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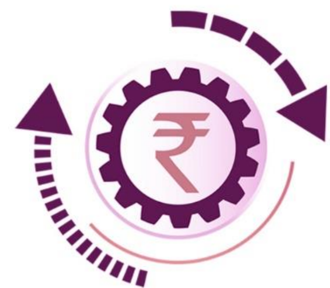
BUDGET ASSAYER

Union Budget 2025 - 2026

UNION

BUDGET

2025



FOREWORD

The Hon'ble FM delivered her eighth consecutive budget in the Lok Sabha, which is also the second budget of the BJP led NDA government and the first full year budget in its third term of office. This budget was presented at the backdrop of significant geopolitical developments with the advent of the Republican government led by President Donald Trump in the US and the continuing war in Ukraine and the Middle East Asia. The budget aims to unlock India's tremendous potential for greater prosperity and global positioning. It leverages on the ideology of '*sabka vikas'* (welfare for all) focussing on inclusive development reaching all economic segments, with emphasis on Garib (Poor), Youth, Annadata (Farmer) and Nari (Woman). In furtherance to the *Viksit Bharat* (Developed India) aspiration of the government, the FM outlined four major engines of the Indian economy, which include agriculture, MSME, investment, and exports.

The budgetary announcements primarily focussed on six broad domains namely taxation, power sector, urban development, mining, financial sector, and regulatory reforms. The FM also announced the introduction of the new income-tax bill which would carry the same spirit of '*Nyaya*' (justice) as the new criminal legislations introduced earlier and aims for tax certainty and reduced litigation.

Further, several benefits were announced towards developing the rural economy, with the rationale that migration should be an option and not a necessity. The FM also earmarked the government's commitment to enhance pulses production in the country to meet the rising demand. Further, significant measures including enhanced credit facilities were announced for the MSMEs which were stated to be the major drivers of economic growth in the country. Another major announcement pertains to the benefits announced towards the gig workers engaged with online platforms, with measures in regard to their registration on the e-shram portal for streamlining of benefits for them. While providing for a sustainable growth-oriented budget, the FM has commendably avoided from distributing largesse and maintained fiscal discipline by keeping the budget deficit under control.

From the direct tax perspective, the budget provides a number of simplification provisions for non-resident and resident taxpayers and also takes a number of investment attracting measures by extending the deadlines for sovereign wealth funds and foreign wealth funds, extending timelines for entities intending to work in the GIFT City, providing presumptive basis of taxation to non-residents intending to provide raw materials and services to entities operating in the electronic manufacturing facility with an intention to set up a global hub for electronic system design and manufacturing, emphasis on semiconductors and AI, etc. The Budget also lays down various personal income tax reforms and to rationalise and simplify TDS/TCS provisions to ease difficulties. The FM laid special emphasis on the contributions of the middle class towards nation building and made a major announcement pertaining to 100%

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tax relief up to an annual income of INR 1,200,000. The tax slabs and rates have also been revised with a focus on relieving the tax burden for the taxpayers, even at the cost of revenue earnings of the government, which demonstrate the government's commitment to look after its people.

From the indirect tax law perspective, several benefits have been announced with the emphasis to rationalize tariff structure and addressing duty inversion. Significant measures have been introduced for specific sectors which include critical minerals, textiles, telecommunications, leather products, marine industry, as well as the shipping sector, with major emphasis being on trade facilitation and export promotion.

We have put together our analysis of the changes proposed to be introduced through the budget along with our analysis for your kind perusal and comments. We hope you will find this useful and thought provoking.

We look forward to receiving your comments about this publication.

Regards,

Cyril Shroff
Managing Partner
Cyril Amarchand Mangaldas
February 2025

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SECTION A:

ANALYSIS OF THE PROPOSED CHANGES IN DIRECT TAXES

BUSINESS TAXATION

1. Presumptive taxation for electronics manufacturing facility

Ministry of Electronics and Information Technology ("**MeitY**") had notified several schemes to make India as the global hub for Electronics System Design and Manufacturing. In this regard, a comprehensive program for the development of semiconductors and display manufacturing ecosystem was approved by Government of India.

In order to promote this industry, the Finance Bill proposes to provide a presumptive taxation regime for non-residents engaged in the business of providing services or technology, to a resident company which is establishing or operating electronics manufacturing facility or a connected facility for manufacturing or producing electronic goods in India, under a scheme notified by the Central Government in the MeitY.

Section 44BBD is proposed to be inserted into the IT Act to provide that twenty-five percent of the aggregate amount receivable by the non-resident as profits and gains from this business.

The proposed amendment shall be effective from FY 2025-26 onwards.

2. Provisions related to carry forward of losses in case of amalgamation and business reorganization

Section 72A of the IT Act provides for carry forward and set-off of accumulated business losses and unabsorbed depreciation of an amalgamating company in the hands of the amalgamated company subject to the fulfilment of certain conditions as provided thereunder. Section 72AA of the IT Act specifies the provisions for such carry forward and set-off in the certain schemes of amalgamation concerning banking companies and government companies.

The above sections provide that the accumulated loss of the amalgamating company shall be deemed to be the loss of the amalgamated company for the previous year in which the amalgamation was effected. The sections further provide that the other provisions of the IT Act relating to set off and carry forward of loss shall apply accordingly. In this context, it is pertinent to note that section 72 of the IT Act provides that business losses may be carried forward for eight immediately succeeding assessment years from the assessment year for which such loss was first computed.

These provisions often lead to an interpretation, wherein the accumulated business losses of the amalgamating company are carried forward for a further period of eight assessment years, leading to evergreening of such losses in the case of successive amalgamations. The Finance Bill proposes to remedy this interpretation and amend section 72A and 72AA to clarify that the accumulated loss of the predecessor entity, which shall be deemed to be

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the loss of the successor entity, shall be eligible to be carried forward for not more than eight assessment years immediately succeeding the assessment year for which such loss was first computed for the original predecessor entity.

The proposed amendment shall be applicable to any amalgamation or business reorganisation which is effected on or after April 1, 2025.

3. Harmonisation of applicability of significant economic presence

Under section 9(1)(i) of the IT Act, Explanation 2A provides that significant economic presence of a non-resident shall constitute business connection in India. The meaning of the term 'significant economic presence' *inter-alia* includes transaction in respect of any goods carried out by a non-resident with any person in India.

This specific provision was leading to an interpretation denying the general exclusion from applicability of business connection in the case of significant economic presence i.e. income arising through or from operations which are confined to purchase of goods in India for the purpose of exports.

Finance Bill proposes to amend Explanation 2A of section 9 of the IT Act to provide that the transaction or activities of a non-resident which are confined to purchase of goods in India for the purpose of export shall not constitute significant economic presence of such non-resident in India.

The proposed amendment shall be effective from FY 2025-26.

4. Timelines extended for providing tax benefits to start-ups

Section 80-IAC of the IT Act provides for deduction of 100% of profits and gains derived from an eligible business by an eligible start-up for a period of three consecutive years out of ten years, beginning from the date of incorporation, provided it meets the specified conditions. The conditions, inter-alia, included that the start-up should have been incorporated after April 1, 2016 but before April 1, 2025.

The Finance Bill now proposes to extend the benefit to eligible start-ups which are incorporated after April 1, 2016 but before April 1, 2030.

The proposed amendment shall be effective from April 1, 2025.

5. New compliance requirement for crypto-asset transactions

The taxation of VDA at the rate of 30% was introduced under section 115BBH of the IT Act by way of Finance Act, 2022. Related TDS obligations were also introduced under section

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194S of the IT Act.

The Finance Bill now proposes to introduce section 285BAA of the IT Act in order to bring certain reporting obligations in respect of transactions involving crypto-assets. The following procedure has been proposed:

(i) A reporting entity, as may be prescribed, in respect of a crypto-asset shall furnish the information in respect of transaction in such crypto asset in the form and manner to be prescribed;

(ii) A defective statement may be intimated to the reporting entity and a time period of 30 days shall be provide to rectify the defect;

(iii) If a reporting entity fails to furnish the statement within the prescribed time, a notice may be issued requiring the said reporting entity to furnish the statement withing the given time; and

(iv) Further details may be prescribed in the form of rules.

