT/ TCS on purchase/ sale of goods of value or aggregate of such value exceeding INR50 lakh	WHT - 0.1% (Deduction by buyer where the seller is resident) Or TCS - 0.1% (Collection by seller)	WHT - 0.1% (Deduction by buyer where seller is resident) No TCS by seller

Reduction of WHT/ TCS thresholds under various provisions

- Separately, tax withholding/ collection provisions under the ITL have certain threshold limits to trigger their applicability. In this respect, following amendments to various thresholds in respect of WHT/ TCS provisions have also been made by FB 2025 with effect from 1 April 2025 (FY 2025-26 onwards):

Nature of payment	Existing threshold for WHT/ TCS	Proposed threshold for WHT/ TCS
Interest on securities to residents	INR5,000 on interest on debenture paid to individuals/HUFs NIL in other cases	INR10,000
Interest other than interest on securities to residents	When Payer is Bank, Co-operative society or post office (i) INR50,000 for senior citizen payee; and (ii) INR40,000 for others Other Payers (i) INR5,000	When Payer is Bank, Co-operative society or post office (i) INR1 lakh for senior citizen payee; and (ii) INR50,000 for others Other Payers (i) INR10,000
Dividend to residents	INR5,000	INR10,000
Payment in respect of units of specified mutual fund or company or undertaking to residents	INR5,000	INR10,000
Winnings (from lottery, crossword puzzle, card game, gambling, horse race, etc.)	INR10,000 (aggregate per FY)	INR10,000 (in respect of a single payment)
Insurance commission to resident	INR15,000	INR20,000
Commission, remuneration or prize on sale of lottery tickets	INR15,000	INR20,000
Other commission or brokerage to resident	INR15,000	INR20,000
Rent to resident	INR2.4 lakh during an FY	INR50,000 per month or part thereof
Royalty, fees for technical services or for professional services to resident	INR30,000	INR50,000
Compensation on compulsory acquisition of any immovable property other than agricultural land to resident	INR2.5 lakh	INR5 lakh
TCS on remittance made under LRS	INR7 lakh	INR10 lakh
Lower TCS @ 5% on amount collected by seller of overseas tour package from buyer	INR7 lakh	INR10 lakh

Withdrawal of punitive provisions of higher WHT/ TCS rate in case of non-filers of return of income

- Presently, under the ITL, when the deductee/ collectee has not filed a return of income for the financial year preceding the year of WHT/ TCS for which the time limit for the filing original return of income has expired and cumulative WHT/TCS made in respect of such person is INR0.5 lakh or more in such preceding financial year, the deductor/ collector was required to deduct/ collect taxes at a specified higher punitive rate.
- As the above provision led to difficulty in verifying whether the deductee/ collectee has filed return of income leading to unnecessary blocking of capital and increased compliance burden, FB 2025 now abolishes the said provisions of higher WHT/ TCS rate in case of non-filers of return of income.
- This amendment is effective from 1 April 2025 (i.e. FY 2025-26 onwards).

Exemption from prosecution for delayed payment of TCS where payment of TCS is made on or before due date for filing the quarterly TCS statement

- Presently, under the ITL, in case of failure to pay TCS to the credit of the Central Government, the taxpayer shall be punishable with rigorous imprisonment for a term which shall not be less than three months, but which may extend to seven years and with fine.
- FB 2025 now provides an exemption from prosecution in case of delayed payment of TCS wherein TCS is paid to the credit of Central Government on or before due date for filing the quarterly TCS statement. This puts it at par with exemption for WHT default for which similar amendment was made last year.
- This amendment is effective from 1 April 2025.

Mandatory reporting for Crypto-Asset Transactions from 1 April 2026

- FB 2025 introduces a new reporting requirement for prescribed reporting entities to report crypto-asset transactions, facilitating the automatic exchange of tax-relevant information on crypto-assets, thereby widening the tax base and enhancing transparency in the digital economy.
- The detailed guidelines, rules and forms for furnishing of information on crypto transactions by specified reporting entities will be issued in due course.
- This amendment will be effective from 1 April 2026 (i.e. FY 2026-27 onwards).

