



THE UNION BUDGET 2025-26

**An Analysis of Important Amendments
in Direct and Indirect Taxes**

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ECONOMIC OUTLOOK

On February 1, 2025, India's Finance Minister (FM), Nirmala Sitharaman, presented the Union Budget for the fiscal year 2025-26, outlining a comprehensive plan aimed at stimulating economic growth, enhancing the spending power of the middle class, and promoting inclusive development across various sectors.

This Budget continues Government's efforts to accelerate growth, secure inclusive development, invigorate private sector investments, uplift household sentiments, and enhance spending power of India's rising middle class. Aspiration of Vikasit Bharat has further guided FM to march forward resolutely and therefore to support our fastest growing economy. Next five years are seen as a unique opportunity to realise "Sabka Vikas" stimulating balanced growth of all the regions. The proposed development measures span few broad areas focusing on Garib, Youth, Annadata and Nari. In this journey of development 4 powerful engines are identified which are Agriculture, MSME, Investment, and Exports. The fuels for these engines are reforms and destination is Vikasit Bharat. We restrict ourselves in this write up on only Taxation and other related reforms which are relevant to our clients.

Taxation Reforms

A significant highlight of the budget is the restructuring of personal income tax slabs to provide relief to middle-class taxpayers. The government has raised the nil tax threshold to Rs 12 Lacs annually, meaning individuals earning up to this amount need not pay any income tax. Additionally, tax slabs and rates have been realigned, with the maximum tax rate of 30% now applicable to incomes of Rs 24 Lacs and above under the new tax regime. These measures are designed to boost consumer demand by increasing disposable incomes and expected to help the surge in an economy.

Foreign Direct Investment and Business Environment

In a move to attract more foreign investment, the budget proposes raising the foreign direct investment (FDI) limit in the insurance sector to 100%. Additionally, measures to improve the ease of doing business include the formation of a high-level committee for regulatory reforms and the creation of an investment friendliness index. These steps aim to create a more conducive environment for both domestic and international investors.

Fiscal Outlook

The government projects a nominal GDP growth of 10.1% for the fiscal year 2025-26 and aims to reduce the fiscal deficit to 4.4% of GDP. Total budget spending is estimated at Rs 50.65 trillion. These projections indicate a focus on fiscal consolidation while ensuring adequate investment in key sectors to drive economic growth.

In summary, the Union Budget 2025-26 presents a balanced approach, focusing on tax relief for the middle class, substantial investments in agriculture and infrastructure, and measures to enhance the overall business environment. The proposed initiatives aim to stimulate economic growth, promote inclusive development, and position India for sustained progress in the coming years.

PREFACE

This note highlights select budget proposals related to direct and indirect taxes put forth by the finance minister Mrs Nirmala Sitharaman while presenting Budget 2025 on 1st February, 2025. This note summarizes only issues considered of importance to our clients and associates.

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This note contains proposals which may be modified before they are enacted. The provisions are applicable for A.Y. 2026- 27 unless otherwise stated. This note is prepared on the basis of material available in public domain such as budget documents extracted from the website of Finance Ministry. Even though every care is exercised to present this note in an error- free manner, we assume no responsibility for any errors/omissions or otherwise for any loss which may be sustained by anyone by relying upon the same.

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PERSONAL INCOME TAX:

- (i) The Finance Bill 2025 proposes Personal Income-tax reforms with special focus on middle class.

Substantial relief is proposed under the new tax regime with new slabs and tax rates as under:

Total income	Rate of tax
Up to 4,00,000	Nil
From 4,00,001 to 8,00,000	5 per cent
From 8,00,001 to 12,00,000	10 per cent
From 12,00,001 to 16,00,000	15 per cent
From 16,00,001 to 20,00,000	20 per cent
From 20,00,001 to 24,00,000	25 per cent
Above 24,00,000	30 per cent

Marginal Relief: It shall be available so that tax payable does not exceed income exceeding Rs 12 Lakhs marginally. The marginal relief will not apply to income over ₹12.75 lakh.

Let's see how much tax one has to pay with or without marginal relief on incomes of ₹12.1 lakh, ₹12.5 lakh, and ₹12.7 lakh, according to FAQ's released by CBDT.