The proposed amendment shall be effective from April 1, 2026.

6. Tonnage tax to inland vessels

Tonnage tax scheme was brought vide Finance Act, 2004 in order to promote Indian shipping industry wherein the qualifying shipping companies were given the choice to opt for the tonnage tax regime or continue to remain within the normal corporate tax regime.

This Government recognized that India is short of inland water transport vessels fleet and require higher investments in the sector which is capital intensive. Therefore, to provide a boost to inland water transportation, this Finance Bill proposes to include inland vessels under the ambit of tonnage tax scheme.

Accordingly, Chapter XIIG of the IT Act is proposed to be amended to provide that “inland vessels” shall also be eligible for the benefit of tonnage tax scheme. Further, under the existing regime, the qualifying taxpayer entity shall have to make an application to income tax authority to avail the benefits of tonnage tax scheme. The time-limit available for the income tax authority was just one month. Finance Bill proposes to increase the said time-limit to three months to provide sufficient time to examine the records, including physical inspection of ships if necessary.

The proposed amendment shall be effective from FY 2025-26 onwards.

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CAPITAL GAINS RELATED AMENDMENTS

1. Amending the definition of capital asset

Under section 2(14) of the IT Act, the definition of capital asset specifically included the securities held by an FII which has invested in accordance with the relevant SEBI regulations.

The Finance Bill now proposes to amend the definition of capital asset to specifically include the securities held by an investment fund defined under section 115UB of the IT Act i.e. Category I and Category II AIF and IFSC units set up under the relevant regulations of SEBI and IFSCA respectively. Hence, the income from transfer of such capital assets shall be considered as income under the head 'Capital Gains'. This has been proposed to remove uncertainty in characterization of income from transactions undertaken by such investment funds.

The proposed amendment shall be effective from FY 2025-26.

2. Rationalisation of long term capital gains tax for specified funds and FII

Section 115AD of the IT Act *inter-alia*, provides a tax rate of 10% for long-term capital gains earned by a specified fund or an FII.

By way of Finance Act, 2024, the general rate for long term capital gains was increased from 10% to 12.5% for all assessees, including that applicable on transfer of listed securities by specified fund or FII under section 112A of the IT Act.

The Finance Bill now proposes to increase the rate of long term capital gains on transfer of securities under section 115AD of the IT Act from 10% to 12.5% to bring parity for the specified fund and FII as compared with other assessees.

The proposed amendment shall be effective from FY 2025-26.

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MEASURES TO PROMOTE INVESTMENT AND EMPLOYMENT

1. Tax incentives to IFSC

a) **Extension of sunset clause**

The Finance Bill proposes to extend the sunset date for commencement of operations or relocation of funds to IFSC to avail tax concessions to March 31, 2030. The present and the proposed sunset clauses shall be as per the following:

Section	Description	Current Sunset Date	Proposed Sunset Date
80LA(2)(d)	Deduction for gains arising from the transfer of aircraft or a ship which was leased by an IFSC unit.	March 31, 2025	March 31, 2030
10(4D)	Exemption to certain incomes including income on transfer specified of assets.	March 31, 2025	March 31, 2030
10(4F)	Exemption for royalty or interest income arising to a non-resident on account of lease of an aircraft or a ship, paid by a unit of IFSC	March 31, 2025	March 31, 2030
10(4H)	Exemption to income of a non-resident or a unit of IFSC, engaged in the business of leasing, by way of capital gains arising from the transfer of equity shares of domestic company, being a unit of IFSC	March 31, 2026	March 31, 2030
47(viiad)	Exemption for relocation of overseas funds to IFSC	March 31, 2025	March 31, 2030

b) **Exemption on life insurance policy from IFSC Insurance Offices**

Section 10(10D) of the IT Act provides exemptions to sum and bonus received under life insurance policies, including insurance policies issued by IFSC Insurance Offices. However, this section provides that the exemption shall not be available if the annual amount of premium or aggregate premium payable is above INR 250,000 for unit-linked insurance policies and INR 500,000 for other life insurance policies.

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The Finance Bill proposes to amend section 10(10D) to provide that proceeds received from life insurance policies issued by IFSC Insurance Offices will not be subject to the aforementioned monetary ceiling relating to maximum premium payable. This is to provide parity to non-residents *vis-à-vis* other foreign jurisdictions. However, the premium payable for any of the years during the term of the policy should not be more than 10% of the actual capital sum assured.

c) **Exemptions to ship leasing units in IFSC**

Under section 10(4H) exemption on capital gains tax is provided to non-residents or unit of IFSC (being engaged in aircraft leasing) on transfer of equity shares of domestic companies (being units of IFSC) who are also engaged in aircraft leasing. Further, under section 10(34B) exemption is provided on dividend paid by a company (being a unit of IFSC) engaged in aircraft leasing, to another unit of IFSC who is also engaged in aircraft leasing.

The Finance Bill proposes to extend these exemptions provided for aircraft leasing to ship leasing units in IFSC as well.

d) **Rationalisation of definition of 'dividend' for treasury centres in IFSC**

The definition of deemed dividend under section 2(22) of the IT Act, *inter alia*, includes any advance or loan to a shareholder paid by a closely held company or to any concern in which such shareholder is a member or a partner and in which such shareholder has a substantial interest or any payment by any such company on behalf of, or for the individual benefit of, any such shareholder. However, such provisions are not applicable to loans or advances made to a shareholder by a company in ordinary course of business, where the company is in the business of lending money.

Accordingly, where funds are received by corporate treasury centres in IFSC (set-up by groups to manage their global treasury operations) from its group entities, could trigger the deemed dividend provisions.

In order to provide relief to such corporate treasury centres set-up in IFSC, the Finance Bill proposes to amend section 2(22) to exclude the borrowings received by corporate treasury centres in IFSC. The proposed amendment provides that the deemed dividend provisions shall not apply to treasury centres set up in the IFSC on any advance or loan between two group entities, provided (i) one of the group entity is a "Finance company" or a "Finance unit" in the IFSC set up as a global or regional corporate treasury centre for undertaking treasury activities or treasury services; and (ii) the parent entity or principal entity of such group is listed on stock exchange in country or territory outside India, (other than certain specified countries).

e) **Simplified regime for fund managers in IFSC**

Section 9A of the IT Act provides that fund management activities carried out through an eligible fund manager in case of eligible investment fund, shall not constitute

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business connection of the said fund in India, subject to the conditions mentioned therein. Section 9A(3)(c) of the IT Act, stipulates one such condition which limits the participation or investment of Indian resident in the fund.

The Finance Bill proposes to relax this the condition for all eligible funds (whether in IFSC or not) by determining the aggregate participation or investment in the fund as on the 1st day of April and the 1st day of October of the previous year. However, where the said condition is not satisfied on the prescribed dates a grace period is provided to satisfy the same condition within four months of the said dates.

Further, the Finance Bill provides that all other conditions (other than conditions specified in section 9(3)(c)) specified under section 9A of the IT Act can be modified/relaxed for investment fund whose fund manager located in IFSC commences operations before March 31, 2030.

f) **Retail schemes and Exchange Traded Funds (ETFs) included in relocation regime of funds**

The IT Act provides a tax neutral treatment to relocation of an overseas fund i.e., transfer of assets of a fund (that is the original fund) or of its wholly owned special purpose vehicle that is overseas, to a resultant fund in India, subject to satisfaction of certain conditions. This beneficial treatment is limited to a scenario where the resultant fund (i.e., the fund to which the assets are relocated) has been granted a certificate of registration as a Category I or II or III Alternative Investment Fund (AIF) and is regulated under the SEBI (AIF) Regulations, 2012 or regulated under the IFSCA (Fund Management) Regulations, 2022.

The Finance Bill, in order to encourage retails schemes or ETFs to relocate to the IFSC, proposes to extend the same benefit to retail schemes and ETFs that are regulated under the IFSCA (Fund Management) Regulations, 2022.

