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Tax Alert - Key announcements
of Union Budget 2025



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Union BUDGET 2025-26

Greener Push to Automobile Sector | Driven by Boost to Private Consumption



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Presenting the Union Budget 2025, the Finance Minister highlighted a strategic push for the EV industry, focusing on enhancing both supply and demand. The Government's commitment to indigenous manufacturing is clear from substantial allocation of funds to various schemes like PM-E Drive, Auto PLI and ACC PLI. Personal income tax relaxations aim to boost private consumption, complementing these supply-side measures.

Customs reforms include exempting Basic Customs Duty (BCD) on lithium-ion battery scrap and critical minerals like lead, copper, etc ensuring a steady supply for local production and job creation. To further support the EV sector, BCD exemptions have been granted to additional capital goods to bolster lithium-ion battery production.

Additionally, the government proposed a reduction in BCD on motorcycles (including CKD and SKD), CKD and SKD of specified large passenger vehicles and motor vehicles for transportation of goods, to provide quality product at affordable price to the Indian consumer.

Amidst global competition, particularly from neighbouring countries, these initiatives are poised to enhance India's self-sufficiency in the automotive sector which is in line with the 'Atmanirbhar Bharat' vision of the Hon'ble Prime Minister.

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How does the budget impact Automotive sector?

- Proposal has been made to lower individual income tax rates which is likely to boost the purchasing power of the middle class, thereby expanding their capacity for non-essential expenditures.
- The Government has proposed an expenditure of INR 7,000 Cr+ in various centrally sponsored schemes such as PM E-Drive (INR 4,500 Cr.), Auto PLI (INR 2,818 Cr.), ACC PLI (INR 155 Cr.) and SMEC (INR 12 Cr.).
- The Budget has updated the parameters for identifying Micro, Small, and Medium Enterprises (MSMEs) by raising the thresholds for investment and turnover. This adjustment allows a wider spectrum of automotive component producers to be recognized as MSMEs.
- The government has strategically proposed a presumptive taxation system for non-residents who establish or manage electronics manufacturing plants, coupled with a safe harbour rule that provides tax predictability for non-residents who stockpile parts for specified electronics producers. Through fostering a more advantageous tax landscape, the aim is to encourage the transfer of cutting-edge technology and know-how into the auto electronics manufacturing sector.
- To promote indigenous manufacturing, custom duty rate rationalisation has been proposed for automotive sector.
- Proposed simplification of the tax deduction at source ('TDS') provisions and increasing the thresholds of certain TDS rates will help in reducing compliance burden of the taxpayers.

Key amendments in Direct Tax

- Presumptive taxation regime proposed to be introduced for non-residents providing technology and support services to electronics manufacturing facilities in India will significantly reduce the tax burden, encouraging global players to invest in the Indian automotive sector's electronic components and systems
- In case of amalgamation or specified reorganisation, fresh carry forward life of 8 years currently available to successor entity for the business losses of predecessor entity is now proposed to be restricted to 8 years from the initial year in which predecessor entity had computed such losses
- Simplification and rationalization of TDS provisions
 - Following key thresholds for applicability of TDS rates are proposed to be increased:

Section	Current threshold (INR)	Proposed threshold (INR)
193: Interest on securities	NIL	10,000
194A: Interest other than interest on securities (for payer other than banks, co-operative societies and post office)	5,000	10,000
194: Dividend for an individual shareholder	5,000	10,000
194H: Commission or brokerage	15,000	20,000
194-I: Rent	2,40,000 during financial year	50,000 per month or a part of the month
194J - Fees for professional or technical services	30,000	50,000

- The higher TDS/TCS rate for non-filers of income tax returns is proposed to be not applicable. This amendment will be effective from 1 April 2025.
- The provision related to tax collection at source on the sale of goods is proposed to be not applicable. This amendment will be effective from 1 April 2025. This will reduce the burden on the seller to ensure whether the buyer is deducting tax at source.
- The reclassification of MSMEs with higher investment and turnover thresholds will provide greater access to financial incentives and support for automotive component manufacturers, fostering growth and innovation in the sector.