Extension of time limit to furnish updated return to 60 months from the end of the relevant financial year

- Presently, under the ITL, an updated return can be filed on or before 36 months from the end of the relevant financial year. Updated return is filed to offer additional income to tax irrespective of whether the original return was filed by the taxpayer or not. Further, the income so offered is subject to an additional tax liability in addition to normal tax liability.
- FB 2025 now extends the time limit to furnish updated return from 36 months to 60 months from the end of the financial year with a view to encourage voluntary compliance. The additional tax to be paid for furnishing of updated return is as follows:

Updated return filed within specified months from the end of the relevant financial year	Additional tax payable (in addition to normal tax) as a percentage of aggregate tax and interest liability
24 months	25%
Beyond 24 months but within 36 months	50%
Beyond 36 months but within 48 months	60%
Beyond 48 months but within 60 months	70%

- Separately, while updated return filing is prohibited in the course of pendency of any proceedings under the ITL, in light of the new reassessment regime introduced vide FA 2021, there was ambiguity on whether a taxpayer can file an updated return in the course of the pre-notice proceedings for reassessments where the tax authority was to determine whether reassessment proceedings can be commenced.
- FB 2025 now provides that updated return may be filed after 48 months from the end of the relevant financial year where pre-notice proceedings have not been taken up. However, in a case where pre-notice procedure is taken up, but the Tax Authority decides to not commence reassessment proceedings, updated return may be filed after 48 months once the Tax Authority passes an order to not commence reassessment.
- This amendment is effective from 1 April 2025 (i.e. FY 2025-26 onwards).

Relaxation on registration compliance by providing longer period of 10 years of registration for charitable trust (w.e.f. 1 April 2025):

- Presently, registration to charitable trust is granted for a period maximum of five years. The charitable trust are required to make fresh application for renewal of registration in every 5th year. Similarly, the charitable trusts are also required to make fresh application for registration in certain specified scenarios (e.g. there is modification in the objects of the trust, etc.)
- It is now proposed that the period of validity of registration in such cases shall be extended to 10 years for small charitable trusts i.e. trusts having income (including corpus donation) of INR5 crore or less in last two financial years preceding the year in which application is made.

Restricting the scope of related parties (w.e.f. 1 April 2025)

- Presently, any person (other than trustee, founder or manager) who has donated more than INR0.5 lakh to a charitable trust on aggregate basis up to given financial year is considered as related party of the charitable trust (hereinafter referred as "Substantial Contributor"). Any relative or concern of such Substantial Contributor is also considered as related party. The transactions by charitable trusts with related parties are regulated and any breach thereof invites taxation as also penal consequences on charitable trust.
- It is now proposed to provide for two independent thresholds to determine whether donor is considered as related party, i.e. where donation in the financial year exceeds INR1 lakh; Or, where donations from such person on aggregate basis up to given financial year exceeds INR10 lakhs. Further, relative and concern of such Substantial Contributor is 'not' considered as related party.

Restrictions on power to cancel charitable trust registration (w.e.f. 1 April 2025)

- It is proposed that Tax Authority cannot cancel charitable trust registration on the ground that application for registration was incomplete. However, existing power to cancel charitable trust registration in case where registration application contains false or incorrect information continues.

Exclusion of period during which proceedings were stayed by any court for limitation period to commence from date of grant of stay and end when order vacating stay is received by tax authority:

- The ITL provides for time limits for conclusion of various proceedings that may be taken up by tax authority. In this regard, the said time limits specifically require exclusion of the period during which the subject proceedings were stayed by an order or injunction of any court.
- FB 2025 now clarifies that the period to be so excluded relating to a stay or injunction by court commences from the date on which such stay is granted till the date on which a certified copy of the order vacating the stay is received by the relevant tax authority.
- This amendment will be effective from 1 April 2025 (i.e. FY 2025-26 onwards)