This proposed amendment shall be effective from FY 2025-26 onwards.

g) **Exempt derivative income of Non-Residents**

Under the IT Act, income arising to non-residents on account of transfer of non-deliverable forward contracts or offshore derivative instruments or over the-counter derivatives, or distribution of income on offshore derivative instruments entered into with an Offshore Banking Unit, is exempt from tax.

In order to further incentivize the operation of IFSC, the Finance Bill proposes to extend such exemption income arising from aforementioned transaction entered into by non-resident with a Foreign Portfolio Investor (FPIs) being a unit in the IFSC.

This proposed amendment shall be effective from FY 2025-26 onwards.

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2. Rationalisation of taxation of Business Trust

Under the IT Act, business trusts (i.e., InvITs and ReITs) have been accorded a pass-through status in respect of interest income, dividend income and rental income from a special purpose vehicle i.e., such income is exempt from tax in the hands of business trusts and is taxed in the hands of the unit holder, unless specifically exempted.

Any other income arising to a business trust is subject to tax at the maximum marginal rate, subject to the provisions of section 111A and 112A of the IT Act. Accordingly, any capital gains arising to the business trust is subject to tax in the hands of the business trust. However, to the extent such capital gains fall within the ambit of section 111A and 112A of the IT Act, the same are subject to tax at the special rates mentioned therein, rather than at the maximum marginal rate.

Surprisingly, the extant provisions omitted the reference to section 112A of the IT Act which provides special rates for taxation of long-term capital gains arising on sale of equity shares or units of an equity-oriented fund or a unit of a business trust, subject to satisfaction of certain conditions. In order to plug this loophole, the Finance Bill proposes to amend the IT Act to provide that the income of business trusts, chargeable under section 112A, shall also be charged at the rate provided under the said section and not at maximum marginal rate.

The proposed amendment will be effective from FY 2025-26 onwards.

3. Incentives for Sovereign Wealth Funds and Pension Funds

The government first incentivized sovereign wealth funds and pension funds under section 10(23FE) of the IT Act by providing them with tax exemptions from the income in the nature of dividend, interest and long-term capital gains arising from the investments made in specified infrastructure businesses through Budget 2020 for the investments made till March 31, 2025. This move had significantly benefitted India as there was a large influx of investments into India by these funds.

Finance Bill proposes to extend the sunset date for investments made by these funds to March 31, 2030. This will give global investors a sufficient gestation period to make considerable contributions to India's expanding infrastructural development.

Further, the amendment to section 50AA by the Finance Act, 2024 re-classified the gains from unlisted debt securities as short-term capital gains, irrespective of their holding period. Therefore, even for sovereign wealth funds and pension funds, long term capital gains from unlisted debt securities were no longer exempt as these gains were categorized as short-term capital gains.

Finance Bill proposes to amend Section 10(23FE) to provide that long-term capital gains, irrespective of whether they are deemed as short-term capital gains under section 50AA will be exempt in the hands of sovereign wealth funds and pension funds. This will further

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incentivize sovereign wealth funds and pension funds to continue investing in India, including through unlisted debt securities.

The proposed amendment shall be effective from April 01, 2025.

ASSESSMENT AND PENALTY RELATED PROVISIONS

1. Change of timelines in the block assessment regime

The search and seizure related provisions were revamped through the Finance Act 2024, wherein search assessments were made for the 'block period', which included previous years relevant to six assessment years preceding the previous year in which the search was initiated and also included the year wherein the search was undertaken.

Finance Bill now proposes to rationalize the following provisions for better administration:

(i) The time-limit for completion of block assessment was twelve months from the end of the month in which the search was executed. It is now proposed to increase the time-limit to twelve months from the end of the quarter in which the search operation is executed.

(ii) The term "undisclosed income" has been defined to mean money, bullion, article or valuable article. The Finance Bill now proposes to include "virtual digital asset" also within the definition of "undisclosed income".

(iii) The Finance Bill proposes to simplify the language to reiterate that income subject to transfer pricing provisions shall be kept out of the income of the block period. Such income shall have to be completed under the other provisions of the IT Act.

The proposed amendments shall be effective from February 01, 2025.

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2. Increase in timeline of search assessment related provisions

Finance Act 2021 had overhauled the reassessment related provisions on account of several judicial precedents quashing the reassessment proceedings initiated by the tax department under jurisdictional grounds. Thereafter, vide subsequent Finance Acts minor changes were carried out to rationalize the provisions to remove operational difficulties.

Along the same lines, Finance Bill proposes to amend the time-limit available for assessing officer to retain the seized books of accounts. The Finance Bill proposes to extend the time limit from 30 days from the end of the month in which assessment order was passed to 30 days from the end of quarter in which the assessment shall be passed. The rationale for this extended timeline could be to allow the assessing officer additional time to complete the assessments of other group entities.

The proposed amendments shall be effective from April 01, 2025 onwards.

3. Change in time-limits for imposition of penalty

Under the existing regime, section 275 of the IT Act imposes bar of limitation for imposition of penalties. However, the provision provides multiple timelines viz. where a case is in appeal before the ITAT, time limit to impose penalty is end of the financial year in which the connected proceeding has been completed or six months from end of the month in which the appellate order is received, whichever is later. Similarly, different time-limits for imposition of penalty have been provided for cases in appeal to the CIT(Appeals).

The Finance Bill proposes to revise section 275 of the IT Act to simplify the provisions containing imposition of penalty.

Accordingly, the period of limitation for imposition of penalty shall be six months from the end of the quarter in which the assessment proceedings are completed. In case an appeal is filed before the CIT(Appeals) and/or thereafter, before the ITAT, the said time limit of six months shall be applicable from the end of month in which the order of the appeal is received by the jurisdictional Principal Commissioner.

The proposed amendment shall be effective from April 01, 2025 onwards.

4. Rationalisation regarding commencement and the end date of period stayed by the Court

Section 144BA, section 153, section 153B, section 158BE, section 158BFA, section 263, section 264 and Rule 68B of Schedule-II of the IT Act provide that period during which the proceedings under respective provisions are stayed by an order or injunction of any court shall be excluded in computing the time limit for conclusion of the proceedings.

In order to provide the benefit of doubt to the tax department, the Finance Bill proposes to the amend the aforementioned provisions to provide that the period commencing from the date on which the stay was granted by the Court and ending on the date in which copy

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vacating the stay was received by the jurisdictional Principal Commissioner shall be excluded.

The proposed amendment shall be effective from April 01, 2025 onwards.

5. Extending the processing period of application seeking immunity from penalty and prosecution

Section 270AA of the IT Act provides, inter-alia, procedure of granting immunity by the assessing officer from imposition of penalty or prosecution, subject to payment of taxes within the due date prescribed under the demand notice and not filing an appeal. Sub-section (4) of the said section provides that assessing officer shall pass an order accepting or rejecting the application, within a period of one month from the end of the month in which the application requesting immunity is received.

In order to provide a little more time period to the tax department as well as the taxpayer, the Finance Bill proposes to extend the time-limit for the assessing officer to three months from the end of the month in which the application is received.

The proposed amendment shall be applicable from April 01, 2025 onwards.

6. Extending the time-limit to file the updated return

Section 139(8A) of the IT Act was introduced into IT Act through the Finance Act 2022 to provide an opportunity for the taxpayers to file an updated or belated return of income even after the expiry of original due date. However, the taxpayers were required to pay 25% of aggregate of taxes and interest for availing this opportunity in cases where the updated return is filed within 12 months from the end of the assessment year. For updated return filed after expiry of 12 months and up to 24 months from the end of the relevant assessment year, the additional income-tax of 50% of aggregate of tax and interest is to be paid.

With a view to further nudging voluntary compliance, the Finance Bill proposes to amend the said subsection so as to extend the time-limit to file the updated return from existing 24 months to 48 months from the end of relevant assessment year. Rate of additional income-tax payable for updated return filed after expiry of 24 months and upto 36 months from the end of the relevant assessment year shall be 60% of aggregate of tax and interest payable. The additional income-tax payable for updated return filed after expiry of 36 months and upto 48 months from the end of the relevant assessment year shall be 70% of aggregate of tax and interest payable.

The proposed amendment shall be applicable from April 01, 2025 onwards.

