

ERGO

BUDGET 2025 | DIRECT TAX PROPOSALS



Tax Rates | Relief for Non-Corporates

RATES FOR COMPANIES AND FIRMS

The Finance Bill, 2025 (Bill) has not proposed any change in the tax rates for companies and firms under the Income-tax Act, 1961 (IT Act). The base tax rates are listed below for ready reference:

- **Domestic companies:** 15% / 22% / 25% / 30%, depending on factors such as nature of business, commencement of operations, turnover thresholds, optional concessional tax regime, etc.
- **Foreign companies:** 35%
- **Partnerships and LLPs:** 30%

Applicable surcharge on base rates and 4% cess on the aggregate of tax and surcharge, too, remain unchanged for these entities.

RATES FOR INDIVIDUALS AND OTHER NON-CORPORATE ENTITIES

Currently, all non-corporate taxpayers (such as individuals and Hindu Undivided Families (HUFs)) are taxed as per the progressive slab rates ranging between 0% and 30% (except special rates for specified incomes such as dividend, interest, capital gains and fees for technical services). In addition (i) surcharge (in the range of 0% to 37%) applies on the base tax; and (ii) 4% cess applies on the aggregate of tax and surcharge.

Notably, there are two tax regimes, being 'old regime' and 'new regime', having a specific manner of computing income and tax thereon. The 'new regime' is the default regime unless the taxpayer opts to be covered by the 'old regime'.

There is no change in the tax rates for 'old regime'. However, the Bill has proposed the following change in the slab rates under the 'new regime':

Existing Slabs

Total Income (INR)	Rate
Upto 300,000	NIL
From 300,001 to 700,000	5%
From 700,001 to 1,000,000	10%
From 1,000,001 to 1,200,000	15%
From 1,200,001 to 1,500,000	20%
Above 1,500,000	30%

Proposed Slabs

Total Income (INR)	Rate
Upto 400,000	NIL
From 400,001 to 800,000	5%
From 800,001 to 1,200,000	10%
From 1,200,001 to 1,600,000	15%
From 1,600,001 to 2,000,000	20%
From 2,000,001 to 2,400,000	25%
Above 2,400,000	30%

This amendment is proposed to be effective for Financial Year (FY) 2025-26 and onwards.

SIMPLIFIED TAX FOR NON-RESIDENTS IN THE ELECTRONICS SECTOR

The Bill proposes the introduction of a presumptive tax framework for non-residents offering services or technology to Indian companies involved in the establishment or operation of electronics manufacturing facilities in India under a scheme notified by the Ministry of Electronics and Information Technology. Under this regime, 25% of the receipts of the non-resident for such services or technology will be deemed as business income. With foreign companies subject to a tax rate of 35% on their business income, this measure effectively reduces their tax burden to less than 10% of their gross receipts.

This amendment aims to support the development of semiconductors and display manufacturing ecosystem in India by providing a simpler tax regime for non-residents carrying on business in India.

This amendment is proposed to be effective for FY 2025-26 and onwards.

TAX EXEMPTION FOR SOVEREIGN WEALTH FUNDS, PENSION FUNDS AND OTHER SPECIFIED PERSONS

The IT Act provides tax exemption to Sovereign Wealth Funds, Pension Funds and other specified persons on certain income including dividend, interest and long-term capital gain from investment in infrastructure sector (as prescribed). As of date, the exemption is available if the investment is made between 1 April 2020 and 31 March 2025. To encourage investment in infrastructure sector, the Bill proposes to extend the sunset date to 31 March 2030.

The tax exemption is also proposed to be extended to the long-term capital gains arising from transfer or maturity or redemption of unlisted bonds or debentures (held for more than 24 months) which is otherwise deemed as short-term capital gain.

These amendments are proposed to be effective from 1 April 2025.

CLARIFICATION ON LONG TERM CAPITAL GAINS FOR FOREIGN INSTITUTIONAL INVESTORS

The Finance (No. 2) Act, 2024 had standardized the long-term capital gains tax rate at 12.5% for all taxpayers. However, foreign institutional investors (FII) and specified funds continued to be subject to a long-term capital gains tax rate at 10% on transfer of unlisted securities.

The Bill proposes to bring parity in the long-term capital gains tax rate for FIIs and specified funds with that of other investors at 12.5%.

This amendment is proposed to be effective from 1 April 2025.

