



# India Union Budget 2025-26

## Tax Flash News

#Budget2025 | #KPMGBudgetLive

February 2025

[kpmg.com/in](https://kpmg.com/in)

**KPMG. Make the Difference.**

# Foreword

The Hon'ble Finance Minister Nirmala Sitharaman presented Union Budget for the fiscal year 2025-26 marking her record eight consecutive Budget. The Prime Minister hailed it as a 'People's Budget that will boost savings and investment.' The Budget focuses on stimulating economic growth, enhancing the spending power of the middle class, and supporting various sectors through targeted initiatives.

A high-level committee will be established to review and implement regulatory reforms for non-financial sector, aiming to reduce compliance burdens and foster a more business friendly environment. The FM also announced that the Foreign Direct Investment (FDI) limits in the insurance sector will be increased to 100 per cent from 74 per cent.

The Budget 2025 comes at a pivotal moment, with India's economic growth slowing to a four-year low and global uncertainties fuelled by the U.S. tariff threats and geopolitical tensions posing fresh challenges. Against this backdrop, the Budget laid out a roadmap for economic resilience, focusing on tax relief, streamlining tax provisions and reducing compliance burden, infrastructure expansion, and sectoral reforms.

The significant changes on the direct tax side include relief targeted for middle-class individuals through an increased rebate, rationalisation of withholding tax provisions, extending the registration period for smaller trusts from five to ten years, and extending the time limit for filing updated income tax returns from two years to four years. The Finance Bill also seeks to rationalise the taxation of business trusts and harmonise the applicability of significant economic presence provisions to non-resident with those applicable to business connection.

The Finance Bill proposes an introduction of a presumptive taxation scheme for non-residents providing services or technology to electronic manufacturing facilities, and an extension of the tonnage tax scheme to inland vessels. To streamline the process of transfer pricing assessment and to offer an alternative to annual examinations, a scheme is introduced for determination of arm's length price of international transactions and specified domestic transactions over a block period of three years for similar transactions.

Additionally, the Bill extends the sunset clause for the commencement of operations in International Financial Services Centre (IFSC) units and startups. The benefits for IFSC units extended to include ship-leasing units, insurance offices, and treasury centres of global companies.

The corporate tax rates remain unchanged, and the budget does not address the expected implementation of the Organisation for Economic Co-operation and Development's (OECD) Global Minimum Tax (GloBE rules) in India.

The government will also be introducing a New Income-tax bill next week to take forward the 'trust first, scrutinise later' concept. The New Income-tax bill is expected to be simple to understand for taxpayers and tax administration, leading to tax certainty and reduced litigation. Further, the government has announced decriminalisation of more than 100 provisions in various laws.

From an indirect tax perspective, most of the proposed GST amendments align with GST Council approvals. The key proposals include a retrospective change to strengthen legal provisions by explicitly changing 'plant or machinery' to 'plant and machinery' and pre-deposit requirements for appeals related to penalty cases. It also seems that the optional Invoice Management System may soon become mandatory.

The customs duty proposals include reduction/regularisation of rates, setting clear timelines for finalising provisional assessments and allowing voluntary rectification of mistakes without penalties.

All the proposals are significant steps which will enhance tax certainty and ease of doing business. Notably, there have been no proposals for introducing any new Production Linked Incentives (PLI) scheme.



# Macro economic trends – Economic survey 2025-26<sup>1</sup>

## India's Economic Resilience in Global Economic Headwinds: A Review of FY25 and Outlook for FY26

In 2024, the global economy saw uneven growth across regions. A decline in global manufacturing, in Europe and parts of Asia, was driven by supply chain disruptions and weak external demand. Conversely, the services sector performed well, aiding economic growth worldwide. While inflationary pressures lessened globally, services' inflation remained a concern. Central banks are expected to adopt varied monetary easing policies due to differing growth rates and inflation paths, amidst ongoing geopolitical tensions and trade policy risks.

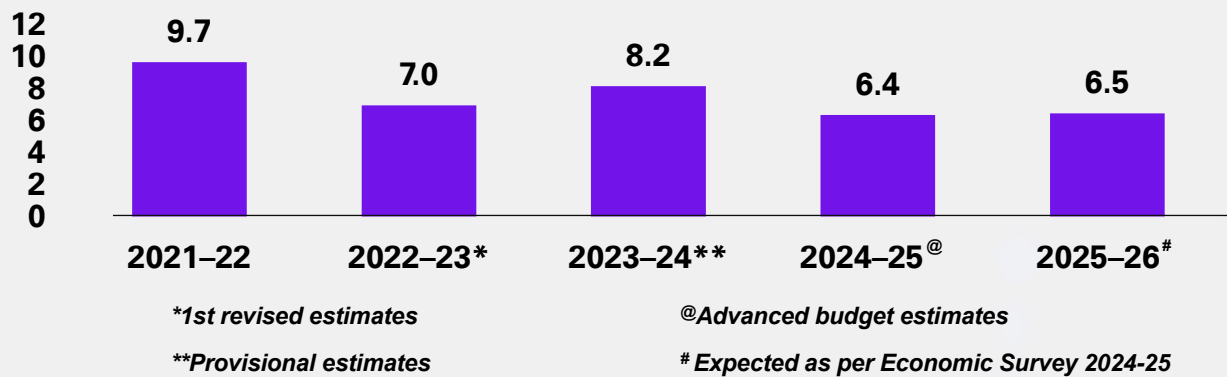
Despite these global challenges, India showcased sustained economic growth, with an estimated real GDP increase of 6.4 per cent for FY25. The growth was driven by the agriculture and services sectors, supported by

improving rural demand due to record Kharif production. Although the manufacturing sector faced subdued global and domestic demand, stable private consumption indicated strong domestic demand. Fiscal discipline, alongside a services trade surplus and remittance inflows, contributed to macroeconomic stability.

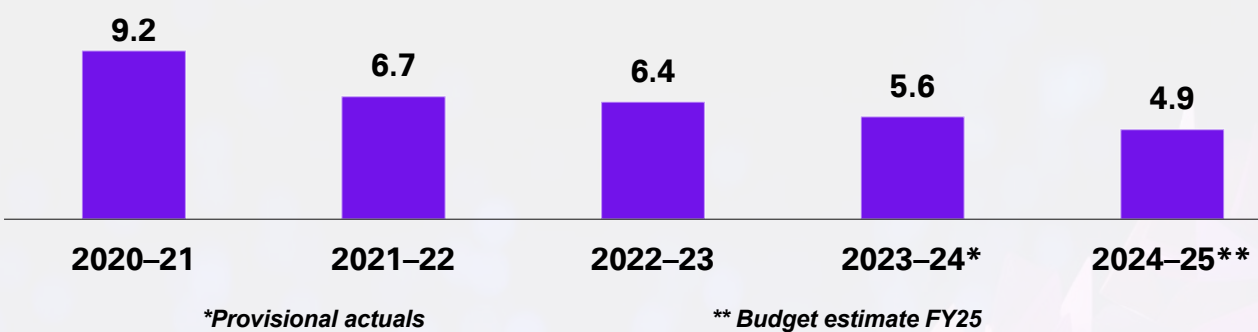
Looking ahead to FY26, India's growth prospects appear stable amid global uncertainties, with projections ranging from 6.3 per cent to 6.8 per cent. Key growth drivers include rural demand, corporate wage improvements, and consumer confidence. India must bolster structural reforms and deregulation to enhance competitiveness. Inflation, driven by volatile food prices, remains a challenge, while the external sector benefits from a strong services trade surplus. Managing the current account deficit through stable capital inflows will be crucial for sustained growth.