7. Transfer pricing study and assessment in a block

Under Chapter X (Section 92 to Section 92F) of the IT Act, the arm's length price for an international transaction or a specified domestic transaction is computed basis the

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methods prescribed therein. The computation of arm's length price is reviewed by the TPO by way of transfer pricing assessment proceedings. Since a taxpayer may have similar international transactions or specified domestic transactions over multiple years, it has led to repetition of the same process every year, thereby leading to compliance burden for the taxpayers and administrative burden for the TPOs.

The Finance Bill proposes to give an option to the taxpayer that the arm's length price determined in relation to an international transaction or a specified domestic transaction for any financial year shall apply to similar transactions entered into for two consecutive financial years immediately following the relevant financial year. This option shall have to be exercised by the taxpayer by filing a form to be prescribed under section 92CA(3B) of the IT Act.

Once the option is exercised by the taxpayer and is validated by the TPO, the TP assessments would be undertaken in a block. Total income for such consecutive financial years shall be recomputed by the TPO basis the proceedings undertaken for the first financial year. Reference would not be made again to the TPO for the said international transaction or specified domestic transaction already undertaken in a block. However, the cases related to This amendment aims to reduce the multiplicity of proceedings and to reduce the burden from the TPOs. Further details may be expected to be introduced by way of rules.

The proposed amendment shall be effective from FY 2025-26.

PERSONAL TAXATION

1. Changes to the personal income tax regime

a) Revising the slab rates under the new personal income tax regime

Section 115BAC of the IT Act provides the default concessional tax rates applicable which are available subject to not claiming any tax exemptions and deductions.

The Finance Bill proposes to reduce tax liability under this regime by revamping the tax rate slabs. The changes to the tax slabs proposed under the Finance Bill can be summarised as below:

Current Tax Slab	Tax Rate*	Proposed New Tax Slab	Tax Rate*
Up to INR 300,000	Nil	Up to INR 400,000	Nil
From INR 300,001 to INR 700,000	5%	From INR 400,001 to INR 800,000	5%
From INR 700,001 to INR 1,000,000	10%	From INR 800,001 to INR 1,200,000	10%
From INR 1,000,001 to INR 1,200,000	15%	From INR 1,200,001 to INR 1,600,000	15%
From INR 1,200,001 to INR 1,500,000	20%	From INR 1,600,001 to INR 2,000,000	20%
Above INR 1,500,000	30%	From INR 2,000,001 to INR 2,400,000	25%
		Above INR 2,400,000	30%

* *Excluding applicable surcharge and cess*

b) Rebate under section 87A of the IT Act

The limit of total income for calculating rebate under section 87A of the IT Act has been proposed to be increased from INR 700,000 to INR 1,200,000 and the rebate under section 87A of the IT Act has been proposed to be increased from INR 25,000 to INR

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60,000 under the new tax regime provided under section 115BAC of the IT Act. However, the said rebate shall not be available for income chargeable to tax at special rates given under Chapter XII of the IT Act (for example: capital gains under section 111A and section 112 of the IT Act, etc.).

c) **Increase in the upper limits for determining tax-free perquisites**

Currently, the perquisites provided by an employer are treated as tax-free for the employee if the salary of the employee does not exceed INR 50,000 per annum. Similarly, the expenditure incurred by the employer for travel outside India on medical treatment of employee or their family member is not considered as perquisite, if the total income of the employee does not exceed INR 200,000. The above limits were determined in the year 2001 and 1993 respectively and hence, have become irrelevant as compared to the standard of living and economic conditions prevailing in India.

The Finance Bill now proposes that the Central Government shall be empowered to prescribe rules to increase the upper limit of the said perquisites, so as to provide tax-free perquisites to employees. It is expected that the said rules shall be issued in due course.

The proposed amendment shall be effective from FY 2025-26.

d) **Deduction under section 80CCD for contribution to NPS Vatsalya**

NPS Vatsalya Scheme was launched on September 18, 2024 and enables the parents and guardians to start the NPS account for their minor children, which shall be handed over to the children upon attaining majority.

The Finance Bill now proposes to extend the deduction under section 80CCD to NPS Vatsalya Scheme too, by providing education to parents / guardians on contribution to the account of the minor. However, the deduction is subject to a maximum of INR 50,000 as provided under section 80CCD(1B) of the IT Act. The provisions for partial withdrawal has also been proposed for the said scheme.

The proposed amendment shall be effective from FY 2025-26.

e) **Simplification in determining annual value of self-occupied property**

Section 23(2) of the IT Act provides that the annual value of a house property owned can be considered as NIL if either of the following conditions are satisfied: (a) the property is self-occupied for residence by the owner; or (b) the property cannot be occupied by the owner owning to his employment, business or profession carried on at any other place.

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The Finance Bill proposes to simplify the provision to by removing the condition so as to enable the owner to claim the annual value as NIL if the house property is either self-occupied or cannot be occupied due to any reason. It is also proposed to extend this benefit for two houses.

The proposed amendment shall be effective from FY 2025-26.

CHARITABLE INSTITUTIONS RELATED PROVISIONS

1. Relaxation for 'specified violation' from cancellation of registration of trusts or institutions

Section 12AB(4) of the IT Act contemplates that post the grant of registration or provisional registration of any charitable institution, if the Principal Commissioner is satisfied that one or more instances of 'specified violation' has taken place during any previous year, an order can be passed for cancellation of the registration of such trust or institution. Explanation (g) to Section 12AB(4) of the IT Act provides that where the application under Section 12A(1)(ac) of IT Act is incomplete or contains false or incomplete information, the same would amount to a 'specified violation'.

It has been noted that even minor default in the application under Section 12A(1)(ac) of the IT Act may lead to cancellation of registration or provisional registration of any trust or institution, leading to consequences of taxation of accreted income.

The Finance Bill now proposes to amend Explanation (g) to Section 12AB(4) of the IT Act to exclude situations of incomplete applications for registration of trusts or institutions from the ambit of 'specified violation'.

The proposed amendment shall be effective from FY 2025-26 onwards.

2. Period of registration of smaller trusts or institutions

Section 12AB of IT Act stipulates that the registration of a trust or institution remains valid for a period of 5 years or provisional registration for 3 years, in cases where the activities have not commenced when application for registration is filed. Once these stipulated periods expire, an application is required to be filed for further registration. This imposes a compliance burden for small trust or institution to file for registration after every 5 years.

The Finance Bill now proposes to increase the period of validity of registration from 5 years to 10 years for smaller trusts or institutions, where application is filed under sub-clauses (i) to (v) of Section 12A(1)(ac) and the total income does not exceed INR 50,000,000 during each of the two financial years, preceding the financial year in which such application is made.

The proposed amendment shall be effective from FY 2025-26 onwards.

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3. **Exclusion of persons specified under sub-section (3) of section 13 for trusts or institutions**

   Section 13 of IT the Act contemplates that the exclusion under Sections 11 and 12 of the IT Act will not apply to income used for benefit of certain specified persons, which included persons who have made 'substantial contribution' exceeding the threshold of INR 50,000, or their relative or any concern in which such person has substantial interest. This provision posed difficulties in furnishing details of such specified persons, except the author, founder, trustee or manager of such trust or institution.

   The Finance Bill now proposes to enhance the threshold for substantial contribution from INR 50,000 to INR 100,000 during the relevant financial year or exceeding INR 1,000,000 in aggregate up to the end of the relevant financial year. Further, the Finance Bill also proposes to exclude relatives of specified persons and concerns in which they have substantial interest, from the scope of Section 13 of the IT Act. These amendments would apply to specified persons other than author, founder, trustee or manager of the trust or institution.

   The proposed amendment shall be effective from FY 2025-26 onwards.

CHANGES TO THE TDS AND TCS FRAMEWORK

1. **Rationalisation of TDS thresholds**

   In the current income tax regime, there are various provisions of TDS which provide for multiple thresholds. The Finance Bill has proposed to increase and rationalise the threshold limits for the applicability of the TDS provisions.

