



Budget 2025 - Impact on Domestic Companies

February 2025



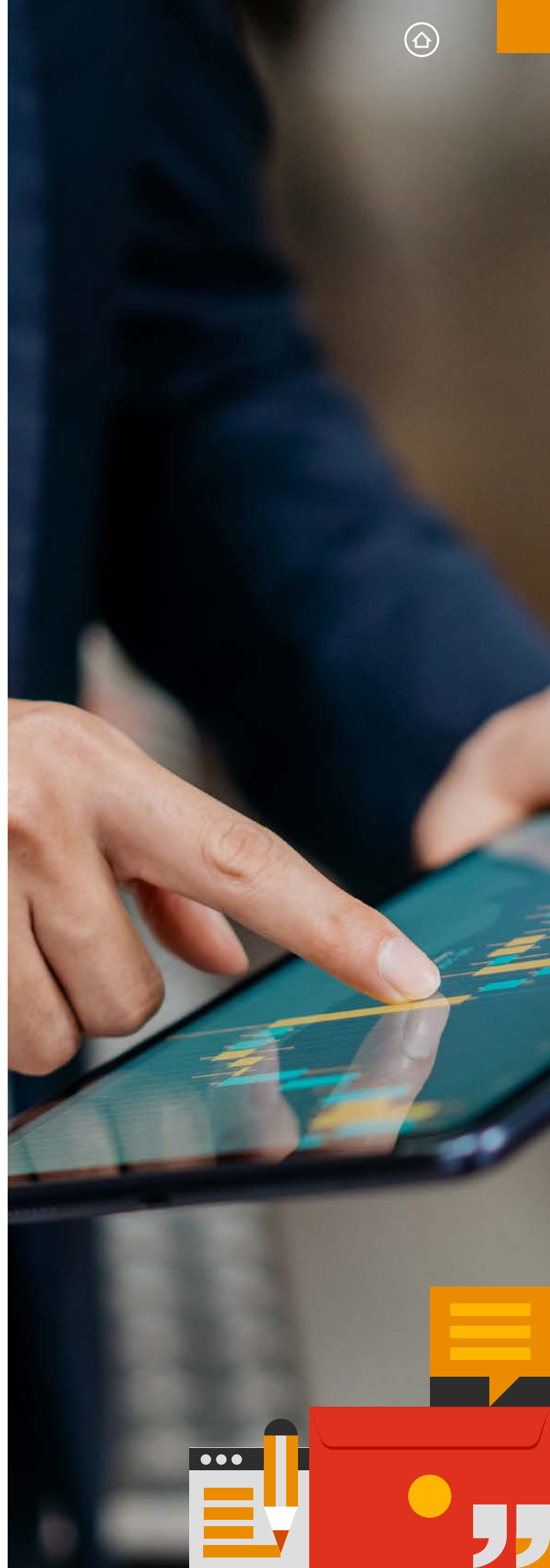


Preface

The Union Budget 2025–2026, presented by the Finance minister Nirmala Sitharaman, highlights the Government of India’s commitment to fostering economic growth and enhancing the global competitiveness of Indian enterprises. With a focus on inclusive development and ease-of-doing business, the budget introduces a series of transformative reforms and initiatives aimed at bolstering key sectors such as agriculture and Micro, Small and Medium Enterprises (MSMEs) and emphasizes innovation. These measures are designed to stimulate private sector investments, uplift household sentiments and enhance the spending power of India’s burgeoning middle class.

For domestic companies, the budget brings significant enhancements in credit availability, particularly for MSMEs, with the credit guarantee cover being doubled to facilitate an additional credit of INR 1.5 lakh crore over the next five years. The introduction of customised credit cards for micro enterprises and a new Fund of Funds for start-ups further highlights the government’s support for entrepreneurial ventures. Additionally, the budget proposes substantial tax reforms, including a new income-tax bill aimed at simplifying the tax structure and reducing litigation, thereby fostering a more business-friendly environment.