Rationalization of timelines for imposition of penalty

- The ITL provides for time limits within which proceedings for penalty imposition may be commenced by tax authority. However, such time limits are conditional whereby separate time limits are provided to different categories of cases such as cases under appeal at various appellate forums, cases involving revision of orders by higher tax authorities, etc.
- In order to streamline the provisions for effective and efficient administration, FB 2025 now provides for a standard time limit of 6 months from the end of the quarter in which connected proceedings are completed, or the final appellate order is received by the tax authority, or the revision order is passed by the tax authorities for passing an order levying penalty, as the case may be.
- The above amendments will be effective from 1 April 2025 (i.e. FY 2025-26 onwards)

Extension of time available to tax authority to adjudicate on immunity from penalty and prosecution proceedings from 1 month to 3 months

- The ITL grants immunity to a taxpayer from penalty and prosecution proceedings upon fulfilment of certain conditions provided an application for such immunity is made within 1 month from the end of the month in which the assessment order has been passed by the tax authority.
- Upon application, the tax authority is required to process the application within 1 month from the end of the month in which application requesting for immunity is received.
- In order to address challenges faced by taxpayers to represent their case within the limited period of 1 month, FB 2025 now provides tax authority with an extended period of 3 months to process the application of immunity.
- This amendment will be effective from 1 April 2025 (i.e. FY 2025-26 onwards).

Rationalization of Block Assessment provisions applicable in search cases:

- FA (No. 2) 2024 reintroduced the block assessment procedure for search proceedings conducted on or after 1 September 2024 whereby a single block assessment was to be carried out covering a period of 6 years preceding the year of search plus part of the year upto the date of initiation of search action
- Under the new block assessment procedure, undisclosed income is to be taxed at a flat rate of 60% (plus applicable surcharge and cess) and a further additional penalty of 50% on such tax payable.
- There was an ambiguity on the components of undisclosed income liable to tax at the punitive rate.
- FB 2025 now amends the provisions to clarify following components to constitute undisclosed income of the block period:
 - Undisclosed income declared by the taxpayer in the return of income post search and any further income which is assessed by tax authority as undisclosed income in the course of search assessment proceedings.
 - Income of any preceding year for which no return of income is filed and the time limit prescribed under ITL to furnish the return has expired.
 - FB 2025 further clarifies that following income will not constitute undisclosed income for year in the block period:
 - Income already assessed by the tax authority for any year
 - Income declared in the return of income by taxpayer, where there is no formal assessment of income
 - Income based on entries in the books of accounts or other documents (a) for the year where tax year is over but, due date for filing tax return is not yet due (b) from 1 April till date of conclusion of search
- The above amendments will be effective from 1 February 2025

International Financial Services Centre (IFSC) related amendments are captured as part of separate EY alert relating to Financial Services sector



Union
BUDGET
2025-26



International Tax

Presumptive taxation for setting up
electronics manufacturing facility;
Significant economic presence (SEP)
provision harmonized

Presumptive taxation for electronics
manufacturing facility in semiconductor sector

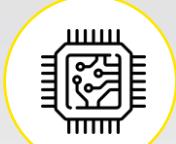
Background

- To position India as a global hub for electronics system design and manufacturing, the Government of India has approved a comprehensive program for the development of semiconductors and display manufacturing ecosystem.
- Pursuant to the above, the Ministry of Electronics and Information Technology has notified schemes for setting up of such facilities in India.
- Industry representations have indicated that non-residents will contribute to the establishment of these electronics manufacturing facilities by supplying technology and offering support services.
- Therefore, it is proposed to introduce a presumptive taxation regime for non-residents who are engaged in providing services or technology to resident companies. These companies must be establishing or operating an electronics manufacturing facility or a connected facility and must meet certain conditions.

Amendment

- The proposal deems 25% of the total amount a non-resident receives or is due to receive for providing services or technology as profits or gains of such non-resident.
- The proposal will result in an effective tax payable of less than 10% tax on gross receipts by non-resident.
- This amendment will be effective from 1 April 2026 (financial year 2025-26).

Highlights



Semiconductor -
Presumptive
taxation
**25% deemed
income**

**Effective tax
rate < 10%**

SEP provision harmonized in line with business connection provisions.