CLARITY FOR ONSHORE MANAGERS MANAGING OFFSHORE FUNDS

The IT Act provides that the management of an eligible investment fund (Offshore Fund) by an eligible fund manager in India, shall not constitute a taxable presence (business connection) for such Offshore Fund in India subject to satisfaction of prescribed conditions.

One such condition is to ensure that direct or indirect participation by Indian residents in the Offshore Fund does not exceed 5% of the corpus of such Offshore Fund. However, this provision does not prescribe a particular date as of which this condition needs to be satisfied, which creates an ambiguity. The Bill proposes that the 5% threshold should be satisfied as of 1 April and 1 October of the relevant FY. It also provides a grace period of 4 months to meet this test if the threshold is breached on the aforesaid dates.

This amendment is proposed to be effective for FY 2025-26 and onwards.



The Budget's GIFT | Unwrapping Tax Benefits for GIFT City

TAX NEUTRAL RELOCATION EXTENDED TO RETAIL SCHEMES AND EXCHANGE TRADED FUNDS

The IT Act enables tax neutral relocation of offshore funds to International Financial Services Centres (IFSC) where the resulting fund is registered as a Category I / II / III Alternative Investment Fund (AIF). The Bill proposes to extend the tax exemption on transfer of assets by an offshore fund to a resulting fund set up as a retail scheme or an Exchange Traded Fund (ETF) in accordance with the IFSC Authority (Fund Management) Regulations, 2022. This proposal is in furtherance to the tax benefit introduced vide the Finance (No. 2) Act, 2024 for retail scheme or an ETF set up in IFSC on certain specific streams of income such as interest, dividend and capital gains on securities (other than shares in Indian company).

The Bill also proposed to extend the sunset date for relocation to 31 March 2030.

This amendment is proposed to be effective for FY 2025-26 and onwards.

INTER-COMPANY LOANS BETWEEN FINANCE COMPANY / UNIT IN IFSC AND ITS GROUP ENTITIES EXCLUDED FROM THE SCOPE OF DEEMED DIVIDEND

The IT Act provides that any loan or advance by a closely held company to its shareholder (holding at least 10% of the voting power) is deemed as dividend in the hands of such shareholder (to the extent of accumulated profits of such company). However, an exemption is available if the lending of money is a substantial part of business of the company and the loan or advance to shareholder is made in the ordinary course of its business.

The Bill now proposes to exclude from the ambit of deemed dividend, any borrowing between two group entities, where one of the group entities is a Finance Unit or Finance Company set up in IFSC as a global or regional corporate treasury centre and the parent or principal entity of such group is listed on a stock exchange outside India.

This amendment is proposed to be effective for FY 2025-26 and onwards.

EXTENSION OF SUNSET DATE FOR IFSC UNITS

The IT Act provides, *inter-alia*, the following tax holiday / exemptions with respect to activities in IFSC:

- Tax holiday on transfer of aircraft or ship leased by an IFSC unit if such unit has commenced its operations by 31 March 2025.
- Tax exemption on certain specific income streams (such as income from transfer of securities, other than shares) for an investment division of an offshore banking unit registered as foreign portfolio investors and which has commenced its operations by 31 March 2025.
- Tax exemption for non-residents on royalty or interest earned from leasing of an aircraft or a ship to an IFSC unit, if such unit has commenced operations by 31 March 2025.
- Tax exemption for non-resident and IFSC units on capital gain arising from the transfer of equity shares of company based in IFSC which is engaged in leasing of an aircraft and has commenced its operations by 31 March 2026.

The Bill proposes to extend the aforesaid sunset dates to 31 March 2030.

WIDENING THE SCOPE OF TAX EXEMPTION ON DERIVATIVE TRANSACTIONS

As per the IT Act, non-residents are exempt from tax on income arising on (i) transfer of non-deliverable forward contracts, offshore derivative instrument (ODI) or over the counter derivatives; and (ii) distribution of income on ODIs, that are executed with an offshore banking unit in IFSC. The Bill proposes



to expand the scope of this tax exemption by including such transactions executed with an IFSC unit, registered as a foreign portfolio investor.

This amendment is proposed to be effective for FY 2025-26 and onwards.

ADDITIONAL EXEMPTIONS FOR SHIP LEASING ACTIVITIES IN IFSC

The IT Act provides a tax exemption on (i) capital gains for non-residents and IFSC unit on transfer of an equity shares of an aircraft leasing company in IFSC and (ii) dividend income earned by an IFSC unit from a company in IFSC, where both the entities are engaged in aircraft leasing.

