KPMG

India Union Budget 2025-26

Point of view

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Financial Services

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Union Budget 2025 is aimed at boosting consumption demand by enhancing disposable incomes to accelerate growth, tax rationalization, supporting the agriculture, exports and MSME sectors, spurring infrastructure development and initiating transformative and regulatory reforms, especially in the Financial Sector

Key announcements for the sector

- International Financial Services Center (“IFSC”)
  - Sunset date for commencement of operations in IFSC for various businesses extended from March 2025 to March 2030
  - Life insurance policy proceeds received from an IFSC insurance intermediary office to be exempt in the hands of policyholders
  - Dividend and capital gains tax exemption now available on equity shares of a domestic company engaged in the lease of ships (earlier available only for units engaged in lease of aircrafts)
  - Borrowings between group entities and a corporate treasury center in IFSC of listed foreign company to be exempted from deemed dividend” provisions subject to conditions
  - Tax exemption on transactions of non-deliverable forward contracts, offshore derivative instruments (“ODI”), over the-counter derivatives, and distribution of ODI income extended to non banking units registered as FPIs in IFSC (previously exemption available only to offshore banking units)
  - Tax neutrality for relocation of funds from overseas jurisdiction to IFSC extended to retail schemes and Exchange Traded Funds.
- Sovereign Wealth Funds (“SWF”) and Pension Funds (“PF”)
  - Sunset date for investments by SWFs and PFs in infrastructure projects extended from March 2025 to March 2030 to claim eligible tax benefits
  - Long-term capital gains derived by such funds from investments in unlisted debt securities to be exempt from tax even if such long-term gains are deemed as short-term under the provisions of section 50AA.
- Overseas Funds and FPIs
  - Fund management activity for overseas funds in India – Safe harbour condition of maximum 5% resident participation in the fund to be met on 1st April and 1st October or within 4 months instead of all through the year
  - Long-term capital gains tax rationalized on transfer of domestic unlisted securities arising to FPIs and specified funds in IFSC (increased from existing 10% to 12.5%).

- Domestic Funds
  - — Real estate investment trust and infrastructure investment trust to be taxed at concessional rates on long term capital gains from listed equity and equity-oriented funds - at par with other investors
  - — Securities held by Alternate Investment Fund to be classified as capital assets and consequently, gains to be taxed at concessional rates, where applicable.
- Insurance
  - — Proceeds from Unit linked insurance plans to be taxed as capital gains, unless exempted under the law.
- Start-ups
  - — Sunset date for incorporation of start-ups (to avail tax holidays) extended from March 2025 to Mach 2030.
- Crypto
  - — Definition of "virtual digital asset" being expanded to cover any crypto asset
  - — Reporting obligations being cast in relation to transactions in crypto-assets.
- Tax Deducted at Source ("TDS") & Tax Collected at Source ("TCS")
  - — Payment thresholds for withholding tax increased for various categories of payments (including interest payable on bank deposits)
  - — Rate of TDS on payments to residents by securitization trusts reduced from 25% / 30% to 10%
  - — In order to ease TDS compliance, requirement of higher TDS on payments to non-filers done away with. Higher TDS and TCS rates to apply only for cases without Permanent Account Number (PAN) [Indian tax registration]
  - — Threshold to collect TCS on remittances under Reserve Bank of India's Liberalized Remittance Scheme increased from Rs 7 lakh to Rs 10 lakh
  - — No TCS on overseas remittances made out of loans taken for educational purposes from specified financial institution (as defined under section 80E)
  - — Delays in payment of TCS to be decriminalized, provided TCS is paid within the due date of filing respective quarterly return.
- Tax procedure
  - — Option provided to taxpayer for transfer pricing related "block assessment" to cover multiple years
  - — Time limit to file updated return extended from 2 years to 4 years.

Implications for the sector

- Over the past decade, India has taken significant strides in digitizing financial monitoring and governance. The Union Budget 2025 builds on this momentum with two key initiatives aimed at enhancing compliance, security, and transparency in the financial ecosystem equipping BFSI organizations with means to mitigate money laundering and fraud risks.
  - — Revamped Central KYC Registry: A Step Towards Centralized Due Diligence: The government has announced the rollout of a revamped Central KYC (CKYC) Registry in 2025. The updated platform is expected to address issues regarding data quality and ensure wider adoption of CKYCR across industry, especially larger banks. Expanded data points may enable banks and financial entities to enhance their AML due diligence processes and move beyond basic identity verification through CKYCR. Additional security measures may be introduced to mitigate risks related to identity theft and data security and thereby help prevent financial frauds emanating from such occurrences.