Background

- Section 9 of the Income-tax Act, 1961, outlines the conditions under which income is deemed to accrue or arise in India.
- In the case of a non-resident, income arising from the purchase of goods in India for export is outside of the scope of the business connection.

Amendment

- In line with the above exclusion for business connection, it is proposed that SEP will not apply to non-residents involved in purchase of goods in India for export.
- This amendment will be effective from 1 April 2026 (financial year 2025-26).

No specific proposal on Pillar Two/ Global Minimum Tax implementation in India.

Highlights



SEP to exclude purchase for exports



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2025-26

Transfer Pricing

Introduction of 'assessments in a block' for Transfer Pricing (TP);
Expansion of Safe Harbour Rules

Introduction of "assessments in a block" for TP

Background

- Assessment of arm's length price (ALP) determined by the taxpayers with respect to international transaction/specified domestic transaction (SDT) is based on specific reference to the transfer pricing officer (TPO) by the assessing officer (AO) for each financial year (FY).
- Such audits generally encompass similar international transactions or SDT for various years with same facts like same associated enterprises (AEs), location of such AEs, nature and quantum of transaction and approach to determine the ALP.
- This leads to increased compliance and audit defence burden on a year-on-year basis as well as compliance and administrative burden, including pressure on the capacity of tax administration.
- Therefore, to bring efficiency in the assessment/audit process and in line with the international standards/ practices, the proposal now provides for an elective option to carry out TP assessments covering in a block of three years.

Highlights

1 3

year

years



Introduction of
'Assessments in a
block'



Expansion of Safe
Harbour Rules

- **Proposed amendments**

- Elective option provided to taxpayers upon reference made for a Transfer Pricing audit for an FY.
 - Option is not available for cases involving search and seizures.
- Option to be exercised by taxpayers within such time frame and in such form as may be prescribed.
- The TPO must verify and declare if the taxpayer's option is valid, based on certain conditions.
- If the TPO declares the option exercised as valid, the ALP determined for an FY will also apply to **two consecutive FYs** for similar transactions.
- The AO will recompute the total income of the three FYs in conformity with the ALP determined by the TPO and the Dispute Resolution Panel.
- This adjustment will be done within three months after the month when the block assessment or audit is completed.
- The Central Board of Direct Taxes (CBDT) can issue guidelines to clarify any issues, which must be approved by the Parliament and will be binding on both taxpayers and tax authorities.
- This amendment will be effective from 1 April 2026 (FY2025-26).
- The comparison between existing provisions and proposed amendments is as below:

Particulars	Current provisions	Proposed amendments																														
Reference	<ul style="list-style-type: none"> ▪ AO makes reference to the TPO for a standalone audit of each financial year based on the audit risk criteria determined. 	<ul style="list-style-type: none"> ▪ AO makes reference to the TPO for standalone audit for each financial year based on the audit risk criteria determined. ▪ Upon valid election by the taxpayer, the TPO will proceed to determine the ALP for three years. ▪ No TP reference shall be made for subsequent FYs or where a reference is made, it shall have an effect of 'no reference being made'. 																														
Determination of ALP	<ul style="list-style-type: none"> ▪ Separate determination of ALP will be done by the TPO for each financial year even if facts/ issues/ nature of transactions are similar. 	<ul style="list-style-type: none"> ▪ If the TPO declares the option exercised as valid, the ALP determined for the initial year will be applied for the subsequent two consecutive FYs for the same/ similar transactions. 																														
Time limit	<ul style="list-style-type: none"> ▪ The TPO has to pass the TP order within 34 months from the end of each FY. ▪ AO will incorporate the ALP determined by the TPO and pass the draft assessment order within two months from the date of TP order. 	<ul style="list-style-type: none"> ▪ With 'assessment in block', TPO has to pass the TP order for three consecutive years within 34 months from the end of a financial year in which such an option is elected. ▪ The AO will include the ALP adjustment within three months after the month when the assessment or audit is completed. ▪ Ambiguity in interplay with corporate tax assessment and collection and recovery of tax provisions. 																														
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	Current provisions	Proposed amendments
Income computation by the AO	<ul style="list-style-type: none"> Based on the ALP determined by the TPO, the AO will then include the same in the total income of the taxpayer for financial year under audit. 	<ul style="list-style-type: none"> The AO will recompute the total income of the three FYs in conformity with the ALP determined by the TPO and the Dispute Resolution Panel.
Appeal/ objection process	<ul style="list-style-type: none"> Each year ALP adjustment will be objected/ litigated before the Dispute Resolution Panel/ Commissioner (Appeals). 	<ul style="list-style-type: none"> Three years ALP adjustment will be objected/ litigated before the Dispute Resolution Panel/ Commissioner (Appeals).