The aforesaid exemption is proposed to be extended to ship leasing activities as well.

This amendment is proposed to be effective for FY 2025-26 and onwards.

REIT | InVIT | AIF

RATIONALISATION IN TAXATION OF REIT AND INVIT

The IT Act has a special taxation regime for Real Estate Investment Trust (REIT) and Infrastructure Investment Trust (InVIT) (collectively referred to as 'Business Trust'), as per which any interest, dividend and rental income (for InVIT) is tax exempt for the Business Trust and taxable in the hands of investors on a pass-through basis. On the other hand, capital gains are taxable at Business Trust level and tax exempt for the investors.

As per the current provisions, a Business Trust is taxed at maximum marginal rate (MMR). However, certain specified income streams which are taxable at special rates (such as short-term capital gain on sale of listed equity shares, units of equity oriented and units of Business Trust (Specified Assets)) have been carved out from the applicability of MMR – similar benefit has not been extended to long term capital gain arising on sale of Specified Assets.

The Bill proposes to address this anomaly and extend this carve-out to the long-term capital gain on Specified Assets as well.

This amendment is proposed to be effective for FY 2025-26 and onwards.

CERTAINTY ON CHARACTERIZATION OF INCOME FOR CATEGORY I AND II AIF

Category I and II AIF enjoy tax pass through status with respect to any income earned from its investment in shares and securities (other than business income). Accordingly, the business income is taxed at AIF level at the applicable rate whereas the capital gains is taxed in the hands of investors in such AIF. This differential tax treatment created an uncertainty and involved continuous evaluation on whether income from sale of shares and securities should be characterised as business income or capital gains.

The Bill seeks to put an end to this controversy by clarifying that the securities held by a Category I or II AIF shall be treated as a capital asset and accordingly, income arising on transfer of such securities shall be characterised as capital gains.

This amendment is proposed to be effective for FY 2025-26 and onwards.



M&A | Period for carry forward of losses curtailed

Under the IT Act, the unutilised business losses are eligible to be carried forward for a period of 8 years. In cases of (i) amalgamation; (ii) succession of a proprietorship or partnership firm by a company; and (iii) succession of a private limited company by a limited liability partnership, the accumulated losses of the predecessor entity are deemed to be the losses of the successor entity for the FY in which the reorganisation occurs, thereby allowing the successor entity a fresh period of 8 years.

To align this with other forms of re-organisation (such as demerger), the Bill proposes that the accumulated loss of the predecessor entity which are transferred to the successor entity will be subject to the overall 8 year carry forward limit.

This amendment is proposed to apply to business reorganisations made effective on or after 1 April 2025.

Litigation | Trust First – Scrutinise Later

EXTENSION OF TIME LIMIT TO FILE UPDATED TAX RETURN

Currently, the IT Act allows for filing of an 'updated tax return' within 36 months from the end of the relevant FY, subject to prescribed conditions and additional tax payment. The Bill proposes to extend the time-limit to file the updated tax return to 60 months from the end of relevant FY subject to additional tax payment as set out below.

The additional tax payment is determined by applying the applicable rate (as set out below) on the aggregate of tax and interest, on the additional income as disclosed in the updated tax return.

Timeline of filing	Applicable Rate
Within 24 months	25% (existing)
After 24 months and upto 36 months	50% (existing)
After 36 months and upto 48 months	60% (proposed)
After 48 months and upto 60 months	70% (proposed)

This amendment is proposed to be effective from 1 April 2025.

INTRODUCTION OF BLOCK TRANSFER PRICING ASSESSMENT

The IT Act provides that where a taxpayer has entered into specified related party transactions during a FY, the tax officer can refer the matter to the transfer pricing officer (TPO) for computing the arm's length price (ALP). To ease the administrative and compliance burden, wherein the ALP computation is carried out every year for similar transactions, the Bill proposes to provide the taxpayer an option of a 'block' transfer pricing assessment (Block TP Assessment) – the TPO shall be required to pass an order confirming the validity of such option. Form and mechanics to exercise such option to be prescribed.

Upon such confirmation by TPO, ALP of the specified related party transactions determined by the TPO for the relevant FY will also apply to similar transactions for next two FYs.

This amendment is proposed to be effective for FY 2025-26 and onwards.