The budget also emphasises investment in people and innovation, with initiatives such as the establishment of National Centres of Excellence for skilling, expansion of medical education and the launch of a Deep Tech Fund of Funds. These efforts are complemented by sector-specific measures, including support for clean tech manufacturing and the promotion of exports through the Export Promotion Mission. Together, these initiatives aim to reduce compliance and create a robust ecosystem for Indian companies to thrive, innovate and contribute to the vision of a Viksit Bharat.





Towards simplified tax laws



In the Union Budget 2024–25, the Indian Government initiated a comprehensive review exercise to make the Income-tax Act, 1961 (the Act) concise and easy to understand. Public inputs and suggestions were invited in four categories, namely, simplification of language, litigation reduction, compliance reduction and removal of redundant or obsolete provisions. In line with the announcement, the Finance Minister has stated that the new Direct Tax Bill is to be tabled in the coming days. However, a slew of amendments are also introduced under the current Act under the Finance Bill, 2025. These amendments aim to achieve rationalisation, reduction of disputes and clarify tax laws. A snapshot of the key amendments impacting domestic companies in India is provided in the ensuing paragraphs.



Stability in income-tax rates

The income-tax rates applicable for a domestic company remain unchanged for previous year 2025–26, as tabulated below.

Category	Tax rate
Companies opting section 115BAB of the Act	15% plus 10% surcharge plus 4% cess
Companies opting section 115BAA of the Act	22% plus 10% surcharge plus 4% cess
Companies not opting for sections 115BAA or 115BAB of the Act and whose total turnover in previous year 2023–24 does not exceed INR 400crores	25% plus surcharge** plus 4% cess ** 7% surcharge, where total income is between INR 1crore and INR 10crore; 12% surcharge, where total income exceeds INR 10crore.
Other companies	30% plus surcharge** plus 4% cess ** 7% surcharge, where total income is between INR 1crore and INR 10crores; 12% surcharge, where total income exceeds INR 10crores.



Towards certainty – Expanding the scope of the Safe Harbour Scheme

Safe Harbour Rules are currently applicable to identified specific categories of eligible transactions such as Software Development Services, Information Technology-Enabled Services (ITES), Knowledge Process Outsourcing (KPO) Services, Contract Research and Development Services, Manufacture and export of Core Auto Components, Specified Financial transactions. All of these classes have defined limits and defined arm's length prices which are accepted by the tax department thereby providing tax certainty.

During the budget speech, the Hon'ble Fin Min mentioned that the scope of the existing Safe Harbour scheme will be expanded. The details are expected to follow.

Promote domestic manufacturing and value addition

The government continues the effort to promote domestic manufacturing and value addition by increasing the Basic Customs Duty (BCD) on the import of goods and reducing or exempting BCD on components, parts and capital goods. This budget focuses on the following key products:

1. Interactive Flat Panel Display (IFPD) BCD is increased from 10% to 20%; and
Parts and Components of IFPD BCD is reduced to either 5% or nil.
2. Certain capital goods used for manufacture of electric vehicle battery and mobile phone battery are exempt from immediate effect. This will reduce the capex cost and promote local manufacturing in India

Simplification and facilitation of trade

Time limit prescribed for finalising provisional assessment under Customs: Currently, Customs law does not specify a time limit for finalising provisional assessments. The Union Budget 2025–26 proposes to introduce a two-year timeline, with a one-year extension (for sufficient reasons) and few exceptions. This proposal ensure that assessment will be finalised within the prescribed timeline. Pending Special Valuation Branch investigations are likely to be completed faster due to this amendment.

Conditions and compliances for import of goods at concessional rate of Customs duty relaxed: Currently, goods imported at concessional rate of Customs duty for use in the manufacture of final product are required to be used within six months of the date of import. Given the bulk procurements, companies had to pay the Customs duty along with interest for use beyond the prescribed timeline. The Union Budget 2025–26 increases the timeline from six months to one year and relaxes the monthly filing requirement to a quarterly filing. This is a beneficial amendment for the industry and saves cost and time. Whether the said amendment would be applicable to goods already imported is to be assessed.