1. Source: Economic survey 2024-25, Ministry of Finance, Accessed on 31 January 2025

## 1.1 GDP Growth (at constant prices, %)



## 1.2 Fiscal deficit (as % of GDP)



## India's Monetary and Financial Sectors' Performance in FY25: Growth, Challenges, and Regulatory Perspectives

India's monetary and financial sectors have demonstrated strong performance in the first nine months of FY25. Financial inclusion has seen significant progress, supported by the growth of the Reserve Bank of India's (RBI) Financial Inclusion Index from 53.9 in March 2021 to 64.2 in March 2024, bolstered by Rural Financial Institutions (RFIs) and Development Financial Institutions (DFIs).

The evolution of the financial sector includes a rise in consumer credit and non-bank financing options, with

significant growth in equity-based financing and an increase in Initial Public Offerings (IPOs) between FY13 and FY24. The insurance sector is projected to be the fastest-growing market among G20 nations over the next five years (2024-2028).

The crucial role of financial institutions in shaping economic growth, the evolving monetary policy, banking sector performance, and the role of financial sector regulators are emphasised in maintaining stability. The economic outlook for FY25 stresses improvements in asset quality and an increase in the Capital to Risk (weighted) Assets Ratio (CRAR) in the banking sector.

## India's External Sector: A Resilient Growth Outlook

India's external sector has shown a resilient performance amidst global economic and trade policy uncertainties. Both merchandise and services exports exhibited steady growth in the initial nine months of FY25, totalling USD602.6 billion, representing a 6 per cent growth. Services and goods exports, excluding petroleum and gems, grew by 10.4 per cent. Imports also rose by 6.9 per cent to USD682.2 billion, driven by domestic demand. Despite global trade protectionism trends, India's external sector focuses on a forward-looking strategic trade roadmap to leverage competitive strengths, reduce trade-related costs, and drive global trade integration.

India has witnessed mixed capital flow trends, with Foreign Portfolio Investments (FPIs) experiencing volatility due to global market uncertainties, even as strong economic fundamentals have kept FPI flows positive. Gross Foreign Direct Investment (FDI) inflows have shown signs of recovery, although net FDI inflows saw a decline compared to the previous year, due to increased repatriation. India's foreign exchange

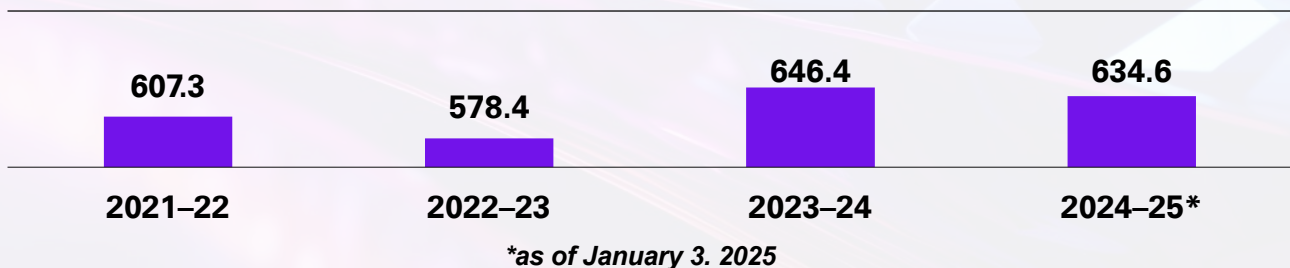
reserves stood at USD640.3 billion by December 2024, covering 90 per cent of its external debt, cushioning it against external vulnerabilities.

Global political and economic uncertainties, driven by geopolitical conflicts and climate events, have impacted trade dynamics. Indices such as the Geopolitical Risk (GPR) index and the Global Economic Policy Uncertainty (GEPU) index, highlight ongoing global concerns due to disruptions in key trade routes and export-related controls.

India has shown a robust trade performance, particularly in non-petroleum exports and sectors like pharmaceuticals, electronics, and engineering goods, although the trade deficit has widened due to higher imports. However, the textile sector, a major export contributor, faces challenges such as high costs and competition from countries with free trade agreements.

India's balance of payments remains stable, supported by strong services exports, positive capital inflows, and healthy foreign exchange reserves. The current account deficit stays contained due to robust private remittances and capital inflows despite rising trade deficits.

### 1.3 Foreign exchange reserves (in USD billion, year-end)



## Inflation Dynamics and Price Stability in India

Global inflation trends experienced a peak in 2022 due to supply chain disruptions and geopolitical tensions, followed by a decline supported by policy measures. In India, retail inflation eased in FY25 due to government and Reserve Bank of India (RBI) interventions, with core inflation reaching its lowest in a decade. However, challenges persist with food inflation, driven by supply chain disruptions and adverse weather conditions affecting key items.

The government has implemented measures including procurement and buffer stocking of onions, subsidised sales, and easing imports of pulses to stabilise prices. Despite these efforts, food inflation remains persistent, particularly influenced by vegetables and pulses. Extreme weather events have significantly impacted vegetable production, leading to price volatility, especially with tomatoes and onions.

Achieving long-term price stability requires robust data systems for monitoring prices and climate-resilient crop development. Focused research to enhance crop yields, reduce damage, and promote best agricultural practices is crucial. India's consumer prices are expected to move towards desired levels, assuming average monsoon conditions and no major external disruptions.

## Boosting India's Growth Through Economic Deregulation

Enhancing economic freedom for individuals and small businesses is vital to bolstering India's medium-term growth. Amidst global geo-economic fragmentation and China's growing significance in manufacturing, India's Viksit Bharat@2047 strategy, aims for achieving a developed nation status by 2047, with sustained economic growth of around 8 per cent annually for a decade.

The International Monetary Fund projects India to become a USD5 trillion economy by FY28, with a nominal growth rate of 10.2 per cent in USD terms from FY25 to FY30.

India's strategy involves structural reforms like the Goods and Services Tax, Insolvency and Bankruptcy Code, and digital infrastructure development. However, regulatory compliance needs hinder growth for Micro, Small, and Medium enterprises (MSMEs). Deregulation is expected to liberate enterprises from restrictive regulations and prioritise economic freedom.