Rationalisation of TDS and TCS Regime

With a view to improve ease of doing business and facilitate compliance by taxpayers, the Bill proposes to rationalise the applicable monetary thresholds and rates under certain TDS / TCS provisions along with few additional relaxations. Key proposals are as under:

TDS on distribution by securitization trust to a resident investor: TDS rate is proposed to be reduced to 10% as against the existing rate of 25% (for individual / HUF) and 30% (for others).

Higher rate of TDS / TCS where deductee / collectee is a non-filer of income tax return, is proposed to be omitted.

Omission of TCS on sale of goods: Currently, the IT Act requires a seller with business turnover exceeding INR 100 Mn (in the preceding FY) to collect TCS at the rate of 0.1% of the sale consideration exceeding INR 5 Mn (for the sale of goods). To ease the compliance burden, the Bill proposes to omit this provision.

Decriminalization of delayed payment of TCS in certain cases: The Finance (No. 2) Act, 2024 decriminalised delayed payment of TDS upto the date of filing quarterly return by the deductor. The Bill proposes to introduce similar decriminalisation for TCS provisions.

Rationalization of TCS on payments made under Liberalised Remittance Scheme (LRS) / overseas tour program package: The IT Act provides for collection of TCS at the following rates:

- (i) 5% by the seller of overseas tour program package on amounts upto INR 0.7 Mn (20% if amount exceeds INR 0.7 Mn); and
- (ii) Nil by Authorised Dealer bank on remittance under LRS for remittance upto INR 0.7 Mn (0.5% / 5% / 20% (depending on the purpose of remittance) if amount exceeds INR 0.7 Mn).

The Bill proposes to increase the aforesaid threshold of INR 0.7 Mn to INR 1 Mn and remove TCS on remittances for education purposes where such remittance is out of a loan taken from a specified financial institution.

These amendments are proposed to be effective from 1 April 2025.

Not-for-Profit Taxation

INCOMPLETE APPLICATION FOR REGISTRATION | EXIT TAX TO NOT APPLY

As per the IT Act, the rigour of 'exit tax' (tax payable by a not-for-profit (NFP) entity on accreted income) is applicable if, inter-alia, the NFP entity's registration under the IT Act stands cancelled on account of certain specified violations which includes incompleteness in the registration application (Minor Violation).

The Bill proposes that Minor Violation by NFP entity will not expose it to 'exit tax'.

This amendment is proposed to be effective from 1 April 2025.

SMALLER NFP ENTITIES | EXTENSION IN VALIDITY OF REGISTRATION

To claim the tax exemption, NFP entities are required to be registered with the tax authorities. Currently, the registration is valid for a period of 5 years at a time, to be renewed thereafter.

The Bill proposes to increase the aforesaid validity period to 10 years for NFP entities whose total income does not exceed INR 50 Mn during each of the two FYs, preceding the FY in which the registration application is made.



This amendment is proposed to be effective from 1 April 2025.

RELATED PARTY TRANSACTIONS | 'SUBSTANTIAL CONTRIBUTION' CRITERIA RATIONALISED

The IT Act provides that the transactions between NFP entities and specified related parties need to be on an arm's length basis. The definition of specified related parties includes (i) any person whose contribution exceeds INR 0.05 Mn up to the end of the relevant FY (Monetary Threshold); (ii) specified relatives of persons referred to in (i); and (iii) any concern in which any of persons referred to in (i) / (ii) has a 'substantial interest', as defined in the IT Act ((ii) and (iii) referred to as 'Other Persons').

The Bill proposes to amend the Monetary Threshold to INR 0.1 Mn in the relevant FY or INR 1 Mn in aggregate upto the end of the relevant FY. Further, the Bill also proposes that Other Persons will not fall within the ambit of specified related parties.

This amendment is proposed to be effective from 1 April 2025.

Virtual Digital Assets | Scope Widened and Reporting Introduced

The IT Act contains special provisions relating to taxation of Virtual Digital Assets (VDA) whereby the gains arising from transfer of VDAs are taxed at 30%. The Bill proposes to:

- (i) widen the definition of VDA by including "*any crypto-asset being a digital representation of value that relies on a cryptographically secured distributed ledger or a similar technology to validate and secure transactions*" within its ambit; and
- (ii) introduce a reporting requirement (the rules for which will be prescribed*) with respect to this new VDA category.

*The rules shall prescribe: (i) the entities required to do this reporting; (ii) the nature of information and the manner in which such information shall be maintained by such reporting entities; (iii) the due diligence to be carried out by such reporting entities for the purpose of identification of any such crypto-asset user or owner.

These amendments are proposed to be effective from 1 April 2026.



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