A more comprehensive and widely adopted CKYC framework will significantly bolster Indian financial institutions' ability to detect and prevent illicit activities and set new standards in global AML and FCC best practices.

— BharatTradeNet: A Unified Framework for Trade Finance Transparency - The government will be introducing BharatTradeNet, a digital public infrastructure designed to streamline trade documentation and financing processes. The platform aims to provide a unified view of same trade transaction across the trade value chain i.e., importers, exporters, customs officials, transporters, financers, insurers, etc. With end-to-end visibility, financial institutions are expected to detect anomalies, prevent trade-based money laundering (TBML), and curb trade finance abuse instances.

  As more details emerge, this initiative is expected to play a crucial role in enhancing risk assessment capabilities for banks while ensuring compliance with AML and CFT regulations.

  These initiatives underscore India's commitment to strengthening regulatory frameworks, improving financial security, and combating economic crimes. With increased digitization and enhanced monitoring mechanisms, financial institutions will be better equipped to detect and mitigate financial risks in an evolving regulatory landscape.

- Increasing Foreign Direct Investment limit for Insurance companies from 74% to 100%, with an indication towards revisiting extant conditions around FDI is expected to attract foreign investments, drive innovation, improve market efficiency and increase insurance penetration. While the fine print is awaited, investing 100% of premiums in India will help in mobilizing long term capital flows into nation's strategic capital-intensive projects and infrastructure development. This measure could bring better management control for foreign players boosting adoption of global best practices and learnings. In addition to entry of new players, existing foreign players may increase their stake and provide monetization opportunity for non-strategic Indian shareholders and Public Sector banks. Additionally, making proceeds of all insurance policies, issued by IFSC insurance offices, tax free at maturity under Section 10(10D); will boost new business from these offices. After increase in the FDI limits, modifications in associated legislations such as FEMA regulations, FDI policy, etc. also needs to be undertaken
- New investment and turnover limit enhancement of 2.5 and 2 respectively for Micro, Small and Medium Enterprises (MSME) sector as well as credit guarantee scheme enhancement from INR 5 crores to INR 10 crores will have significant impact on credit growth in the FS sector and the scale of MSMEs. Banks and NBFCs will see a spike in demand for last mile financing. As MSME sector contributes significantly to India's export, proposed digital public infrastructure (DPI) for trade documentation and financing solutions will also result in increased demand for trade finance products, export credits
- Development of 'Grameen Credit Score' framework by Public Sector Banks and expanding services of India Post Payment Bank that has network of 1.5 lakh rural post offices will further promote financial inclusion in underserved rural India. Agriculture financing loan limit enhancement from INR 3 lakh to INR 5 lakh under the modified interest subvention scheme for loans taken through the Kisan Credit Cards (KCC) will see increase in credit demand in this sector. Initiatives outlined under Prime Minister Krishi Yojana for agricultural sector is expected to bring sustainable growth for the sector, aided by affordable short term and long-term financing options
- To strengthen the Indian financial services sector and promote ease of doing business, the budget announced several crucial steps, Fine prints of the below measures are awaited and need to be further analyzed

  — Under the Financial Stability and Development Council, a mechanism will be set up to evaluate impact of the current financial regulations and subsidiary instructions. It will also formulate a framework to enhance their responsiveness and development of the financial sector

- A national framework will be formulated as guidance to states for promoting Global Capability Centers in emerging tier 2 cities. This will suggest measures for enhancing availability of talent and infrastructure, building byelaw reforms, and mechanisms for collaboration with industry. This might further attract global financial services players to consider entering the Indian market or expanding their existing footprint
- To provide impetus to the domestic Pensions market, a forum for regulatory coordination and development of pension products will be set up
- National Bank for Financing Infrastructure and Development will set up a 'Partial Credit Enhancement Facility' for corporate bonds for infrastructure to enhance credit flow
- Merger and Acquisition activity could further gain momentum with rationalization of requirements and procedures for speedy approvals and widening the scope for fast-track merger.

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