   This will reduce the compliance burden and increase the ease of doing business. The proposed changes to the TDS thresholds are summarised below:

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No.	Section	Current threshold	Proposed threshold
1	Section 193 – Interest on securities	Nil	INR 10,000/-
2	Section 194 - Dividend for an individual shareholder	INR 5,000/-	INR 10,000/-
3	Section 194A - Interest other than Interest on securities	(i) INR 50,000/- for senior citizen (ii) INR 40,000/- in case of others when payer is bank, cooperative society and post office (iii) INR 5,000/- in other cases	(i) INR 100,000/- for senior citizen (ii) INR 50,000/- in case of others when payer is bank, cooperative society and post office (iii) INR 10,000/- in other cases
4	Section 194B - Winnings from lottery, crossword puzzle, etc.	Aggregate of amounts exceeding INR 10,000/- during the financial year	INR 10,000/- in respect of a single transaction
5	Section 194BB - Winnings from horse race	Aggregate of amounts exceeding INR 10,000/- during the financial year	INR 10,000/- in respect of a single transaction
6	Section 194D – Insurance Commission	INR 15,000/-	INR 20,000/-
7	Section 194G - Income by way of commission, prize etc. on lottery tickets	INR 15,000/-	INR 20,000/-
8	Section 194H - Commission or Brokerage	INR 15,000/-	INR 20,000/-
9	Section 194-I Rent	INR 240,000/- during the financial year	INR 50,000/- per month or part of a month; effectively INR 600,000/- a year
10	Section 194J - Fee for professional or technical services	INR 30,000/-	INR 50,000/-
11	Section 194K - Income in respect of units of a mutual fund or specified company or undertaking	INR 5,000/-	INR 10,000/-

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12	Section 194LA - Income by way of enhanced compensation	INR 250,000/-	INR 500,000/-

The proposed amendment shall be effective from FY 2025-26 onwards.

2. **TDS rate reduction for Section 194LBC of the IT Act**

Section 194LBC of the IT Act provides for the TDS rate for income accruing from the investments made in securitisation trusts to its unit holders. Currently, for individuals and HUFs the income-tax that should be deducted is 25% and for other persons it is 30%. The Finance Bill proposes that for both individuals/HUFs and other persons the rate should be reduced to 10%. This is because securitization investments have become increasingly popular, and the sector is sufficiently organized and regulated; the TDS burden is no longer required to be high.

The proposed amendment shall be effective from FY 2025-26 onwards.

3. **Simplification of TCS Provisions: Amendments to Section 206C of the IT Act**

Section 206C of the IT Act provides for collection of TCS. It imposes an obligation on the seller to collect tax at source from the buyer of certain specified goods.

Under sub-section (1) of section 206C of the IT Act, TCS is required to be collected on sale of forest produce, however, forest produce is not defined under the IT Act. The Finance Bill proposes to define "forest produce" as it has been defined in any State Act for the time being in force or in the Indian Forest Act, 1927. This will bring clarity to the provision and facilitate compliance.

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The rates, thresholds and categories of goods liable for TCS have also been rationalised to facilitate compliance and decrease the burden on taxpayers. The changes are summarised below:

Rates and categories of goods:

No.	Nature of goods	Current rate	Proposed rate
1	206C(1) – Timber or any other forest produce obtained under a forest lease	2.5%	2%
2	206C(1) – Timber obtained under any other mode	2.5%	2%
3	206C(1) – Forest produce (not being timber or tendu leaves and not obtained under a forest lease)	2.5%	Nil
4	206C(1G)- Remittance under LRS for purpose of education, financed by loan from financial institution	0.5% after INR 700,000	Nil

Rates and categories of goods:

No.	Nature of goods	Current rate	Proposed rate
1	206C(1G) - Remittance under LRS and overseas tour program package	INR 700,000	INR 1,000,000

Further, sub-section (1H) of section 206C of the IT Act provides that any seller who receives a consideration exceeding INR 5,000,000 for the value or aggregate value of the sale of goods in a previous year shall collect tax at the rate of 0.1% from the buyer. Section 194Q of the IT Act also requires the buyer to deduct tax at the rate of 0.1% if the payment to the seller exceeds INR 5,000,000. Therefore, on the same transaction there is both TDS and TCS of 0.1%. While section 206C(1H) provides that TCS shall not be collected if TDS is being deducted under any other provision, it is often difficult to determine whether the buyer has ensured TDS compliance. Therefore, this results in increased burden on the taxpayer and compliance issues as both TDS and TCS are made applicable on the same transaction. To remove this difficulty, Finance Bill proposes to do away with sub-section (1H) of section 206C of the IT Act and remove TCS on sale of specified goods.

The *proposed amendment shall be effective from FY 2025-26 onwards.*

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4. Removal of higher TDS/TCS for non-filers of return of income

Section 206AB of the IT Act requires deduction of tax at a higher rate when the deductee is a non-filer of income-tax returns and 206CCA of the IT Act requires collection of tax at a higher rate when the collectee is a non-filer of income-tax returns. However, it is difficult for the deductor/ collector to verify whether returns have been filed by the deductee/collectee. This results in higher rates of TDS/TCS which blocks capital and makes compliance more burdensome.

Finance Bill proposes to remove sections 206AB and 206CCA of the IT Act. However, the higher rates of TDS/TCS shall continue to apply in case the deductee/collectee has an invalid PAN or no-PAN.

The proposed amendment shall be effective from FY 2025-26 onwards.

5. Excluding the period such as court stay, etc. for calculating time limit to pass an order for failure to collect TCS

Section 206C of the IT Act provides for sellers engaged in the business of alcoholic liquor, forest produce, scrap, etc. to collect TCS. Sub-section (7A) of section 206C of the IT Act provides that no order shall be made deeming a person to be an assessee in default for failure to collect the whole or any part of such TCS from any person, after the expiry of six years from the end of the financial year in which tax was collectible or two years from the end of the financial year in which a correction statement for rectification of mistake is delivered, whichever is later.

The time limits provided in the sub-section does not provide for the exclusion of the time periods such as time for which proceedings were stayed by the order of any Court or proceedings were reopened or reference was made to a valuation officer, etc.

Finance Bill proposes to amend sub-section (7A) of section 206C of the IT Act to suggest that relevant provisions of section 153 of the IT Act would apply to the time limit prescribed. This proposed amendment would ensure that the time limits prescribed under sub-section (7A) of section 206C of the IT Act exclude the time taken for such eventualities that are also excluded while computing the period of limitation for under section 153 of the IT Act.

The proposed amendment shall be effective from FY 2025-26 onwards.

6. Exemption from prosecution for delayed payment of TCS in certain cases

Section 276BB of the IT Act provides that if a person fails to pay the TCS to the credit of Central Government as per the provisions of section 206C of the IT Act, then he shall be punishable with rigorous imprisonment for a term which shall not be less than three months, but which may extend to seven years and with fine.

In pursuance of its objective of making the withholding tax regime more taxpayer-friendly, the Finance Bill proposes to amend the section 276BB of the IT Act to provide that the

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prosecution against such person shall not be instituted if the TCS is paid to the credit of the Central Government at any time on or before filing of the quarterly statement under proviso to sub-section (3) of section 206C of the Act in respect of such payment.

The proposed amendment shall be effective from FY 2025-26 onwards.

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SECTION B:

ANALYSIS OF THE PROPOSED CHANGES IN INDIRECT TAXES

SUBSTANTIVE CHANGES IN CUSTOMS ACT

1. Fixation of time limit for finalization of provisional assessment

The existing Customs Act does not provide any time period within which a provisional assessment shall be completed, except the limited guidance provided in the Customs (Finalisation of Provisional Assessment) Regulations, 2018. This puts the concerned taxpayer at a risk because he /she / it may face a provisional assessment after a long period of time.

The Finance Bill proposes to amend Section 18 dealing with provisional assessment to provide for a definite time limit of two years for the finalization of provisional assessments. The Principal Commissioner or Commissioner of Customs may extend this period by an additional one year, provided sufficient cause is shown and reasons are recorded in writing.

However, the 2 year time limit would be suspended in specific circumstances where the proper officer is unable to finalize the assessment such as:

a. Information is being sought from an authority outside India through a legal process.
b. A similar appeal is pending before the CESTAT, HC, or SC for same or different taxpayer.
c. An interim stay order has been issued by a higher judicial authority.
d. CBIC has issued specific directions to keep the matter pending.
e. The importer or exporter has filed an application before the Settlement Commission or the Interim Board.