- Expansion of Safe Harbour Rules**

- Expanding Safe Harbour Rules to reduce lawsuits and enhance certainty was proposed by the Finance Minister in the Budget speech.

Transaction Tax

Rationalization of merger provisions

- **Simplification and rationalization of merger process**
 - Currently, merger requires approval of National Company Law Tribunal. In case of merger between parent and wholly-owned subsidiary (or) smaller companies, it could also be undertaken via fast-track process with the approval of Regional Director.
 - It is proposed that:
 - Procedures for speedy approval for merger of companies shall be rationalized
 - Scope for fast-track mergers will be widened and process involved shall be simplified
 - More details are awaited and would be clarified in the future
- **Rationalization of provisions related to carry forward of losses in case of amalgamation**
 - Currently, accumulated losses of the amalgamating entity (predecessor entity) are deemed to be the loss of the amalgamated entity (successor entity) for the year in which amalgamation or business reorganization is effected and allowed to be set-off and carried forward in the hands of such successor entity.
 - Also, tax losses under the head "Profits and gains from business or profession" are allowed to be carried forward for not more than eight assessment years immediately succeeding the assessment year for which such loss was first computed.
 - With an objective to bring parity in the provisions, it is proposed to provide that any loss forming part of the accumulated losses of the predecessor entity shall be eligible to be carried forward by the successor entity for not more than eight assessment years immediately succeeding the assessment year for which such loss was first computed for predecessor entity (and not from the year in which merger was effected).
 - Above provisions will apply to any amalgamation or business re-organization which is effected on or after 01 April 2025.

Rationalization of capital gains taxation

- **Rationalization in long-term capital gains (LTCG) tax rates for business trusts**
 - Currently, total income of a business trusts (being Real Estate Investment Trust and Infrastructure Investment Trust) is charged to tax at maximum marginal rate (MMR) except for short-term capital gains arising from qualifying securities (being listed equity shares or a unit of an equity-oriented fund or a unit of a business trust) and LTCG arising from non-qualifying assets.
 - To rationalize the provisions, it is now proposed that LTCG arising from sale of qualifying securities will be taxed at 12.5% (plus applicable surcharge and cess) and not at MMR.
 - This amendment will be effective from 01 April 2026 (i.e., assessment year 2026-27).
- **Rationalization in LTCG tax rates for certain non-residents**
 - Currently, Foreign Institutional Investors or specified fund are taxable at 12.5% (plus applicable surcharge and cess) on LTCG arising from qualifying securities and LTCG arising from non-qualifying securities is taxable at 10% (plus applicable surcharge and cess).
 - With an objective to bring parity, it is now proposed that LTCG arising from non-qualifying securities will also be taxable at 12.5% (plus applicable surcharge and cess).
 - This amendment will be effective from 01 April 2026 (i.e., assessment year 2026-27).
- **Certainty on taxation of gains arising from sale of securities by Alternative Investment Funds (AIFs)**
 - With an objective to bring certainty in characterization of income arising from transaction in securities, it is clarified that securities held by Category-I and Category-II AIFs will be treated as 'capital asset' only, and income arising therefrom to be in the nature of capital gains and not business income.
 - The above amendment will be effective from 01 April 2026 (i.e. assessment year 2026-27).