India aims to achieve sustained economic growth, particularly targeting SMEs, by liberalising standards, setting legal safeguards, reducing tariffs, and applying risk-based regulation.

## Public and Private Investments: Boost for Infrastructure Growth

The government has increased public spending, created institutions to streamline approvals, and introduced innovative financing methods to support infrastructure development under Viksit Bharat@2047. The capital expenditure of the Union government for FY25 has been budgeted at about 3.3 times the capex for FY20.

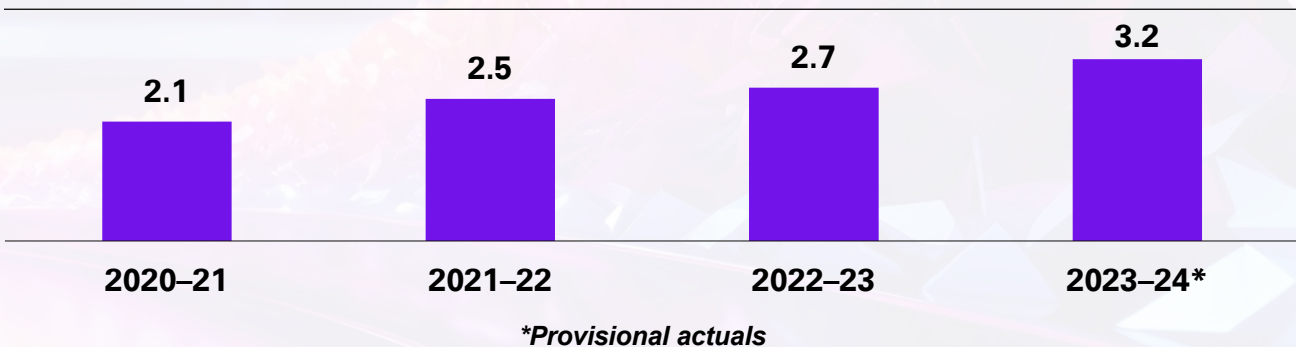
Initiatives like the National Infrastructure Pipeline (NIP) and the National Monetisation Pipeline (NMP) target sustained investment in infrastructure with a focus on railways, road transport, ports and digital connectivity and are key to attracting private investment. The NIP targets INR111 lakh crore in infrastructure investment from FY20 to FY25, while the NMP aims to monetise core assets worth INR6.0 lakh crore by FY25.

Railways have seen the introduction of Vande Bharat trains and the expansion of Dedicated Freight

Corridors. Road transport has benefitted from the National Industrial Corridor Development Programme and the Bharatmala Pariyojana, that incorporate sustainable construction practices and advanced traffic management systems. The UDAN scheme has improved regional connectivity, and airport infrastructure in the civil aviation industry.

The power sector is shifting towards renewable energy, contributing to a 15.8 per cent increase in renewable capacity by December 2024. Urban and rural infrastructure initiatives, such as the Jal Jeevan Mission and Swachh Bharat Mission, have improved water access and sanitation. The Smart Cities Mission has advanced urban management. A combination of public initiatives, increased private sector participation, innovative project execution, and sustainable development will ensure infrastructure growth and economic development towards 2047 goals.

### 1.4 Capital expenditure (% of GDP)





## Evolving Industrial Landscape: Challenges and Opportunities

In the past decade, India has seen significant changes in the global manufacturing landscape, establishing itself as a dynamic economy. The growth has been supported by improvements in public capital formation and logistical infrastructure. However, challenges such as geopolitical tensions, aggressive trade policies, and disruptions in the supply chain have had a negative impact on the export demand for India's manufactured goods.

Industries including steel, cement, chemicals, automobiles, electronics, and pharmaceuticals have played a key role in stabilising industrial growth and driving expansion in consumer-focused segments. The country currently holds a 2.8 per cent share of the global manufacturing sector, which is significantly lower than China's 28.8 per cent, presenting opportunities for enhancing the industrial sector's contribution to GDP.

On the domestic front, the industrial sector faced contractions due to the pandemic but demonstrated growth in FY25, primarily driven by the electricity and construction segments, which grew by 6.2 per cent. The Production-Linked Incentive (PLI) scheme has also played a role in supporting substantial domestic production growth in the electronics sector.

## Service Sector: Driving Economic Growth and Global Competitiveness

The service sector plays a vital role in driving global and Indian economic growth, accounting for approximately 62 per cent of the global GDP. It serves as a crucial support during times of manufacturing slowdowns and encompasses various sub-sectors such as trade, transport, financial services, and public administration, with notable growth seen in information and computer-related services. In India, the services sector contributes around 55 per cent to the Gross Value Added (GVA) and employs approximately 30 per cent of the workforce.

India has seen significant progress in global services exports, securing the seventh rank globally. The sector has exhibited strong growth post-pandemic, averaging 8.3 per cent, driven by increasing demand and new business inflows, particularly in computer and business services. Furthermore, developments in logistics and physical connectivity services, such as railways, road transport, and aviation, including initiatives like digital tolling and the PM Gati Shakti initiative, are enhancing the country's infrastructure. Moreover, the tourism sector has displayed resilience, contributing 5 per cent to FY23 GDP (regaining the pre-pandemic level) and generating 7.6 crore jobs.

## Agricultural Sector: Government Initiatives and Resilient Growth

The agricultural sector in India has demonstrated consistent growth, attributed to efforts to increase productivity, promote crop diversification, and raise farmers' income. Despite challenges such as climate variability, the sector has maintained a robust growth rate, averaging 5 per cent annually from FY17 to FY23, and contributing approximately 16 per cent to the country's GDP for FY24 (PE) at current prices. This sector provides support to around 46.1 per cent of the population in India. Recent improvements can be credited to favourable weather, advancements in agricultural practices, and government initiatives aimed at boosting productivity and sustainability.

India is a major global cereal producer, although its crop yields are lower compared to those of other leading producers, indicating the need for productivity enhancements. The floriculture industry, which is export-oriented, has emerged as a lucrative venture within agriculture, offering higher returns than traditional crops. Additionally, high-value sectors such as horticulture, livestock, and fisheries have witnessed growth, and efforts to enhance agricultural productivity and increase farmers' incomes have been undertaken.

These include the implementation of the Doubling Farmers' Income report recommendations, sustainable practices, and digital agriculture technologies.

More than 11 crore farmers have benefitted from Pradhan Mantri Kisan Samman Nidhi (PM-KISAN), and as of 31st October 2024, 23.61 lakh farmers had enrolled under Pradhan Mantri Kisan Maandhan Yojna (PMKMY).

## Environment: India's Sustainable Development and Climate Action Agenda

India is striving for inclusive and sustainable growth, with a target of achieving developed nation status by 2047, while emphasising its low per capita carbon emissions. India's climate efforts are anchored in its ambitious commitment to achieve net zero emissions by 2070, acknowledging challenges in renewable energy deployment, including storage technology limitations and critical mineral access. Adaptation expenditures have risen from 3.7 per cent to 5.6 per cent of GDP between FY16 and FY22 due to India's vulnerability to climate change.