Voluntary revision of import and export documents: The industry has been struggling to amend bills of entry and shipping bills after the clearance of the goods in case of a mistake, error or other legal requirements. The request for amendments to rectify the mistake was earlier made to the Customs authorities, and the entire process was time consuming and prone to interpretation and litigation. This budget's proposals insert a provision for the voluntary revision of entry post clearance of the goods. The timeline and other procedural aspects are expected to follow the enactment of this provision. This is also a significant trade facilitation measure.





Key amendment based on the GST Council recommendations

The landmark decision of the Supreme Court in the case of Safari Retreat allowed GST input tax credit on goods and services received by a taxable person for the construction of an immovable property, which qualify as plant or machinery. The Union Budget 2024–25 proposes a retrospective amendment with effect from 1 July 2017 to section 17(5)(d) of the CGST Act 2017, by replacing the term ‘plant or machinery’ to ‘plant and machinery’. This is expected to have a significant impact on the credit availed by taxpayers on immovable property in specific scenarios treating it as plant or machinery. The applicability of the Supreme Court ruling after this amendment is to be evaluated.





Industry-specific measures



Incentivising start-ups

India has actively been pushing towards fostering a robust start-up ecosystem since 2016 as a part of 'the Start-up India' initiative and is now home to the world's third largest start-up ecosystem. Eligible start-ups enjoy a three-year tax holiday on their profits out of ten years, provided the start-up company is incorporated within the specified time limit. While the said tax provision was about to hit its sunset, the government has been extending the benefit on a yearly basis during recent budgets.

The Union Budget 2025 further extends the benefit of a tax holiday to all eligible start-ups which are incorporated before 1 April 2030. As India continues its journey towards becoming a global leader in innovation, this extension is expected to foster a vibrant entrepreneurial ecosystem.



Boost for shipping industry

A separate chapter XII-G was brought in vide the Finance Act, 2004 to promote the Indian shipping industry, by introducing a tonnage tax scheme for Indian shipping companies satisfying specific conditions. This scheme provided for a presumptive taxation for sea-going ships. To promote inland water transportation in the country and to attract investments in the shipping sector, the budget proposes to extend the benefits of the tonnage tax scheme to inland vessels registered under the Inland Vessels Act, 2021 with effect from Assessment Year (AY) 2026–27.

M&A measures

Carry forward of losses in case of merger or succession

Amendments are proposed to provisions related to the carry forward and set off of accumulated losses in cases of amalgamation or business reorganisation, wherein the successor entity would be eligible to carry forward the accumulated losses, for the balance unexpired period of eight AYs alone. The proposed amendment aims to prevent the practice of 'evergreening' of losses, where losses of the predecessor entity are carried forward for a period of more than eight years through amalgamation(s), thereby ensuring a more disciplined and time-bound approach to loss carry forward. These changes are proposed to be applicable for any amalgamation or business reorganisation effected or brought into force on or after 1 April 2025.



Rationalising compliances



TDS and TCS – Easing the rigours

The basic thresholds above which TDS is applicable has remained unchanged for several years. With effect from 1 April 2025, the following changes are proposed to the threshold for TDS applicability:

Provisions of the Act/ Nature of income	Current threshold**	Proposed threshold**
Interest on securities (section 193)	Nil	INR 10,000
Income from mutual funds (section 194K)	INR 5,000	INR 10,000
Commission or brokerage (section 194H)	INR 15,000	INR 20,000
Rent (section 194-I)	INR 2,40,000	INR 50,000 per month or part of a month
Fees for technical services, professional services, royalty etc. (section 194J)	INR 30,000	INR 50,000

**Annual limits, unless specified otherwise

TCS on sale of goods is proposed to be abolished, bringing about significant relief from compliance burden on transactions. Moreover, sections 206AB and 206CCA of the Act were introduced to penalise taxpayers who do not file tax returns, by mandating the payers of income to deduct higher rates of taxes at source. Pursuant to the said provision, the payers of income were required to verify the payee's tax return filing status at the instance of complying with TDS. Moreover, the Central Board of Direct Taxes introduced a tool on the reporting portal for such exercise. However, considering the compliance burden involved, the said provisions are proposed to be abolished with effect from 1 April 2025.

The above measure aims to reduce the time and resources embroiled in compliance and increase ease-of-doing business in India.