Personal Tax

Focused relief and benefits for the middle class

- Introduction of new Income Tax bill
 - New Income Tax bill will be introduced which will be simple to understand for taxpayers and tax administration, leading to tax certainty and reduced litigation. The new bill will be clear and direct in text with close to half of the present law, in terms of both chapters and words.
- Revision of tax rates under the New Tax Regime (NTR)
 - Tax rebate will be provided to resident individual taxpayers with income (excluding special rate income like capital gains) of up to INR12 lakh and as a result, there will be no Income Tax upto income of INR12 lakh under the NTR.
 - NTR now provides a change in the tax structure with reduced slabs as under:

Income (INR)	Proposed rate (%)
0-4,00,000	Nil
4,00,001-8,00,000	5%
8,00,001-12,00,000	10%
12,00,001 - 16,00,000	15%
16,00,001 - 20,00,000	20%
20,00,001 - 24,00,000	25%
24,00,001 and above	30%

Highlights



New Income Tax bill
to be introduced

No Income Tax
payable upto
INR 12 Lakhs
under NTR

Timeline to file updated
returns extended

2 years → 4 years

- **Rationalization of TDS/TCS provisions**

- TDS provisions have been rationalized to streamline the various exemption thresholds. Key revised thresholds mentioned below:

S. no.	Section	Current threshold	Proposed threshold
1	193 - Interest on securities	NIL	INR10,000
2	194A - Interest other than Interest on securities	i) INR50,000 for senior citizen; (ii) INR40,000 in case of others when payer is bank, cooperative society and post office (iii) INR5,000 in other cases	(i) INR1,00,000 for senior citizen (ii) INR50,000 in case of others when payer is bank, co-operative society and post office (iii) INR10,000 in other cases
3	194 - Dividend for an individual shareholder	INR5,000	INR10,000
4	194-I Rent	INR2,40,000 during the financial year	INR50,000 per month or part of a month

- The threshold limit for collecting tax at source with respect to the remittances made under Liberalised Remittance Scheme (LRS) has now been increased from INR7 lakh to INR10 lakh. Further, TCS on remittances for education purposes made out of a loan taken from a specified financial institution has been removed.

- **Removal of higher TDS/TCS for non filers of return of income**

- With an aim to provide relief and reduce the compliance burden, provisions relating to deduction/collection of tax at higher rates has been removed for non filers of return of income.

- **Computation of annual value of self occupied properties simplified**

- To simplify provisions related to House Property, the annual value of a self occupied property (up to two properties) will be considered as Nil, if the owner occupies it for own residence or is unable to occupy it for any reason. Currently, for claiming the annual value as Nil, there are conditions to be satisfied like employment, business or profession carried on at any other place due to which the individual is unable to occupy the house property.

- **Extension of time limit to file updated return**

- Time limit for filing an updated return has been extended from two years to four years from the end of the relevant assessment year.
- Rate of additional income tax payable for updated return filed after expiry of two years and up to three years would be 60% of the aggregate of tax and interest payable.
- Rate of additional income tax payable for updated return filed after expiry of three years and up to four years would be 70% of the aggregate of tax and interest payable.
- No updated return can be filed after three years from the end of the relevant assessment year, if a show-cause notice for income escaping assessment has been issued. However, this restriction will not apply if an order is passed determining that it is not appropriate to initiate re-assessment.

- **Exemption for withdrawals from National Saving Scheme (NSS)**

- Under current tax regulations, NSS withdrawals are taxable, including accrued interest, with deductions for pre-April 1, 1992 deposits. With interest ceasing from October 1, 2024¹, such withdrawals, previously deductible with accrued interest, will be exempt.

¹ The Department of Economic Affairs issued a Notification dated 29 August 2024

- **Tax benefits and exemptions under the NPS Vatsalya Scheme**
 - Partial withdrawals from the NPS Vatsalya Scheme, up to 25% of the parent or guardian's contributions, are tax-exempt. Full withdrawals are taxable, barring the minor's demise.
 - Deduction of up to INR50,000 will be allowed from the parent or guardian's total income for contributions made to the minor's NPS Vatsalya account, which is within the overall limit of INR50,000 for self-contribution.
- **Extension of the processing period of application seeking immunity from penalty and prosecution**
 - Immunity application processing time is extended to three months (currently one month) post-receipt by the Assessing Officer.
- **Clarification on taxation of Unit Linked Insurance Policies (ULIPs)**
 - ULIPs is regarded as capital asset and included in definition of equity oriented funds. Any gains on redemption of ULIP, which is not exempt shall be taxable as capital gains with effect from assessment year 2026-27.
- **Increase in limits for calculating perquisites**
 - Revised salary limits have to be prescribed for calculating perquisites including overseas travel for medical treatment.