The Lifestyle for Environment (LiFE) initiative promotes sustainable and circular economic practices, but international climate finance remains insufficient, with domestic resources primarily funding climate actions. The LiFE mission aims to make 80 per cent of Indian villages and urban areas environmentally friendly by

2028, with potential global savings of USD440 billion by 2030. India's commitment to increasing its carbon sink and promoting a circular economy aligns with its green finance initiatives like the Green Credit Programme and Sovereign Green Bonds, emphasising collective actions among citizens and a balanced approach to energy transition, along with ongoing investment in research for renewable energy technologies and efficient waste management practices.

### **Social Sector: Advancing Education, Healthcare, and Social Infrastructure**

India's economic growth strategy prioritises the development of the social sector through education, healthcare, skill development, and social infrastructure, with increased expenditure in education and health. The Household Consumption Expenditure Survey highlights enhanced rural consumption growth, narrowing the urban-rural consumption gap. Additionally, the National Education Policy 2020 is being advanced through various programmes, such as Samagra Shiksha Abhiyan, Digital Infrastructure for Knowledge Sharing (DIKSHA), Strengthening Teaching-Learning and Results for States (STARS), Performance Assessment, Review, and Analysis of Knowledge for Holistic Development (PARAKH), Prime Minister's Schools for Rising India (PM SHRI), Understanding of Lifelong Learning for All in Society (ULLAS), and Pradhan Mantri Poshan Shakti Nirman (PM POSHAN).

### **India's Labour Market: Enhancements, Opportunities, and Initiatives**

India's labour market has experienced significant enhancements due to the post-pandemic recovery and increased formalisation. It is essential for India to generate high-quality, sustainable employment opportunities and align workforce skills with global demands to effectively utilise its demographic advantage.

The government's focus on enhancing job growth includes prioritising reskilling, upskilling, and simplifying compliances. In addition, measures to support female entrepreneurship through financial aid, training, and mentorship are being implemented. Furthermore, the potential for creating high-quality jobs in the digital economy and renewable energy sectors is being acknowledged.

India's advantageous demographics are characterised by a youthful population and a declining dependency ratio. With the expanding working-age population, there are opportunities for economic growth if they are employed productively. It is projected that India needs to create 78.5 lakh non-farm jobs annually until 2030 to effectively engage its growing workforce.

The agriculture sector continues to dominate employment, and there have been significant changes in women's participation in the workforce, particularly in rural and urban areas, with increased self-employment and contributions to household enterprises.

Initiatives such as Mudra Yojana, Skill India, Start-Up India, and Stand-Up India have played pivotal roles in promoting entrepreneurship, providing skills training, and assisting individuals in establishing self-reliant and sustainable livelihoods.

### **AI and Labour Markets: Opportunities, Challenges, and Strategic Imperatives**

The rapid progression of Artificial Intelligence (AI) raises concerns about significant job displacement but also offers potential for economic growth with effective management. India's demographic advantage positions it to benefit from AI, but substantial investments in education and workforce skilling, supported by enabling institutions, are essential for this potential to be realised. Collaborative efforts between policymakers, the private sector, and academia are crucial to align AI development with societal goals, ensuring inclusivity and sustainability.

The potential for AI to surpass human capabilities in decision-making processes across various sectors has sparked concerns about economic displacement and social divides. The concentration of AI research and development within a few major companies heightens the risk of consolidating the benefits of automation, particularly impactful in countries like India with substantial employment figures. Recognising the adverse effects of prior technological revolutions underscores the importance of resilient institutions to mitigate risks and maximise opportunities.

Moreover, addressing these risks necessitates a responsible approach to AI adoption, robust institutional frameworks, and strategic planning. AI's practical application faces hurdles that need to be addressed, including the high costs of training models, the need for substantial computational resources, and infrastructure requirements.



# Macro-economic trends – Union Budget 2025–26 highlights<sup>1</sup>

## 2025 Budget: Roadmap for Viksit Bharat

The government, currently in its third successive term under Prime Minister Narendra Modi, outlined a comprehensive plan to drive economic growth, enhance social welfare, and position India as a leader in the global economy. The Union Budget 2025–26 underscores a resilient economic outlook for India that targets sustained economic growth, reduction in fiscal deficit and stabilisation of private consumption through initiatives and investments that emphasise sustainable and inclusive growth. The budget presented by the Finance Minister Hon'ble Nirmala Sitharaman is primarily structured around four engines of development: **Agriculture, MSMEs, Investment, and Exports**, with reforms acting as the fuel and inclusivity as the guiding principle. Reforms to the financial sector, tax structure reforms (that aim to provide relief to the middle class) and a continued focus on infrastructure development are expected to drive the vision for Viksit Bharat@2047.

## Key Budget Priorities

The budget focuses on bolstering agriculture, healthcare, technology, infrastructure and exports. The total capital expenditure earmarked in FY25–26 is INR11.2 lakh crore (3.1 per cent of GDP). Key allocations include INR500 crore for an AI Centre of Excellence, INR1.5 lakh crore in interest-free loans for state infrastructure, and increased funding for the Jal Jeevan Mission. The budget aims to stimulate economic growth, promote foreign exports, and support social welfare, laying the groundwork for India's sustainable development and economic resilience.

## Engines of economic development

### Agriculture: The first engine of development

- The "Prime Minister Dhan-Dhaanya Krishi Yojana" will be launched to enhance agricultural productivity, covering 100 districts with low productivity. This initiative aims to support 1.7 crore farmers by improving irrigation, storage, and credit facilities.

1. Source: Union Budget, Ministry of Finance, Accessed on 1 February 2025

- The government of India provides Kisan Credit Cards (KCC) to facilitate short term loans for 7.7 crore farmers, fishermen, and dairy farmers. The loan limit under the Modified Interest Subvention Scheme has been enhanced from INR3 lakh to INR5 lakh for loans taken through the KCC.
- A comprehensive "Rural Prosperity and Resilience" program will address under-employment in agriculture through skilling, investment, and technology.
- The government will launch a 6-year "Mission for Aatmanirbharta in Pulses" focusing on self-sufficiency in pulses like Tur, Urad, and Masoor.
- A National Mission on High Yielding Seeds will be launched targeting the development and propagation of seeds with high yield, pest resistance and climate resilience.
- A Makhana Board will be established in the state of Bihar to improve production, processing, value addition, and marketing of makhana.
- A five-year Mission for Cotton Productivity is planned to boost agricultural output and sustainability in farming while promoting extra-long staple cotton varieties.