The proper officer is required to intimate the importer/ exporter regarding the reason for suspension. The time limit shall initiate post such reason cease to exist.

For pending provisional assessments as of the date of assent of the Finance Bill, 2 year period will start from the date of assent, ensuring that existing cases are also resolved within a prescribed timeframe.

This amendment addresses the concern for several importers and exporters who were facing long-standing delays in finalization of provisional assessments. This would ensure certainty regarding duty liability and allow importer or exporter to cancel provisional duty bond / bank guarantee which could have led to blockage of capital due requirement of maintenance of fixed deposit with bank. It also aligns with India's commitment to trade facilitation, reducing procedural bottlenecks and improving the Ease of Doing Business in India.

While the suspension of 2 year timeline in special circumstances provides necessary flexibility to customs authorities in complex cases or assist the taxpayer who himself is

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contesting matter in a Court, this may also lead to potential misuse by customs authorities, if the power is exercised without proper check and balances.

This prospective amendment is expected to be applicable with effect from date of implementation of the Finance Act, 2025.

2. Option to voluntary revise details furnished in clearance document post-clearance to rectify the same

Earlier there was no provision allowing voluntary disclosure. The Customs legislation allowed modification of bill of entry of shipping bill under Section 149 of the Customs Act, which required presence documentary evidence which was in existence at the time the goods were cleared, for amendment. Allowing such modification was discretionary power of customs authorities.

The Finance Bill proposes the insertion of a new Section 18A in the Customs Act, allowing importers and exporters to voluntarily revise an entry post-clearance within a prescribed time and under specific conditions. Such revision will be treated as a self-assessment of duty by the importer or exporter, shifting the primary responsibility of compliance upon the importer or exporter.

However, the importer or exporter would not be allowed voluntary revision in situations such as ongoing proceeding initiated by an audit, search, seizure, or summons, or case requiring refund of duty due to reassessment by the customs officer under Section 17 of the Customs Act, or final assessment under Section 18f the Customs Act, or assessment of post or courier under Section 84 of the Customs Act, or any other cases notified by CBIC.

The customs officers may verify revised entries and self-assessments in cases selected by appropriate criteria and reassess duty where the revised self-assessment is found to be incorrect.

If the revision results in short-paid or unpaid duty, the importer/exporter must voluntarily pay the differential duty along with interest. However, if the customs authority still believes that there is short payment or erroneous refund, the proper officer may raise SCN. For computation of the period of limitation, the date of payment or interest on account of revision would be considered as the relevant date.

Where the revision results in lower duty payable, the revised entry will be treated as a refund claim. Even in such case, the date of payment would remain the relevant date from which 1 year period limitation for claim of refund would apply.

This amendment seeks to provide an opportunity to importer/ exporter to rectify errors in customs declarations without the risk of penalty. This would enhance trade facilitation, reduce litigation, and streamline duty adjustments.

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This prospective amendment is expected to be applicable from date of implementation of the Finance Act, 2025.

3. Introduction of the Interim Board for settlement of pending applications

Currently, an importer/ exporter can approach the Settlement Commission by making an application for settlement of a matter pending for adjudication other than in CESTAT or Courts.

The Finance Bill proposes to replace the Settlement Commission with an Interim Board (created under CE Act) for dealing with pending applications after April 01, 2025. Accordingly, corresponding changes have been suggested under sections 127A, 127B, 127C, 127D, 127F, 127G, and 127H by providing the power to the Interim Board such as order provisional attachment to protect the revenue of the Government, to grant immunity from prosecution and penalties for individuals who fully disclose their customs duty liability, which currently reside with the Settlement Commission.

It also introduces a significant change by making April 01, 2025 to be the last date to make an application. The Interim Board will handle these applications from the point they stood when the Settlement Commission last dealt with them.

Additionally, the existing timelines for final orders, such as nine-month limit under subsection (8A), can also be extended by the Interim Board for up to 12 months, offering greater flexibility.

The substitution of the Settlement Commission with the Interim Board suggests that Government intends to have a common body for settlement. The handling of pending applications by the Interim Board, with continuity from where the process was left off, ensures that there is no re-initiation of the case from the beginning. However, discontinuation of customs settlement process post-April 2025 marks a significant shift. It is also anticipated that the Government is contemplating removing the Settlement Commission completely.

This prospective amendment is expected to be applicable from date of implementation of the Finance Act, 2025.

4. Relaxation in timelines for Customs (Import of Goods at Concessional Rate of Duty or for Specified End Use) Rules, 2022 (IGCR)

The Finance Bill proposes relaxation in procedure for IGCR w.e.f. February 2, 2025, primarily affecting compliance timelines and the flexibility available to importers. The most notable amendment is the shift from a monthly reporting regime to a quarterly reporting framework requiring importers to submit consolidated compliance statements every quarter instead of every month.

The timelines for reporting have been extended with respect to the following which aligns with the broader simplification of compliance:

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- Transfer of imported goods between different units of the same entity,
- Supply of imported goods to an end-use recipient,
- Disposal of unutilized or defective imported goods, either through re-export or clearance for home consumption.

The maximum period for which imported goods can be sent for job work has been extended from six months to one year. Further, the time period for re-export or clearance from six months to one year (where no specific timeline is prescribed in the relevant customs notification). This provides importers with greater flexibility in handling excess or defective inventory, reducing the risk of forced duty payments. However, it also increases the potential for goods to be misused or diverted, necessitating stricter inventory controls.

These change is likely aimed at reducing the administrative burden on importers by aligning reporting cycles with fiscal quarters, thereby streamlining internal compliance mechanisms and easing operational constraints. However, from a risk and regulatory perspective, it could lead to delayed detection of non-compliance or discrepancies, making robust internal tracking mechanisms crucial for large importers. Overall, these amendments provide operational relief to importers by extending timelines and reducing reporting frequency.

The changes in the duty rates are enclosed as Annexure.

SUBSTANTIVE CHANGES IN CGST ACT

1. Availability of ITC by Input Service Distributor for inter-state supplies under reverse charge mechanism

Input Service Distributors are responsible for distributing input tax credit on input services. However, there was lack of provision regarding availment and distribution of ITC arising from IGST payments under reverse charge mechanism for a person having input service distributor registration. The Finance Bill in light of recommendation of 55th GST Council meeting proposes to remove this ambiguity by explicitly permitting such ITC distribution of IGST.

Finance Bill proposes to amend the definition of input service distributor and Section 20 of the CGST Act to allow distribution of ITC on inter-state supplies that are subject to reverse charge mechanism w.e.f. April 01, 2025. This would promote ease of doing business for business that procure several common services for its offices located in different locations.

This prospective amendment is expected to be applicable from April 01, 2025.

2. Introduction of definitions of “local fund” and “municipal fund”

A local authority is eligible for certain exemptions or specific compliances under GST legislation. A local authority includes bodies such as

a) a panchayat, municipality, cantonment board, regional council or a district council, development board having specific definition under specific statutes; and

b) municipal committee, zilla parishad, district board, and any other authority legally entitled to, or entrusted with the control or management of a municipal or local fund.

Various body may have functions like a municipal body or panchayat. However, not all qualify as local authority. As the phrase “control or management of a municipal or local fund” was constantly being interpreted differently, this lead to ambiguity in availability of exemptions and requirement under GST legislation.

In order to resolve the same, Finance Bill proposes to amend phrase to “control or management of a municipal fund or local fund”. Further, the individual definition of local fund and municipal fund are also proposed. Therefore, the amendment appears to be a promising step towards eliminating ambiguity by providing clear criteria, reducing litigation risk for relevant stakeholders.

This prospective amendment is expected to be applicable from a date to be notified.

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3. **Omission of the provisions dealing with time of supply for vouchers.**

   As the term voucher was appearing provision pertaining to time of supply, there was an ambiguity regarding whether voucher can be treated as supply of goods or services and its taxability thereon. To remove the ambiguity, CBIC vide Circular No. 243/37/2024-GST dated December 31, 2024, clarified that "vouchers" are neither supply of goods nor supply of services.