Indirect Tax

Customs duty rate rationalization, trade facilitation measures under GST

Goods and Services Tax

- The phrase "plant or machinery" has been replaced with "plant and machinery" retrospectively in Section 17(5)(d) of the CGST Act 2017.
- Supply of goods warehoused in SEZ or FTWZ to any person, before clearance for exports or to the DTA shall be treated neither as supply of goods nor as supply of services retrospectively.
- Provisions relating to time of supply for vouchers to be omitted to emphasize on non levy of GST on vouchers.
- A pre-deposit of 10% of penalty amount is required for filing an appeal before First Appellate Authority and GST Appellate Tribunal in case where the order involves only penalty.

Customs

- Customs duty rates are rationalized to support domestic manufacturing and value addition, promote exports, and facilitate trade.
- Definitive timelines provided for finalization of provisional assessment.
- A new mechanism introduced where post clearance of goods, the importer or exporter is allowed to revise the entry already made in relation to such goods.

Highlights



Amendment in
Section 17(5)(d)
to overrule SC
Safari retreat
judgment

For penalty
related appeals
10% pre-deposit



Timeline for
provisional
assessment
prescribed

Goods and Services Tax

Supply

- Supply of goods warehoused in SEZ or FTWZ to any person before clearance for exports or to DTA will be treated neither as supply of goods nor as supply of services. This will be retrospectively effective from 1 July 2017. Further, no refund will be allowed if tax is already been paid on such transactions.
- The definition of "warehoused goods" in Schedule III is restricted to cases para 8(a) cases, i.e., supply of warehoused goods to any person before clearance for home consumption. This will also be retrospectively effective from 1 July 2017.
- Further, the expressions "Special Economic Zone", "Free Trade Warehousing Zone" and "Domestic Tariff Area" shall have the same meanings respectively as assigned to them in Section 2 of the Special Economic Zones Act, 2005.

Input Tax Credit

- Definition of ISD will be amended to include references of inter-state supplies taxable under reverse charge mechanism. Other provisions relating to ISD will also be amended on same lines.
- Section 17(5)(d) of CGST Act restricts credit on goods or services received for construction of immovable property (other than plant or machinery). The term "plant or machinery" will be replaced with "plant and machinery" retrospectively from 1 July 2017.
- Explanation will also be added to clarify that notwithstanding anything to the contrary contained in any judgment, decree or order of any court, tribunal, or other authority, any reference to "plant or machinery" shall be construed and shall always be deemed to have been construed as a reference to "plant and machinery."
- Amendments will be made in section 38 to implement the functionality of IMS. Since Form GSTR-2B will be generated basis actions taken on IMS, the phrase "auto-generated" will be deleted in section 38.
- Further, the government will be empowered to prescribe any other details which will form part of Form GSTR-2B.

Time of supply

- The provisions relating to time of supply for vouchers will be omitted.

Miscellaneous

- For filing appeal before First Appellate Authority and GST Appellate Tribunal against an order involving only penalty, a pre-deposit of 10% of penalty amount is required at every stage. The same will be applicable in case of detention and seizure cases also.
- Reduction in output tax liability of the supplier on issuance of credit note will not be permitted if input tax credit as is attributable to such credit note, if availed, has not been reversed by the registered recipient or incidence of tax on such supply has been passed on to any other person, in other cases.