## MSMEs: The second engine of development

- The classification criteria for MSMEs will be revised to enhance investment and turnover limits, by 2.5 and 2 times, respectively, encouraging growth and employment generation.
- Credit availability will be significantly enhanced, with a focus on micro enterprises and startups. Customised credit cards for micro enterprises (carrying a limit of INR5 lakhs) and a new Fund of Funds for startups (with a fresh contribution of INR10,000 crore) will be introduced.
- A new scheme for first-time entrepreneurs, especially women and marginalised groups, will be launched to provide term loans and capacity building, to promote individual businesses and SMEs.
- The government of India will undertake specific policy and facilitation measures to promote employment and entrepreneurship opportunities in labour-intensive sectors such as footwear and leather.



## Investments: The third engine of development

- Investment initiatives such as Saksham Anganwadi and Poshan 2.0 are aimed at providing nutritional support, while the establishment of Atal Tinkering Labs in schools is intended to foster innovation.
- In terms of economic investment, there is a focus on public-private partnerships in infrastructure, with a proposed outlay of INR1.5 lakh crore for 50-year interest-free loans to states for capital expenditure.
- Plans have been laid out to incentivise electricity distribution reforms and enhance intra-state transmission capacity by states. States will be allowed to engage in additional borrowing of 0.5 per cent of GSDP, contingent on these reforms.
- An outlay of INR20,000 crore is allocated for a Nuclear Energy Mission aimed at research and development of Small Modular Reactors (SMR), with a goal to operationalise at least 5 indigenously developed SMRs by 2033.
- Building on the success of the first Asset Monetisation Plan announced in 2021, a second Plan for FY25–30 will be launched to reinvest capital of INR10 lakh crore in new projects.
- The government plans to facilitate the establishment of Day Care Cancer Centres in all district hospitals within the next 3 years, with 200 centres to be established in FY25–26.
- Five National Centres of Excellence for skilling will be established through global expertise and partnerships to equip youth with the necessary skills for "Make for India, Make for the World" manufacturing.
- The government has announced the establishment of a Centre of Excellence in Artificial Intelligence for education with a total outlay of INR500 crore.
- An additional 10,000 seats will be added in medical colleges and hospitals, working towards the goal of adding 75,000 seats in the next 5 years.
- An allocation of INR20,000 crore has been made to implement a private sector-driven Research, Development, and Innovation initiative.
- Under the PM Research Fellowship scheme over the next five years, the government will provide ten thousand fellowships for technological research in IITs and IISc with enhanced financial support.
- Investment in innovation includes the establishment of a Deep Tech Fund of Funds, a National Geospatial Mission, and the establishment of Centres of Excellence in AI for education.

## Exports: The fourth engine of development

- An Export Promotion Mission will be established to facilitate convenient access to export credit and assist MSMEs in addressing non-tariff measures in international markets.
- BharatTradeNet, a digital public infrastructure for global trade, will be implemented to streamline trade documentation and financing solutions.
- A national framework will be developed to provide guidance to states in promoting Global Capability Centres in emerging tier 2 cities.
- The government will support the enhancement of infrastructure and warehousing for air cargo, including high-value perishable horticulture produce.

- Coming to 2025-26, the total receipts other than borrowings and the total expenditure are estimated at INR 34.96 lakh crore and INR 50.65 lakh crore respectively. The net tax receipts are estimated at INR 28.37 lakh crore.
- The fiscal deficit for 2025-26 is estimated at 4.4% of GDP, with a focus on fiscal consolidation and maintaining a declining path for central government debt. The budget estimates total receipts at ₹34.96 lakh crore and total expenditure at ₹50.65 lakh crore.

## Fiscal Policy:

- The Revised Estimate for 2024-25 of the total receipts other than borrowings is INR 31.47 lakh crore, of which the net tax receipts are INR 25.57 lakh crore. The Revised Estimate of the total expenditure is INR 47.16 lakh crore, of which the capital expenditure is about INR 10.18 lakh crore.



*The budget seeks to strike a balance in development by prioritising both economic growth and social welfare. It is dedicated to implementing reforms and fostering innovation to cultivate an optimal environment for investment, fortify the competitiveness of Indian industries, and ensure that the benefits of growth are widespread and inclusive.*



# Regulatory announcements

## Key regulatory reforms on the anvil

- Financial sector reforms involve raising the FDI limit in the insurance sector to 100 per cent and expanding the services of India Post Payment Bank in rural areas.
- Regulatory reforms aim to enhance ease of doing business through a light-touch regulatory framework, with a High-Level Committee for Regulatory Reforms reviewing non-financial sector regulations.
- The revamped Central Know Your Customer (KYC) Registry is being rolled out in 2025 to simplify the KYC process.
- NaBFID is setting up a 'Partial Credit Enhancement Facility' for corporate bonds for infrastructure.
- Public Sector Banks are developing a 'Grameen Credit Score' framework to serve the credit needs of SHG members and people in rural areas.
- The government is bringing up the Jan Vishwas Bill 2.0 to decriminalise more than 100 provisions in various laws.
- Requirements and procedures for speedy approval of company mergers are being rationalised. The scope for fast-track mergers is also being widened and the process made simpler.



# Direct tax

## Personal taxation

- The tax rates and slabs under the default (new tax) regime revised as below:

Existing		Proposed	
Taxable Income (INR)	Tax Rate*	Taxable Income (INR)	Tax Rate*
Up to 300,000	Nil	Up to 400,000	Nil
300,001 – 700,000	5 per cent	400,001 – 800,000	5 per cent
700,001 – 1,000,000	10 per cent	800,001 – 1,200,000	10 per cent
1,000,001 – 1,200,000	15 per cent	1,200,001 – 1,600,000	15 per cent
1,200,001 – 1,500,000	20 per cent	1,600,001 – 2,000,000	20 per cent
Above 1,500,000	30 per cent	2,000,001 – 2,400,000	25 per cent
		Above 2,400,000	30 per cent

\*Surcharge, cess remain unchanged.

- Income tax rates and slabs remain unchanged under the optional (old tax) regime.
- Income threshold for rebate under new tax regime enhanced from INR700,000 to INR1,200,000 (excluding income taxable at special rates e.g. capital gains, etc.)
- Deduction of INR50,000 made available for contribution towards minor's National Pension Scheme (Vatsalya) account under old tax regime. Partial withdrawal up to 25 per cent for specified reasons from minor's account not taxable for parent / guardian.
- All unexempted Unit Linked Insurance Plans (ULIPs) to qualify as capital asset and income from redemption of such ULIPs to be taxable as capital gains on par with equity oriented mutual funds.
- The conditions for adoption of nil value for self-occupied property done away with (w.e.f. 1 April 2025).
- The amount withdrawn from National Savings Scheme (NSS) on or after 29 August 2024 to be exempt from tax.

Note: Unless indicated, amendments to take effect from 1 April 2026

# Corporate tax

## Tax rates

No change in applicable corporate tax rates for companies.

## Taxation of non-residents

### Presumptive taxation scheme

- A presumptive taxation scheme introduced for non-residents engaged in the business of providing services or technology to a resident company establishing/ operating an electronics manufacturing facility/ connected facility for manufacturing electronic products in India under the government notified scheme.
- A sum equal to 25 percent of the aggregate amount received/ receivable by the non-resident will be deemed to be profits and gains of such non-resident chargeable to tax in India.
- The scheme of taxation will also cover provision of technical personnel by the non-resident.