   To further supplement the change, Finance Bill proposes to omit Sections 12(4) and 13(4) of the CGST Act, 2017, which governed the time of supply for vouchers.

   This amendment is expected to be applicable from a date to be notified.

4. **Substitution of "plant or machinery" in place of "plant and machinery" to restrict ITC for building**

   The GST legislation under Section 17(5)(d) of CGST Act restricts availment of ITC on goods or services received by a taxable person for construction of an immovable property (other than plant or machinery) on his own account including when such goods or services or both are used in the course or furtherance of business. The vires of said provision was challenged. While the Hon'ble Supreme Court upheld the vires of provision, it decided that the phrase "plant or machinery" currently used in section 17(5)(d) of the CGST Act cannot be interpreted similar to the term "plant and machinery". The word "plant" must be interpreted using the functionality test. In other words, it must be examined whether the building is essential for conducting the registered person's business activities. Hence, when a building satisfy functionality test, it would be excluded from the restriction pertaining to ITC availment.

   Finance Bill proposes to amend the same and proposes to replace the phrase with "plant and machinery". This amendment is being introduced with the explicit objective of overturning the SC's decision in Safari Retreats.

   Further, Explanation 2 is inserted to explicitly state that any reference to "plant or machinery" must be interpreted as "plant and machinery", overriding any conflicting judicial pronouncements. It is proposed to be a retrospective amendment applicable with effect from July 01, 2017 to restrict ITC even for taxpayer who may have been eligible to avail ITC basis the verdict of Supreme Court. This would impact stakeholders in industries engaged in constructing ports, jetties, warehouses, and other infrastructure projects.

5. **No adjustment of outward liability in case of credit not unless recipient reverse ITC**

   When a supplier issues a credit note to its recipient on account of the incorrect taxable value or tax charged in that tax invoice, or the goods supplied are returned by the recipient, or goods or services supplied are found to be deficient, the supplier can reduce its outward tax liability to reflect the adjustment. Earlier, there was no statutory provision in the CGST Act which required the supplier to ensure that the recipient has reversed the ITC. It only required that the incidence of tax and interest on such supply should not have been passed

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on to any other person. The Finance Bill proposes amendment to proviso to Section 34(2) of the CGST Act, by introducing the condition for the supplier to claim a reduction in output tax liability through a credit note:

a) For registered recipients: If the recipient of the supply has availed ITC, they must reverse the ITC corresponding to the credit note, before the supplier can claim a reduction in tax liability.

b) For all other cases: the incidence of GST should not have been passed onto another person.

The amendment seeks to prevent situations where the supplier claims a reduction in output tax liability via a credit note, but the recipient continues to avail ITC, leading to double tax benefits within the system.

By mandating ITC reversal, the amendment proposes to ensure that both supplier and recipient bear tax adjustments proportionately, in line with the principle of tax neutrality under GST. Suppliers will now need to ensure that recipients reverse ITC before they claim a reduction in their tax liability leading to an additional compliance burden.

This amendment is expected to be applicable from a date to be notified.

6. Reduction in mandatory pre-deposit amount to file an appeal

Section 107 and 112 of the CGST Act provides for the manner and procedure to file appeal to the Appellate Authority and tribunal respectively.

The Finance Bill proposes to reduce the pre-deposit amount from current 25% to 10% in cases of order demanding only penalty, without any demand for tax. It is pertinent to note that earlier the pre-deposit was only for cases pertaining to detention and seizure of goods under Section 129 of the CGST Act. However, it appears that due to this change and non reference to Section 129 (which is present in current proviso) now the pre-deposit has been made mandatory for other case as well which involve demand of only penalty.

The said amendment will provide relief to litigating taxpayers as it will not burn a hole in their working capital due to payment of substantial penalty as pre-deposit.

7. Establishment of unique identification marking system

The Finance Bill proposes for the introduction of a mandatory track and trace mechanism for certain goods to be specified or for a class of taxpayers, ensuring goods movement is closely monitored through unique identification marking. The marking must be in the form of digital stamp, digital mark or any other similar marking, which is unique, secure and non-removable. This amendment formally recognizes and standardizes the concept of unique identifiers for goods, allowing the GST department to monitor their movement from origin to end-use.

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It also requires such specified persons to furnish detailed information about their production facilities, installed machinery, and operational capacity within specific timeline. In order to ensure, such track and trace mechanism is followed, it is proposed to insert a deterrent penalty on failure to comply. Section 122B would be incorporated in CGST Act to impose a penalty of INR 100,000 or 10% of the tax payable on such goods, whichever is higher, in addition to other penalties that may be applicable for any other non-compliance under the CGST Act.

This amendment signals a major shift towards digital enforcement of GST compliance. It can be expected that such mechanism may be particularly introduced for high-risk industries such as tobacco, electronics, and luxury goods, where tax evasion, counterfeiting, and illicit trade are prevalent. Businesses dealing with these goods will have to implement robust tracking systems to remain compliant.

8. Non-taxability of supply of goods warehoused in Special Economic Zone or Free Trade Warehousing Zone

There was lack of clarity regarding the applicability of GST on supply of goods warehoused in SEZ/FTWZ units.

The Finance Bill proposes an amendment to Schedule III of the CGST Act, which provides for activities and transactions not considered as supply of goods or services. The following transactions, have been added to the list w.e.f. July 01, 2017:

a) Supply of goods warehoused in a SEZ to any person before the goods are cleared for exports.

b) Supply of goods warehoused in a SEZ to the DTA.

c) Supply of goods warehoused in a FTWZ to any person before the goods are cleared for exports.

d) Supply of goods warehoused in a FTWZ to the DTA.

However, it has been specified that no refund shall be granted for any GST that was collected solely because the above amendments were not in force at all material times.

Companies operating within SEZ or FTWZ, will benefit from enhanced legal certainty and streamlined compliance, as they can now rely on a clear statutory provision that aligns with the objectives of the SEZ Act. By explicitly including such supplies in Schedule III, the government reinforces the non-taxability of these transactions.

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ANNEXURE

1. Rate changes

The First Schedule to the CT Act has been amended to revise the BCD rates on various goods. The changes in the tariff schedule shall commence from May 1, 2025 except those specifically mentioned below. However, the BCD has been reduced/increased w.e.f. February 2, 2025 via Notifications. Item wise changes in rates of BCD of certain items have been tabularized as below:

Sr. No.	Description	Pre-Budget rate	Post-Budget rate	Change
Material				
1.	Marble and travertine, crude or roughly trimmed, merely cut into blocks, slabs and other	40%	20%	↓
2.	Granite, crude or roughly trimmed, merely cut into blocks, slabs and other	40%	20%	↓
Chemicals				
3.	Compounds containing a pyrimidine ring (whether or not hydrogenated) or piperazine ring in the structure (*Aminophylline (cordophylin), Trimethoprim, Diethy-l carbamazine citrate, 1-Amino-4-Methyl piperazine, Bispyribac-sodium (ISO)*)	10%	7.5%	↓
Footware and Leather				
4.	Footwares and their parts	35%	20%	↓
5.	Wet blue leather (hides and skins)	35%	20%	↓

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Sr. No.	Description	Pre-Budget rate	Post-Budget rate	Change
	Metal			
6.	Tin, tungsten, molybdenum, tantalum, cobalt, bismuth alloys, zirconium, antimony, beryllium, rhenium, cadmium, lead, zinc waste and scrap	10%/5%/2.5 %	Nil	↓
7.	Cobalt Powder	5%	Nil	↓
8.	Lithium Ion battery waste and scrap	5%	Nil	↓
	IT & Electronics			
9.	Interactive Flat Panel Displays (Completely Built Units)	10%	20%	↑
10.	Solar Cells	25%	20%	↓
11.	Solar Modules and other photovoltaic cells	40%	20%	↓
12.	Ethernet switches Carrier grade	20%	10%	↓
13.	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%	5%	↓
14.	Inputs and Parts of the Open Cells for use in the manufacture of Television Panels of LED/LCD TV	2.5%	Nil	↓