Income(Rs)	Tax Payable without marginal relief (Rs)	Tax Payable with marginal relief (Rs)
12,10,000	61,500	10,000
12,50,000	67,500	50,000
12,70,000	70,500	70,000
12,75,000	71,250	71,250 [No marginal relief]

(ii) Rebate under Section 87A

It is proposed to increase rebate from Rs. 25,000 to Rs. 60,000 under Section 87A, for an **individual resident** whose income is chargeable under New Regime. It is further clarified that such rebate of income tax is not available on tax on incomes chargeable at special rates (e.g. capital gains u/s 111A, 112 etc.)

(iii) Increase in Limits on Income of Employees for Calculating Perquisites:

The amenities and benefits (in general) received by employees with a salary below certain limit (presently Rs. 50,000) would be exempt from being treated as perquisite, and expenditure incurred by the employer for travel outside India on the medical treatment of an employee with a salary below a certain limit, or for his family member would not be treated as a perquisite. The rules are to be prescribed by the Central Government.

(iv) Rationalization of Redemption of Unit Linked Insurance Policy:

- The sum received under a life insurance policy, including bonus on such policy is exempt. However, said exemption is not applicable to any unit linked insurance policy (ULIP) or policies issued on or after February 1, 2021, if the amount of premium or aggregate amount of premium payable during the term of such policy or policies exceeds Rs. 2.5 Lakhs.
- Such ULIPs (to which exemption under Section 10(10D) does not apply), is a capital asset; The profit and gains from the redemption of such ULIPs shall be charged to tax as capital gains. Such ULIPs shall be included in the definition of equity-oriented fund as per Section 112A(a).

(v) Exemption to Withdrawals by Individuals from National Savings Scheme from Taxation:

- A recent 2024 notification has clarified that no interest will be paid on NSS balances after October 1, 2024.
- Hence it is now clarified that withdrawals made on or after 29th August, 2024 shall be exempted.

NON RESIDENTS

(vi) Significant Economic Presence applicability with Business Connection:

- Section 9 specifies the incomes that are deemed to accrue or arise in India. It specifically applies to incomes that are deemed to accrue or arise to foreign entities or non-residents in India.
- Amendment now provides that the transactions or activities of a non-resident in India which are confined to the **purchase of goods in India for the purpose of export shall not constitute significant economic presence** of such non-resident in India.

(vii) Scheme of Presumptive Taxation Extended for Non-Resident providing for Electronics Manufacturing Facility

Scheme is now extended to the non-resident, providing services or technology to a resident company which is engaged in electronics manufacturing facility including semi-conductor fabrication in India. 25% of the aggregate amount received/ receivable by, or paid/ payable shall be deemed as profits and gains of such non-resident from this business.

(viii) Rationalization of Capital Gains Tax for Non-Residents

- Presently, the tax rate for income by way of long-term capital gains on transfer of securities (other than units referred to in section 115AB) by a specified fund or Foreign Institutional Investor (FIIs) that are not covered under Section 112A is 10%.
- Such securities will be **now taxable @ 12.5%**

TDS, TCS, ETC

(ix) Rationalization of tax deducted at source (TDS) and tax collected at source (TCS):

TDS provisions have various thresholds of amount of payment or amount of income, beyond which tax is required be deducted.

It is proposed to revise certain rates to deduct tax at source or collect tax at source under certain sections, as below:

No	Section of the Act	Present TDS/TCS	Proposed TDS/TCS Rate
1.	Section 194LBC - Income in respect of investment in securitization trust	25% if payee is Individual or HUF and 30% otherwise	10%
2.	Sub-section (1) of section 206C (i) TCS on timber or any other forest produce (not being tendu leaves) obtained under a forest lease and (ii) TCS on timber obtained by any mode other than under a forest lease	2.5%	2%
3.	Sub-section (1G) of section 206C - TCS on remittance under LRS for purpose of education, financed by loan from financial institution.	0.5% after 7 lakhs	Nil

It is further proposed to increase certain thresholds for requirement to deduct tax at source or collect tax at source under certain sections, as below:

No	Section of the Act	Present TDS /TCS Threshold (Rs)	Proposed TDS /TCS Threshold (Rs)
1	193 - Interest on securities	Nil	10,000/-
2	194A- Interest other than Interest on Securities	(i) 50,000/- for senior citizen; (ii) 40,000/- in case of others when payer is bank, cooperative society and post office (iii) 5,000/- in other cases	(i) 1,00,000/- for senior citizen (ii) 50,000/- in case of others when payer is bank, cooperative society and post office (iii) 10,000/- in other cases
3	194 - Dividend, for an individual shareholder	5,000/-	10,000/-
4	194K - Income in respect of units of a mutual fund or specified company or undertaking	5,000/-	10,000/-
5	194B - Winnings from lottery, crossword puzzle etc.	Aggregate of amounts exceeding 10,000/- during the financial year	10,000/- in respect of a single transaction
6	194BB - Winnings from horse race	Aggregate of amounts exceeding 10,000/-	10,000/- in respect of a single transaction

