India Union Budget Highlights 2025

The Honourable Minister of Finance presented the India Union Budget on 1 February 2025.
The key announcements and proposals are summarised below.

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Economic indicators

GDP expected between

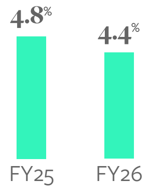
6.3% to 6.8%

Inflation moderated from

5.4% in FY24 to 4.9% in FY25

Fiscal deficit

revised at 4.8% of GDP in FY25



(estimated to be 4.4% of GDP in FY26)

Foreign direct investment

Gross FDI inflows increased in the first 8 months of FY25

USD 55.6 billion

(USD 47.2 billion in the same period of FY24, growth of 17.9%)

Budget themes

Consumption, growth, employment, ease of doing business and investments which all would lead to Viksit Bharat (developed India)

Goals include zero poverty, quality education, healthcare, skilled labour, economic participation of women, and leading producer and supplier of food globally

Key areas of focus

- Spurring agricultural growth and productivity
- Building rural prosperity and resilience
- Inclusive growth for all
- Boosting manufacturing and make in India
- Securing energy supplies
- Employment-led development
- Investing in people, economy, and innovation
- Supporting micro, small and medium enterprises (MSME)
- Promoting exports
- Nurturing innovation

Domains specified for transformative reforms

- Taxation
- Power sector
- Urban development
- Mining
- Financial sector
- Regulatory reforms that include financial sector reforms, tax reforms with trust first policy, light touch regulatory framework and rationalisation

MSMEs

- Enhancement of investment and turnover limits for classification of MSMEs to 2.5 and 2 times respectively
- Enhancement of credit guarantee cover to improve access to credit by MSMEs
- Introduction of customised credit cards with INR 5 lakhs limit for micro enterprises registered on Udyam portal

Key policy updates and announcements

- Transformational reforms: new income tax bill to be introduced in early February 2025
- IFSC related changes benefiting fund industry, shipping business, startups, treasury operations, and insurance business
- Rationalisation, reducing compliance burden and decriminalisation of penalty provisions under various laws to further improve ease of doing business
- FDI limit for the insurance sector to be raised from 74% to 100%
- Revamped central KYC registry to be rolled out in 2025
- Streamlining requirements and procedures to expedite the approval of company mergers, while expanding the scope and simplifying the process for fast-track mergers
- A national framework will be formulated as guidance to states for promoting global capability centres in emerging tier 2 cities

ESG and sustainability

- Supporting clean tech manufacturing to improve domestic value addition and build ecosystem for solar photovoltaic (PV) cells, electric vehicle (EV) batteries and other clean tech
- Make in India push for EV battery manufacturing by including it to the list of exempted capital goods under custom

Tax reforms and fiscal initiatives

Personal tax reforms

Updates to tax slabs and exemption limits

- The basic exemption limit has been increased from INR 3 lakhs to INR 4 lakhs
- Resident individuals will now have zero tax liability on taxable income (excluding certain special incomes) up to INR 12 lakhs, up from the previous limit of INR 7 lakhs
- No changes have been proposed for the old tax regime
- The standard deduction remains unchanged
- Tax savings up to a maximum of INR 1.10 lakhs

Additional personal tax measures

- Enhanced thresholds to be notified for computing perquisite benefits including overseas travel for medical treatment
- Taxpayers are now allowed to claim the annual value of two self-occupied properties without any conditions
- Exemption on withdrawals by individuals from national savings scheme deposits (made before 1 April 1992) will be effective 29 August 2024
- Extended tax benefits for contributions made to NPS Vatsalya accounts for minors, allowing deductions up to INR 50,000. Partial withdrawals, up to 25% of the parent or guardian's contributions, are tax-exempt, while full withdrawals are taxable, except in the case of the minor's demise
- ULIPs are now considered capital assets and included under the definition of equity-oriented funds. Any gains from the redemption of ULIPs, unless exempt, will be taxed as capital gains

Tax incentives for investment and growth

Private equity and alternative investment funds (AIFs)

- Certainty for characterisation of income from gains arising to Category I and II AIF from transfer of securities
- The investment deadline for specified entities (sovereign wealth funds, pensions funds, and others) has been extended to 31 March 2030 ensuring that long-term capital gains from unlisted debt securities remain tax-exempt
- The tax holiday for eligible start-ups incorporated before 1 April 2030 has been extended
- In case of a real estate investment trusts (REIT) and infrastructure investment trusts (InvIT), long-term capital gains on listed shares and securities (STT paid) taxed at 12.5%
- Tax deduction at source (TDS) on income earned by resident investors from securitisation trusts have been reduced to 10%
- The limit for tax collection at source (TCS) on foreign remittances increased to INR 10 lakhs, supporting payments made under the liberalised remittance scheme (LRS)

Incentives for International Financial Services Centre (IFSC)

- The tax exemptions in IFSC for investment by offshore banks, aircraft and ship leasing companies, and tax neutrality for relocating global funds to IFSC have been extended until 31 March 2030
- Ship leasing units within the IFSC will benefit from exemptions related to capital gains tax and dividends similar in line with aircraft leasing and financing activities
- Inclusion of retail schemes and exchange-traded funds (ETF) within the definition of resultant fund for tax-neutral relocation
- Rationalise conditions for eligible investment funds managed by fund managers in IFSC and relax other conditions for funds with managers in IFSC starting operations by 31 March 2030
- Exemption on any income accruing or arising to or received by a non-resident because of transfer of non-deliverable forward contracts entered with any foreign portfolio investor, being a unit in an IFSC
- Exemption of proceeds received on life insurance policy issued by IFSC Insurance Intermediary Office
- Advances or loans between group entities not to be treated as deemed dividends for a treasury centre unit in IFSC

Other key tax measures

- A new tax bill is expected to be introduced in early February 2025
- A uniform tax rate of 12.5% will apply to long-term capital gains arising from FPIs and other specified funds
- The carry forward of accumulated losses to be limited to eight assessment years, starting from the year the loss was first computed for the original predecessor entity
- Rationalising transfer pricing assessments by allowing the ALP determined for a transaction in one year to apply to similar transactions for the next two years
- Removal of higher TDS and TCS for non-filers of tax returns
- Transactions solely related to purchasing goods for export from India will not be considered as constituting a significant economic presence

Key administration and compliance measures

- The threshold for TDS on payments to residents has been marginally raised
- TCS on LRS scheme for specified education loan proposed to be removed
- TCS applicable on sale of goods exceeding INR 50 lakhs proposed to be removed

Tax and reporting measures for virtual digital assets (VDA)

- The scope of VDAs has been broadened to include digital representations of value that rely on cryptographically secured distribution ledgers (like blockchain)
- New reporting requirements to be introduced for crypto assets, likely aimed at improving transparency and tracking

Extension of time for filing updated returns

- Extension of the time-limit to file updated returns from 24 months to 48 months from the end of the relevant assessment year, unless show-cause notice for income escaping assessment has been issued
- Introduced additional income-tax rates of 60% for returns filed after 24 months and up to 36 months, and 70% for returns filed after 36 months and up to 48 months

Looking ahead

- A new Tax Bill is expected to be introduced in few days, likely containing further reforms and provisions to enhance tax administration and compliance
- The new Bill is indicated to be half of the current size of the Act both in terms of contents and wordings

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This infographic summary is not a holistic guide on the India' 2025 budget. Some items found in the actual budget are omitted from this summary. To the best of our abilities, we have tried to feature those we deem of interest to the general public and our clients.
For a comprehensive read, do head over to India Union Budget website.

Reference: IH6938_February2025