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Sr. No.	Description	Pre-Budget rate	Post-Budget rate	Change
15.	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%	Nil	↓
16.	Capital goods for use in the manufacture of lithium-ion battery of EVs and of mobile phones (*for example, Auto-taping machine, auto magazine load, roller cleaning machine, stacking machine, solvent recovery system, nail inserting machine, injection hole cleaning machine, and cell sorting line*)	Applicable Rate	Nil	↓
Automobile				
17.	Motor vehicles for transport of 10 or more persons	25%/40%	20%	↓
18.	Motor cars and other motor vehicles with CIF value more than USD 40,000 or with engine capacity more than 3000 cc for petrol run vehicles and more than 2500 cc for diesel run vehicles or with both	100%	70%	↓
19.	Motor vehicles for transport of goods	25%/40%	20%	↓

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Sr. No.	Description	Pre-Budget rate	Post-Budget rate	Change
20.	Motor vehicles for transport of 10 or more persons	40%	20%	↓
21.	Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading 8702)	125%	70%	↓
22.	Motor vehicles for transport of goods	40%	20%	↓
23.	Motor cycles with engine capacity in CBU form	50%	40%	↓
24.	Motor cycles with engine capacity 1600cc in SKD form	25%	20%	↓
25.	Motor cycles with engine capacity in CKD form	15%	10%	↓
26.	Yacht and other vessel for pleasure or sports, rowing boats and canoes	25%	20%	↓
Other Goods				
27.	Parts of electronic toys	70%	20%	↓
28.	Parts of Electronic Toys for manufacture of Electronic Toy	25%	20%	↓
29.	All dutiable articles, imported by a passenger or a member of a crew in his baggage	100%	70%	↓
30.	All dutiable goods imported for personal use.	35%	20%	↓

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Please note that corresponding changes may have been made in levy of Agriculture Infrastructure and Development Cess (AIDC), which would nullify or reduce the impact of change in BCD. For example, marble, footwear, solar cells, solar modules, motor vehicles, yacht, parts of electronic toys, etc. Further, to uniform and avoid multiple cess to be applicable on the same item Social Welfare Surcharge has been made Nil for certain items.

2. Extension of concessional entries and inclusion of new items

The Finance Bill has extended applicability of various entries providing for concessional rate under Notification No. 50/2017 Customs dated June 30, 2017, for varying periods. For example: ship and vessel for breaking up, parts/raw materials for manufacture of ship and vessel, bulk drugs used in manufacture of polio vaccine, mono component insulin, life saving drugs, drugs for for treatment of rare diseases, drug, medicine and food for special medical purposes used for treatment of rare diseases, parts and components used for manufacturing textile machinery, wind operated electricity generator, seeds for used in manufacturing of rough lab grown diamonds, etc.

The BCD exemption is being extended to imports of ground installation for satellites and payload or their parts, goods used for us in building of launch vehicles and launching of satellites, specified drugs and medicines from the whole of the duty of customs leviable thereon subject to their being supplied free to cost to patients under Patient Assistance Programme (PAP) run by the pharmaceutical companies.

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GLOSSARY

ABBREVIATION	MEANING
AO	Learned Assessing Officer
AY	Assessment Year
Black Money Act	Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015
Benami Act	Prohibition of Benami Property Transactions Act, 1988
BCD	Basic Customs Duty
BEPS	Base Erosion and Profit Shifting
Bill/ Finance Bill	The Finance Bill, 2025
CA, 2013	Companies Act, 2013
CBDT	Central Board of Direct Taxes
CBIC	Central Board of Indirect Taxes and Customs
CCIT	Learned Chief Commissioner of Income Tax
CEA	Central Excise Act, 1944
CENVAT	Central Value Added Tax
CESTAT	Hon’ble Customs, Excise and Service Tax Appellate Tribunal
CGST Act	Central GST Act, 2017
CIT	Learned Commissioner of Income Tax
CIT(A)	Learned Commissioner of Income Tax (Appeal)
CT Act	Customs Tariff Act, 1975
Customs Act	The Customs Act, 1962
FII	Foreign Institutional Investor
FTWZ	Free Trade Warehousing Zone
FY	Financial Year
FM	Finance Minister
GST	The Goods and Service Tax
HC	Hon’ble High Court
HUF	Hindu Undivided Family
IFSCA	International Financial Services Centre Authority

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ABBREVIATION	MEANING
IFSC	International Financial Services Centre
IGST Act	Integrated GST Act, 2017
INR	Indian Rupees
InvIT	Infrastructure Investment Trust
IRA	Indian Revenue Authorities
ITC	Input Tax Credit
IT Act	Income Tax Act, 1961
IT Rules	Income Tax Rules, 1962
ITAT	Hon’ble Income Tax Appellate Tribunal
MOOWR	Manufacturing and Other Operations in Warehouse
NBFC	Non-Banking Financial Companies
OECD	Organisation for Economic Co-operation and Development
PAN	Permanent Account Number
PCIT	Learned Principal Commissioner of Income Tax
PE	Permanent Establishment
REIT	Real Estate Investment Trust
RBI	Reserve Bank of India
SEBI	Securities and Exchange Board of India
SEZ	Special Economic Zone
SC	Hon’ble Supreme Court
STT	Securities Transaction Tax
TDS	Tax Deduction at Source
TCS	Tax Collection at Source
TPO	Learned Transfer Pricing Officer
UOI	Union of India
UTGST	Union Territory Goods and Services Tax
UTGST Act	Union Territory Goods and Services Act, 2017
VAT	Value Added Tax
VDA	Virtual Digital Asset

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Key Contacts

Cyril Shroff
Managing Partner
cyril.shroff@cyrilshroff.com

S. R. Patnaik
Partner (Head-Taxation)
sr.patnaik@cyrilshroff.com

Kunal Savani
Partner (Taxation & Private Client)
kunal.savani@cyrilshroff.com

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Disclaimer

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ahead of the curve

www.cyrilshroff.com
www.cyrilshroff.com/blogs

mumbai
Peninsula Chambers, Peninsula Corporate Park, GK Marg,
Lower Parel, Mumbai – 400 013, India
T +91 22 6660 4455 F +91 22 2496 3666
E cam.mumbai@cyrilshroff.com

bengaluru
3rd Floor, Prestige Falcon Tower, 19, Brunton Road,
Off M G Road, Bengaluru – 560 025, India
T +91 80 6792 2000
E cam.bengaluru@cyrilshroff.com

chennai
11th Floor, Awfis Prestige Palladium Bayan, No.43/1
(Door No.129 to 140), Greams Road, Egmore,
Chennai – 600 006
T: +91 44 4904 2874
E cam.chennai@cyrilshroff.com

gift city
Cyril Amarchand Mangaldas – OFC,
415, Pragya Tower, GIFT City, Gandhinagar - 382 355,
Gujarat, India
T +91 79 4903 9900 F +91 79 4903 9999
E cam.giftcity@cyrilshroff.com

abu dhabi
2459, Al Sila Tower, Abu Dhabi Global Market Square,
Al Maryah Island, Abu Dhabi,
United Arab Emirates
(CAM Middle East)
E cam.abudhabi@cyrilshroff.com

delhi-ncr
Level 1 & 2, Max Towers, C-001/A, Sector 16 B,
Noida – 201 301, Uttar Pradesh, India
T +91 120 669 9000 F +91 120 669 9009
E cam.delhi@cyrilshroff.com

ahmedabad
Block A-1512, 15th Floor, Navratna Corporate Park,
Ambli Bopal Road, Bodakdev, Ahmedabad – 380 058, India
T +91 79 3503 9999
E cam.ahmedabad@cyrilshroff.com

hyderabad
Ground Floor, AWFIS Ohris Tech Park,
Plot No.13, Survey 64/2, (New) Software Units Layout,
Madhapur, HiTech City, Hyderabad – 500 081, India
T: +91 40 4433 4323
E cam.hyderabad@cyrilshroff.com

singapore
61 Robinson Road,
#11-03, Singapore - 068 893
T +65 6329 2260
E cam.singapore@cyrilshroff.com
(CAM Singapore Pte Ltd., UEN: 202137213R)