No	Section of the Act	Present TDS /TCS Threshold (Rs)	Proposed TDS /TCS Threshold (Rs)
		during the financial year	
7	194D - Insurance commission	15,000/-	20,000/-
8	194G - Income by way of commission, prize etc. on lottery tickets	15,000/-	20,000/-
9	194H - Commission or brokerage	15,000/-	20,000/-
10	194-I Rent	2,40,000/- during the financial year	50,000/- per month or part of a month
11	194J - Fee for professional or technical services	30,000/-	50,000/-
12	194LA - Income by way of enhanced compensation	2,50,000/-	5,00,000/-
13	206C(1G) - Remittance under LRS and overseas tour program package	7,00,000/-	10,00,000/-

(x) Removal of Higher TDS/TCS for Non-filers of Return of Income:

- Relevant provisions required deduction of tax at higher rate when the deductee is a non-filer of income-tax return.
- Similarly, relevant provisions require for collection of tax at higher rate when the collectee is a non-filer of income-tax return.
- Henceforth non-filers shall not be liable to enhanced TDS/ TCS deductions.

(xi) Decriminalization of Delayed TCS Payment:

It is now provided that the prosecution shall not be instituted against a person covered if the payment of the tax collected at source has been made to the credit of the Central Government at any time on or before the time prescribed for filing the quarterly statement in respect of such payment.

PENALTIES

(xii) Time Limit to Impose Penalties:

- The existing provisions provide for the bar of limitation for imposing penalties and are having multiple timelines for imposition of penalties in various cases such as appeal before the ITAT or JCIT(Appeal) or Commissioner (Appeal). This makes it difficult to keep track of multiple time barring dates for effective and efficient tax administration.
- It is now clarified that order imposing a penalty shall not be passed after the expiry of six months from the end of the quarter in which the connected proceedings are completed, or the order of appeal is received by the jurisdictional Principal Commissioner or Commissioner, or the order of revision is passed, or the notice for imposition of penalty is issued, as the case maybe.
- Consequential amendments are proposed to Section 246A to update reference of the amended section 275.

(xiii) Rationalization of Penalties Levied:

Empowering AO to levy penalty in certain cases

- As per the current provisions, penalty under sections enumerated below could be levied by the JCIT, even though the assessment in such cases were being made by the AO.
- Henceforth sections 271C, 271CA, 271D, 271DA, 271DB and 271E empower the AO to levy the penalty in place of JCIT, subject to the provisions of Section 274(2). The proposed amendment provides that the AO shall take the prior

approval of JCIT for the passing of penalty order, where penalty amount exceeds the limit as specified in Section 274(2).

Extension of Processing Period for Immunity Application for Penalty and Prosecution

The processing period shall be **three months** from the end of the month in which application for immunity u/s 270AA is received by the AO instead of one month from the end of the month.

UPDATED RETURN

(xiv) Extension of Time-Limit for Filing Updated Return:

Time limit is extended to file the updated return from existing 24 months to 48 months from the end of relevant AY.

Here's a table summarizing the additional income tax payable based on the period after the expiry of the 24-month window for filing an updated return

Period	Additional Income-Tax Payable
After expiry of 24 months and up to 36 months from the end of the relevant AY	60% of the aggregate tax and interest payable
After expiry of 36 months and up to 48 months from the end of the relevant AY	70% of the aggregate tax and interest payable

No updated return shall be furnished by any person where any notice to show-cause under section 148A has been issued in his case after thirty-six months from the end of the relevant AY. However, where subsequently an order is passed under Section 148A (3) determining that it is not a fit case to issue notice under section 148, updated return may be filed up to 48 months from the end of the relevant AY.

CHARITABLE TRUSTS

(xv) Rationalization of provisions related to trusts and institutions:

- “Specified violation” inter alia means the cases where the application made for registration is not complete or it contains false or incorrect information.
- Even minor default, where the application is not complete, may lead to cancellation of registration of trust or institution, and such trust or institution becomes liable to tax on accreted income.
- It is now provided that the situations where the application for registration of trust or institution is not complete, it shall not be treated as specified violation and **registration shall not be cancelled**.