Highlights

Supply of goods in FTWZ
No GST

"Plant or machinery," replaced with "plant and machinery"



Vouchers related time of supply provisions omitted

Reduction on account of credit note allowed only if the recipient reverses ITC

- The government will be empowered to prescribe conditions and restrictions for filing Form GSTR-3B.
- The terms “local fund” and “municipal fund” will be defined to mean any fund under the control or management of an authority of local self-government established for discharging civic functions in relation to a panchayat or metropolitan or municipal area, and vested by law with the powers to levy, collect and appropriate any tax, duty, toll, cess or fee.
- Provision has been introduced to empower the government to implement track and trace mechanism for specified goods. Every notified person who deals with such goods shall affix a unique identification marking on such goods or packages. In case of default, penalty of INR2 lakh or 10% of the tax payable on such goods, whichever is higher, shall be levied.

Customs

Customs duty rates are rationalized to support domestic manufacturing and value addition, promote exports, and facilitate trade.

Provisional assessment:

- A two-year timeline will be introduced for finalizing provisional assessment. An extension of one year may be provided if sufficient cause is shown.
- For pending provisional assessment, the period of two years will be calculated from the date on which the Finance Bill, 2025, receives President's assent.
- In the following cases, the time limit of two years will not be calculated from the date of the provisional assessment:
 - a) An information is being sought from an authority outside India through a legal process; or
 - b) An appeal in a similar matter of the same person or any other person is pending before the Tribunal or HC or SC; or
 - c) An interim order of stay has been issued by the Tribunal or HC or SC; or
 - d) The Board in a similar matter, issued specific direction or order to keep such matter pending; or
 - e) The importer or exporter has a pending application before the Settlement Commission or the Interim Board.

In these cases, the time limit will be calculated from the date on which such reason ceases to exist.

New mechanism for revision of entry of goods post clearance:

- Post clearance of goods, the importer or exporter may voluntarily revise an entry already made in relation to such goods, subject to fulfilment of conditions and timelines as may be prescribed.
- Such revised entry will be treated as self-assessment.
- Pursuant to revised entry, if any duty is payable, a voluntary payment of such duty along with interest can be made.
- However, in case of excess duty paid, such revised entry shall be deemed to be a claim for refund.

Highlights



Timeline for provisional assessment prescribed



New mechanism for revision of entry post clearance of goods

- The benefit of revision may not be available in the following scenarios:
 - (a) Where any audit or search, seizure or summons has been initiated and intimated,
 - (b) Cases requiring refund where the proper officer has re-assessed the duty under section 17 or assessed the duty under section 18 or under section 84,
 - (c) Any other case which the Board may specify.

IGCR Rules, 2022

- Time limit for fulfilling end use condition has been extended from six months to one year.
- Also, facility has been provided to file quarterly statement instead of monthly statement.

Settlement of cases:

- Customs and Central Excise Settlement Commission will cease to operate from 1 April 2025.
- No new applications will be filed before the Settlement Commission on or after 1 April 2025.
- Interim Boards for Settlement will be constituted for settling all the applications pending before the Commission as on 1 April 2025.
- Consequently, the powers and functions of the Commission in respect of pending applications will be exercised and performed by Interim Board.

Highlights

No settlement commission after 1 April 2025

Set up of interim board

Glossary

SEP - Significant Economic Presence

AE - Associated Enterprise

ALP - Arm's Length Price

AO - Assessing Officer

CBDT - Central Board of Direct Taxes

FY - Financial Year

SDT - Specified Domestic Transaction

TP - Transfer Pricing

TPO - Transfer Pricing Officer

AIFs - Alternative Investment Fund

LTCG - Long-Term Capital Gains

MMR - Maximum Marginal Rate

CGST Act - Central Goods and Services Tax Act, 2017

IGCR Rules, 2022 - Customs (Import of Goods at Concessional Rate of Duty or for Specified End Use) Rules, 2022

DTA - Domestic Tariff Area

ECO - Electronic commerce operator

FTWZ - Free Trade Warehousing Zone

HC - High Court

IMS - Invoice Management System

ISD - Input Service Distributor

SC - Supreme Court

SEZ - Special Economic Zone



For details on other sectors and solutions visit our website [Union Budget 2025](#)

#EYonBudget2025

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