### Significant Economic Presence

- Transaction or activities of a non-resident which are confined to purchase of goods in India for the purpose of export not to constitute Significant Economic Presence of such non-resident, thereby aligning with the business connection provisions.

Note: Unless indicated, amendments to take effect from 1 April 2026

## Transfer Pricing

- The taxpayers provided an option to apply arm's length price determined in an assessment proceeding in relation to the international transaction and specified domestic transaction for any previous year, to the subsequent two years for similar transactions. The scheme would not apply to 'search' cases and to provide:
  - Various time limits for implementation; and
  - Procedure, timing and the forms to avail and implement.
- The scope of transfer pricing safe harbour rules is to be expanded to provide certainty on arm's length computation of international transactions and reduce underlying litigation. The detailed rules would be prescribed separately.
- The time limit of 31 March 2025 for adoption of faceless regime for transfer pricing assessment, proceedings before the Dispute Resolution Panel and Tribunal has been removed.



## Domestic taxation

### Extension of time limit for start-ups

The tax benefit for eligible start-ups has been extended for start-ups incorporated till 31 March 2030 (i.e., incorporation time limit extended by five years).

### Tonnage tax scheme

- The tonnage tax scheme extended to qualified vessels registered under the Inland Vessels Act, 2021, engaged in the business of inland water transportation (w.e.f. 1 April 2026).
- Time limit for disposal of application for the tonnage tax scheme by the relevant authority extended to three months from the end of the quarter in which the application was received.

### Charitable Trusts/ Institutions

- Any incomplete application submitted by registered charitable trust/ institutions for renewal/other cases not to be treated as a 'specified violation' leading to cancellation of tax exemption registration and attracting exit tax.
- The validity of registration for smaller charitable trusts/ institutions whose income does not exceed INR 5 crores in each of the two previous years prior to filing application for renewal/other cases to be extended from five years to ten years.

- For related party transactions, the threshold for coverage under 'specified persons' for persons making 'substantial contributions' increased to INR 1 lakh per year and a cumulative limit of INR 10 lakhs. Relatives and substantial interest entities of such person excluded from the meaning of 'specified persons.'

### Carry-forward of losses on amalgamation and business reorganisation

- In case of amalgamation or business reorganisation, the fresh lease of life for losses will not be available to the amalgamated or successor entity. Instead, an eight-year period will be calculated from the year in which the loss was first incurred by the amalgamating or predecessor entity. This amendment to be applicable to any amalgamation or business reorganisation which is effected on or after 1 April 2025.



Note: Unless indicated, amendments to take effect from 1 April 2025

## International Financial Services Centre (IFSC)

- The deemed dividend provisions made inapplicable to advance or loan between two group entities (a) where one of the group entities is a Finance Company / unit in IFSC set-up as a global or regional corporate treasury centre undertaking treasury activities or treasury services and (b) the parent entity / principal entity of such group is listed on stock exchange outside India (other than specified jurisdictions).
- Income of IFSC unit by way of dividends from another IFSC unit to be exempt if both entities are primarily engaged in business of ship leasing in IFSC.
- Tax exemption provided to capital gains of a non-resident or unit of IFSC (primarily engaged in business of ship leasing) arising from transfer of equity shares of a domestic company which is a unit in IFSC (primarily engaged in business of ship leasing) and has commenced operations on or before 31 March 2030. The sunset date for benefit of similar exemption to aircraft leasing company extended to 31 March 2030.
- The sunset date for commencement of operations by aircraft / ship leasing unit and Investment division of offshore banking unit in IFSC for eligibility of tax benefits to be extended to 31 March 2030.
- Life insurance policy purchased from IFSC Insurance Intermediary office to be exempt for the policyholders regardless of limit of INR 250,000 for ULIPs and INR 500,000 for other policies (w.e.f. 1 April 2026).
- Tax exemption provided to income of a non-resident from transfer of non-deliverable forward contracts or offshore derivative instruments (ODI) or over the-counter derivatives, or distribution of income on ODIs, entered into with IFSC based Foreign Portfolio Investors, subject to conditions to be prescribed (w.e.f. 1 April 2026).
- The tax neutrality available on relocation of offshore fund / original fund to IFSC extended to cases where the resultant fund in IFSC is set-up as a Retail Scheme or Exchange Traded Fund. Further, the sunset date for tax neutral relocation of offshore / original fund to a resultant fund in IFSC to be extended to 31 March 2030 (w.e.f. 1 April 2026).

*Note: Unless indicated, amendments to take effect from 1 April 2025*

## Investment/ fund management

- The timeline for investment in India by the eligible specified persons (including Sovereign Wealth Fund and Pension Funds) for claiming exemption of income in the form of long-term capital gains, interest and dividend extended to 31 March 2030. Further, capital gains from unlisted debt securities carved out from deemed short-term category for such investors and if long-term, then eligible for the exemption.
- Long-term capital gains on transfer of listed bonds and debentures and units of mutual funds (other than equity-oriented fund) held by specified fund or Foreign Institutional Investor (FII) to be taxable at the rate of 12.5 per cent (w.e.f. 1 April 2026).
- The sunset date for commencement of operations by the eligible fund manager in IFSC (for not constituting business connection of the eligible investment fund) for availing relaxation from certain safe-harbour conditions extended to 31 March 2030.
- The securities held by the Investment Fund (Cat-1 and Cat-2 AIF) and invested in accordance with SEBI regulations to be considered as capital assets and income arising from transfer of such security would be taxable as capital gains (w.e.f. 1 April 2026).
- For an eligible fund manager in India (IFSC / otherwise) not to constitute business connection of an eligible investment fund (EIF), the condition of aggregate participation or investment in the EIF by person resident in India not exceeding 5 percent of its corpus is to be tested on 1 April or 1 October. If this condition is not satisfied, then to avail the benefit, the EIF has to satisfy the said condition within four months thereof.
- In computing the income of a business trust (REIT/ InvIT), the specific rates for capital gains on eligible capital assets to apply and not the maximum marginal rates (w.e.f. 1 April 2026).