(xvi) Period of Registration of Smaller Trusts or Institutions:

- Presently act provides registration of trust or institution for a period of 5 years or provisional registration (where activities have not commenced at the time of filing application for registration) for a period of 3 years. At the expiry of such registration or provisional registration, the trust or institution is required to make application for further registration.
- In order to reduce the compliance burden for smaller trusts or institutions, it is proposed to increase the period of validity of registration of trust or institution from 5 years to 10 years. This will apply to trust or institution whose total income (without giving effect to the provisions of sections 11 and 12) does not exceed Rs. 5 Cr. during each of the two previous years, preceding to the previous year in which such application is made.

(xvii) Rationalization of Persons Specified under Section 13(3) for Trusts or Institutions:

- Act provides that if any income of trust or institution is applied for the benefit of a 'specified person' or his relative or the concern in which he has substantial interest, such application shall not be allowed under Section 11 and 12.
- Specified person also includes a person who has contributed an amount of Rs 50,000 in aggregate, (up to the end of the previous year) to the trust.
- It is now clarified that threshold limit for considering a contribution as 'substantial contribution' to the trust or institution has been changed from total contribution exceeding Rs 50,000 up to the end of the relevant previous year to Rs. 1 lakh during the relevant previous year, or exceeding Rs. 10 lakhs in aggregate up to the end of the relevant previous year.

MISCELLANEOUS

(xviii) Income from House property:

Annual Value of the Self-Occupied Property Simplified

- Act presently provides that the annual value of the property consisting of a house or any part thereof shall be taken as Nil, if the owner occupies it for his own residence or cannot actually occupy due to business or employment or profession.
- The additional condition of not being able to reside therein due to business or employment or profession has been done away with.

(xix) Rationalization of Provisions related to Carry Forward of Losses in Amalgamation:

- Section 72A and 72AA provide provisions relating to carry forward and set-off of accumulated loss and unabsorbed depreciation allowance in cases of amalgamation or business reorganization.
- To provide clarity and parity to Section, it is now proposed to amend section 72A and section 72AA to provide that any loss forming part of the accumulated loss of the predecessor entity, which is deemed to be the loss of the successor entity, shall be eligible to be carried forward for not more than 8 assessment years immediately succeeding the assessment year for which such loss was first computed for original predecessor entity.
- The proposed amendment is aimed to prevent ever greening of the losses of the predecessor entity resulting from successive amalgamations and also to ensure that no carry forward and set off of accumulated loss is allowed after 8 assessment years from the immediately succeeding assessment year for which such loss was first computed for original predecessor entity.

GOODS AND SERVICES TAX (GST):

KEY CHANGES ARE AS UNDER:

(i) Input Service Distributor:

- Definition of Input Service Distributor is amended to explicitly provide for distribution of input tax credit in respect of inter-state supplies on which tax has to be paid on reverse charge basis.
- This amendment is effective from 1st April, 2025.

(ii) Input Tax Credit (ITC):

Term 'plant or machinery' proposed to be amended to 'plant and machinery' in section 17(5)(d) of CGST Act relating to Blocked Credit. This amendment is retrospective w.e.f from 1st July, 2017 resulting in nullifying the recent judgment of Supreme Court in Safari Retreats Pvt. Ltd. Above amendment removes ambiguity in interpretation and ITC will be available only if it is "Plant and Machinery". However retrospective amendment may create unintended hardships to the tax payers.

(iii) Returns:

Section 38 deals with Communication of details of inward supplies and input tax credit. The aforesaid section is amended to make it more inclusive and give legal validity to Invoice Management System introduced w.e.f. 1st October, 2024. Enabling clause inserted for prescribing conditions and restriction for filing of GST return.

(iv) Credit Notes:

Tax Liability of the supplier in respect of the credit note will be reduced only if in case of a registered recipient there is a reversal of corresponding input tax credit.

(v) 10% Pre-deposit for Appeal involving only Penalty:

In order to file appeal before the Appellate authority, in cases involving only demand of penalty without any demand for tax there is a requirement of 10% mandatory pre-deposit of penalty amount. Similar proposal of 10% mandatory pre-deposit is also brought in respect of filing appeal before the Appellate Tribunal.