Facilitating voluntary compliance

To encourage voluntary tax compliance, the Indian Government, vide the Finance Act, 2022, allowed filing of 'Updated return' within a period of 24 months from the end of the relevant AY, on payment of additional income tax. Vide Budget 2025, the Finance Minister proposes to extend the time limit to file the updated return from the existing 24 months to 48 months from the end of the relevant AY, with 60% additional income tax payable, if filed between 24 to 36 months and 70% payable, if filed between 36 to 48 months.

It is also proposed to allow the taxpayers to file the updated return, even if re-assessment proceedings are initiated after 36 months, but dropped later. This is expected to further facilitate voluntary compliance by taxpayers and also reduce potential disputes with tax authorities. The conditions relating to filing an updated return (cannot lead to increased losses, claim of refund etc.) continue to apply.

Bringing crypto under the net

Similar to the specified financial transaction reporting, crypto-asset transactions are proposed to be brought in within the reporting framework with effect from 1 April 2026. Income-tax rules are to be notified to define the 'reporting entity', the nature of information to be maintained and due diligence procedures to be carried out by the reporting entity for identification of any crypto-asset user or owner.

As a step towards the implementation of the Crypto-Asset Reporting Framework brought in by the Organisation of Economic Co-operation and Development, the Government's proposal of introducing a domestic reporting framework can be seen as a push for transparency in crypto-asset transactions, enabling tax authorities to monitor and address gaps in existing tax framework.

The definition of Virtual Digital Assets is expanded to include any crypto-asset, which is a digital representation of value that relies on a cryptographically secured distributed ledger or a similar technology to validate and secure transactions.





Dispute resolution measures



Rationalising penalty provisions

One of the key agendas of the Indian government in the recent past has been to reduce tax litigation and provide certainty to taxpayers. Accordingly, the time limit for imposing penalty is now rationalised to mean expiry of six months from the end of the quarter in which the connected proceedings are completed or receipt of the relevant order by the tax authorities. Additionally, penalties are to be levied by the Tax Officer (TO) as against Joint Commissioners under the existing law.

Moreover, the existing law provides for the taxpayer to apply for immunity from penalty and prosecution within one month from the end of the month in which the relevant order was passed. The taxpayer is to represent the case before the TO, who will dispose of the application within a period of one month from the end of month in which application is received. The period for processing the application is increased from one month to three months with effect from 1 April 2025.

Additionally, relief is provided from prosecution in respect of failure to deposit TCS by the taxpayer, provided the same is deposited on or before the time limit prescribed for filing the TCS statement .

Changes in block assessments

Search cases

The concept of block assessment was re-introduced vide the Finance (No. 2) Act, 2024 for search cases. The following changes are proposed:

- Undisclosed income, as found during the course of the search, is proposed to include crypto-assets.

- Along with the assessment proceedings, re-assessment, recomputation, reference or order relating to any AY will abate, upon the search being initiated.
- Computation of income for the purpose of section 158BB(1) of the Act is clarified to provide appropriate treatment for income based on books of accounts.
- The time limit for the completion of block assessments is to be 12 months from the end of the quarter (as against the end of the month) in which the last of the authorisations for search or requisition is executed.

Block transfer pricing assessment scheme

Taxpayers engaged in international transactions or specified domestic transactions are currently subjected to annual transfer pricing assessments in India wherein these transactions are scrutinized for adherence with arm's length principle for each year even if the transactions are similar and there is no change in facts.

The Union Budget 2024-25 has proposed to introduce an option to taxpayers to undergo transfer pricing assessments for a block of three years in order to ease the burden of annual transfer pricing assessments.

It is proposed that the taxpayer shall be provided with the option by the transfer pricing officer during transfer pricing assessment to get the arm's length price ("ALP"), determined in relation to an international transaction or a specified domestic transaction for any previous year, applied to a similar transaction for the two consecutive previous years immediately following such previous year. The option of block assessment shall not be available for search cases.



These changes are to take effect from 1 April 2026.

While the form, manner and time limit to opt for block TP assessment are yet to be prescribed, this rationalisation measure is intended to be in line with global best practices to ease the compliance and administrative burden on the taxpayers and tax authorities alike.





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