Note: Unless indicated, amendments to take effect from 1 April 2025



## Tax deduction at source (TDS) and Tax collection at source (TCS)

### Rationalisation of TDS rates [effective 1 April 2025]

Sr. No.	Section	Current Rate	Proposed Rate
1	194LBC – Income in respect of investment in securitisation trust	25 per cent (individual, HUF) 30 per cent (others)	10 per cent for all the payees

### Rationalisation of threshold limits [effective 1 April 2025]

Sr. No.	Section	Current threshold (INR)	Proposed threshold (INR)
1	193 – Interest on securities (to individual and HUF) <ul style="list-style-type: none"> <li>From debentures of a company in public are substantially interested</li> <li>Others</li> </ul>	5,000 Nil (others)	10,000 10,000
2	194 – Dividend for an individual shareholder	5,000	10,000
3	194A – Interest other than interest on securities (i) Where payer is a bank, co-operative society and post office and payee is: <ul style="list-style-type: none"> <li>Others</li> <li>Senior Citizens</li> </ul> (ii) For other payers	40,000 50,000 5,000	50,000 100,000 10,000
4	194B – winnings from lottery, crossword puzzle, etc. 194BB – winnings from horse race	10,000 aggregate during FY	10,000 per single transaction
5	194D – Insurance Commission 194G – Commission, prize, etc. on lottery tickets 194H – Commission or brokerage	15,000	20,000
6	194I – Rent	240,000 in a FY	50,000 per month or part of month
7	194J – Fees for professional services, technical services, royalty and sums as per section 28(va)	30,000	50,000
8	194K – Income in respect of units of specified mutual funds, units from administrator of specified undertaking or units from specified company	5,000	10,000
9	194LA – Compensation on compulsory acquisition of certain immovable property	250,000 in a FY	500,000 in a FY

### Other TDS/TCS provisions

- The provisions relating to TCS on sale of goods withdrawn w.e.f. 1 April 2025.
- The provision requiring higher TDS or TCS for non-filers of return of income omitted w.e.f. 1 April 2025.
- Relief granted from prosecution for delayed payment of TCS if paid to the Central Government on or before the due date for filing the quarterly statement as specified.
- Definition of Virtual Digital Asset expanded to include any crypto asset being a digital representation of value that relied on cryptographically secured distributed ledger or a similar technology to validate and secure transactions. Further, transactions in crypto assets to be reported to the Income-tax authorities by the prescribed Reporting Entity (w.e.f. 1 April 2026).

### Compliance related amendments

- The timeline to file an updated tax return for any assessment year extended from two to four years from the end of that assessment year. The additional tax payable with such updated tax return to be 60 per cent of the interest and tax liability if filed in the third year and 70 per cent if filed in the fourth year.
- An order imposing penalty shall not be passed after the expiry of six months from the end of the quarter in which the connected proceedings are completed, or the order of revision is passed, or the order of appeal is received by the jurisdictional Principal Commissioner or Commissioner, or the notice for imposition of penalty is issued.



*Note: Unless indicated, amendments to take effect from 1 April 2025*



# Indirect tax

## Goods and Services Tax

### Input tax credit

- The retrospective amendment from 1 July 2017, in Section 17(5)(d) of the CGST Act proposes to replace the phrase 'plant or machinery' with 'plant and machinery'. An explanation has also been proposed to explicitly mention this amendment is one regardless of any judgment, decree, or order. However, no change/deletion of term "own account" has been proposed in the said Section.
- Additional condition to be complied to reduce tax liability for credit note issued under section 34 of the CGST Act:
  - Reversal of input tax credit (ITC) by the recipient, if availed; or
  - Confirmation that incidence of tax on such transaction has not been passed on to any other person, in any other cases
- The legislative enablement of the Invoice Management System (IMS) is made through Section 38(1) and Section 38(2) of the CGST Act by replacing the term 'auto-generated statement' with 'statement of input tax credit'

- Provisions related to Input Service Distributor ('ISD') are proposed to be amended to explicitly include provisions for the distribution of ITC by the ISD for inter-state supplies where tax is paid on a reverse charge basis, applicable *w.e.f. 1 April 2025*.
- Section 39(1) is amended to provide for an enabling clause to prescribe conditions and restriction for filing of GSTR 1 under the said sub-section.

### Pre-deposit for appeal proceedings

- Pre-deposit prescribed for 'only penalty orders' as well:
  - 10 per cent of the penalty amount for appeal before first appellate authority.
  - 10 per cent of the penalty amount (in addition to pre-deposit paid before first appellate authority) for appeal before GST appellate tribunal

*(In case of Pre-deposit for other orders, the existing provision will continue to apply).*

## Other provisions

- Section 12(4) and Section 13(4) of the CGST Act, which provides for the time of supply of vouchers is omitted. Consequently, sale/distribution of vouchers under P2P model would no longer be subject to GST
- Retrospective amendment from 1 July 2017 in Schedule III (i.e. transactions neither treated as supply of goods nor supply of services) to include transactions for the supply of goods warehoused in SEZs or FTWZs to any person before their clearance for export or to the Domestic Tariff Area
- New Section 148A inserted to provide track and trace mechanism for certain specified goods
- New Section 122B inserted to provide for levy of penalty of INR1 lakh or 10 per cent of the tax payable whichever is higher in case of contravention of Section 148A (Compliance with track and trace mechanism).

## Customs

### Enhanced flexibility and responsibility in self assessments

- Voluntary revision of self-assessment allowed, detailed procedure to follow
- Includes eligibility to claim refund
- Does not cover cases under audit, investigation, etc.

### Time-bound finalisation of provisional assessments

- Timeline for finalization of provisional assessments defined as 2 years, extendable by another year
- Certain exceptions specified

### Decommissioning of Settlement Commission

- Settlement Commission to be phased out by 31<sup>st</sup> March 2025
- Pending applications to be cleared by an Interim Board to be constituted



## Relaxation in IGCR compliances

- Time limit of 6 months for fulfilling end use extended to 1 year
- IGCR returns to be filed on quarterly basis instead of monthly.

## Tariff entries and rate rationalisation

- Interplay of tariff rate reduction & AIDC
- Rate reduced for multiple chapters
- In specific cases, reduction offset by introducing AIDC and removing SWS
- Levy of SWS and AIDC has been made mutually exclusive
- 178 new tariff entries introduced; new supplementary notes added to align tariff entries with product quality conformity standards.

## Major sector-specific changes

- **Electronic goods:** BCD on smart flat screen increased to address inverted duty structure; BCD reduced on open cell and components
- **Lithium ion batteries:** Capitals goods for manufacturing extended benefits
- **Mobile phone:** Reduced BCD on parts or inputs for manufacture of mobile phone classifiable under 'any chapter'
- **Solar Modules:** Duty rates reduction
- **Critical minerals:** Exemption on import of waste and scrap
- **Automobile:** Engine capacity-based duty structure on motorcycles, along with duty reduction
- **Chemicals:** Change in duty rates. Addition of tariff entries and supplementary notes increases the product regulatory play in tariff.

## 1. Key changes in Tariff rates (increase – effective 2 February 2025)

S. No.	Heading, sub heading tariff item	Commodity	Duty Rate (per cent)			
			From		To	
			BCD	SWS	BCD	AIDC
<b>IT &amp; Electronics</b>						
1.	8528 59 00	Interactive Flat Panel Displays (Completely Built Units)	10%	1%	20%	-

## 2. Key changes in Tariff rates (Decrease – effective 2 February 2025)

S. No.	Heading, sub heading tariff item	Commodity	Duty Rate (per cent)			
			From		To	
			BCD	SWS	BCD	AIDC
<b>Footwear</b>						
1.	6401	Waterproof Footwear with outer soles and Uppers of Rubber or of plastics, the uppers of which are neither fixed to the sole nor assembled by stitching, riveting, nailing, screwing, plugging or similar processes	35%	3.5%	20%	18.5%
2.	6402	Other footwear with outer soles and uppers of rubber or plastics	35%	3.5%	20%	18.5%
3.	6403	Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather	35%	3.5%	20%	18.5%
4.	6404	Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of textile materials	35%	3.5%	20%	18.5%
<b>Solar Cells and Modules</b>						
5.	8541 42 00	Solar Cells	25%	2.5%	20%	7.5%
6.	8541 43 00 8541 49 00	Solar Module and Other semiconductor devices and photovoltaic cells	40%	4%	20%	20%

[Contd.]

## 2. Key changes in Tariff rates (Decrease – effective 1 May 2025) [Contd.]

S. No.	Heading, sub heading tariff item	Commodity	Duty Rate (per cent)			
			From		To	
			BCD	SWS	BCD	AIDC
<b>Automobile</b>						
7.	8702	Motor vehicles for transport of 10 or more persons	40%	4%	20%	20%/5%
8.	8703	Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading 8702)	125%	12.5%	70%	40%*
9.	8704	Motor vehicles for transport of goods	40%	4%	20%	20%/5%
10.	8711	Motorcycles and cycles fitted with an auxiliary motor with or without side-car	100%	10%	70%	-
11.	8712 00 10	Bicycles	35%	-	20%	15%

\*Subject to the condition that Motor cars and other motor vehicles are principally designed for the transport of persons in other than Completely Knocked Down and Semi Knocked Down form with CIF value exceeding USD 40,000

## 2. Key changes in Tariff rates (Decrease – effective 1 May 2025) [Contd.]

S. No.	Heading, sub heading tariff item	Commodity	Duty Rate (per cent)			
			From		To	
			BCD	SWS	BCD	AIDC
<b>IT &amp; Electronics</b>						
12.	9028 30 10	Electricity meters for alternating current (Smart meter)	25%	2.5%	20%	7.5%
<b>Furniture</b>						
13.	9401	Seats (other than those of headings 9402), whether or not convertible into beds, and parts thereof	25%	2.5%	20%	5%
14.	9404	Mattress supports, articles of bedding and similar furnishing etc.	25%	2.5%	20%	5%
<b>Laboratory Chemicals</b>						
15.	9802 00 00	Laboratory Chemicals	150%	15%	70%	70%

### 3. Key changes in Tariff rates (Without any change in effective rates of duty – effective 1 May 2025)

S. No.	Heading, sub heading tariff item	Commodity	Duty Rate (per cent)			
			From		To	
			BCD	SWS	BCD	AIDC
<b>Chemicals / Minerals</b>						
1.	2711 12 00	Liquefied Propane	15%	1.5%	2.5%	-
2.	2711 13 00	Liquefied Butane	15%	1.5%	2.5%	-
3.	2711 19 10	LPG (for non-automotive purpose)	15%	1.5%	5%	-
4.	2711 19 20	LPG (for automotive purpose)	15%	1.5%	5%	-
5.	2711 19 90	Other liquified petroleum gas	15%	1.5%	5%	-
<b>Articles of Iron &amp; Steel</b>						
6.	7318 15 00	Other screws and bolts whether or with nuts or washers	25%	2.5%	15%	-
7.	7318 16 00	Threaded nuts	25%	2.5%	15%	-
8.	7318 29 90	Other non-threaded articles	25%	2.5%	15%	-
9.	7320 90 90	Other springs and leaves of iron/steel	25%	2.5%	15%	-

## 4. Key changes in BCD in notifications - effective 2 February 2025

S. No.	Heading, sub heading tariff item	Commodity	Duty Rate (per cent)			
			From		To	
			BCD	SWS	BCD	AIDC
<b>IT &amp; Electronics</b>						
1.	8517	Ethernet switches Carrier grade	20%	2%	10%	-
2.	8524 8529	Open cell for interactive flat panel display module with or without touch, touch glass sheet and touch sensor PCB for the manufacture of the interactive flat panel display module.	15% / 10%	1.5%/ 1%	5%	-
3.	8529	Inputs and parts of the open cells for use in the manufacture of television panels of LED/LCD TV.	2.5%	0.25%	Nil	-
4.	Any chapter	Inputs or Parts/sub-parts for use in the manufacture of the Printed Circuit Board Assembly, Camera module and connectors of cellular mobile phones and inputs and raw materials for use in the manufacture of specified parts of cellular mobile phones i.e on Wired Headset, Microphone and Receiver, USB Cable and Fingerprint reader / Scanner of Cellular Mobile Phone.	2.5%	A s  a p p l i c a b l e	N/A	A s  a p p l i c a b l e



## 4. Key changes in BCD in notifications - effective 2 February 2025 [Contd.]

S. No.	Heading, sub heading tariff item	Commodity	Duty Rate (per cent)			
			From		To	
			BCD	SWS	BCD	AIDC
<b>Automobiles</b>						
5.	8702	Motor vehicles for transport of 10 or more persons	25% / 40%	2.5% / 4%	20%	20%/ 5%
6.	8704	Motor vehicles for transport of goods	25% / 40%	2.5%/4 %	20%	20%/ 5%
7.	8711	Motor cycles with engine capacity not exceeding 1600cc in CBU form	50%	5%	40%	-
8.	8711	Motor cycles with engine capacity not exceeding 1600cc in SKD form	25%	2.5%	20%	-
9.	8711	Motor cycles with engine capacity not exceeding 1600cc in CKD form	15%	1.5%	10%	-
10.	8711	Motor cycles with engine capacity of 1600cc and above in CBU form	50%	5%	30%	-
11.	8711	Motor cycles with engine capacity of 1600cc and above in SKD form	25%	2.5%	20%	-
12.	8711	Motor cycles with engine capacity of 1600cc and above in CKD form	15%	1.5%	10%	-
<b>Toys</b>						
13.	9503 00 91	Parts of electronic toys for manufacture of electronic toys	25%	2.5%	20%	20%/ 5%

# KPMG in India contact

## Sunil Badala

National Head of Tax  
KPMG in India  
E: [sunilbadala@kpmg.com](mailto:sunilbadala@kpmg.com)

[kpmg.com/in](https://kpmg.com/in)



Access our latest insights  
on KPMG Insights Edge

Follow us on:

[kpmg.com/in/socialmedia](https://kpmg.com/in/socialmedia)



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

KPMG Assurance and Consulting Services LLP, Lodha Excelus, Apollo Mills Compound, NM Joshi Marg, Mahalaxmi, Mumbai - 400 011 Phone: +91 22 3989 6000, Fax: +91 22 3983 6000.

© 2025 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.

This document is for e-communication only.