Key legislative changes in Indirect Tax

Customs

- Section 18 has been amended to provide for a timeline of two years for finalisation of provisional assessment. This period can be extended by Commission of Customs for a further period of one year if sufficient cause is shown. For pending provisionally assessed BEs period of 2 years will be reckoned from date of assent of Finance Bill. This period of 2 year will not apply in following cases:
 - Where appeal is pending before CESTAT/High Court/Supreme Court;
 - An interim order of stay has been issued by Appellant Authorities;
 - Board has passed direction for keeping matter pending;
 - Matter pending before Settlement Commissioner; or
 - Information asked by Government from Authority outside India through legal process (i.e. FTA etc)
- Section 18A is inserted to provide for voluntary revision of bill of entry/Shipping Bills post clearance. Hence now importer/exporter can revise the assessment and differential duty with interest can be paid or refund can be claimed. We understand time and manner for such amendment will be prescribe by issuing Rules once this Finance Bill gets assent.
- The period of refund claim consequent to revised entry under Section 149 or 18A shall be one year from the date of payment of duty or interest. There seems some ambiguity as refund period of 1 year should apply after the date of amendment and not date of payment of duty.
- The IGCR Rules have been amended to increase the time limit from 6 months to 1 year for fulfilling end use. Also, the periodicity for IGCR compliances has been changed to Quarterly Return (from existing monthly compliances).

GST


- The phrase "plant or machinery" has been replaced with "plant and machinery" retrospectively in Section 17(5)(d) of the CGST Act 2017 to nullify the effect of the Apex Court decision in the case of Safari Retreats.
- Supply of goods warehoused in SEZ or FTWZ to any person, before clearance for exports or to the DTA shall be treated neither supply of goods nor as supply of services retrospectively.
- Reduction in liability on credit note not permitted if ITC availed has not been reversed by the recipient or tax incidence has been passed on to any other person.
- A pre-deposit of 10% of penalty amount is required for filing appeal before First Appellate Authority and GST Appellate Tribunal in case where the order involves only penalty.

Key Amendments in Customs Tariff

- Peak Rate of Basic Customs Duty (BCD) is kept at 10%.
- Towards tariff rationalisation, now 7 more tariff rates have been removed from Customs Tariff. Now only 8 tariff rates are left in Indian Customs Tariff including zero rate.
- With an objective of levying more than one cess or surcharge, the Government has exempted SWS on 82 tariff lines covering motor-cycles (CTH 8711), Semi-conductor devices (CTH 8541), laboratory chemicals (CTH 9802), electricity meter (CTH 9028) etc . This is also a relief to the industry.
- Specific tariff duty changes are summarised as below:
- **Decrease in Tariff rate (With effect from 01 May 2025) with no change in Effective rate [With effect from 02 February 2025]**

S. No.	Commodity	BCD Tariff Rate		Effective Rate of Custom Duty		Overall change in Effective Rate
		From (per cent)	To (per cent)	From (per cent)	To (per cent)	
1	Motor cars and other motor vehicles principally designed for the transport of persons, including station wagons and racing cars, under tariff heading 8703 more than USD 40000	125	70	100 BCD + 10 SWS	70 BCD + 40 AIDC	No change
2	Used Motor cars and other motor vehicles (excluding electrically operated vehicles) principally designed for the transport of persons, including station wagons and racing cars, under tariff heading 8703	125	70	125 BCD + 12.5 SWS	70 BCD + 67.5 AIDC	No change
3	Used Motorcycles (including mopeds) and cycles fitted with an auxiliary motor, with or without side-cars under tariff heading 8711	100	70	100 BCD + 10 SWS	70 BCD + 40 AIDC	No change
4	Bicycles under tariff item 8712 00 10	35	20	35 BCD	20 BCD + 15 AIDC	No change
5	Other Motor vehicles (for goods/passengers) covered under tariff heading 8704/8702 when not imported as CKD kits	40	20	40 BCD	20 BCD + 20 AIDC	No change

- **Decrease in effective rate [With effect from 02 February 2025]**

S. No.	Commodity	Effective Rate of Custom Duty		Overall change in Effective Rate
		From (per cent)	To (per cent)	
1	Motor vehicles (for goods/passengers) covered under tariff heading 8704/8702, if imported, - as a Completely Knocked Down (CKD) kit containing all the necessary components, parts or sub-assemblies, for assembling a complete vehicle with specified components: (a) not in a pre-assembled condition or interconnected, as the case may be; (b) in a pre-assembled condition or interconnected, as the case may be, but not mounted on a chassis or a body assembly	15 BCD + 1.5 SWS 25 BCD + 2.5 SWS	15 BCD 20 BCD + 5 AIDC	

Key Amendments in Customs Tariff

- Decrease in effective rate [With effect from 02 February 2025]

S. No.	Commodity	Effective Rate of Custom Duty		Overall change in Effective Rate
		From (per cent)	To (per cent)	
2	(A) Motor cycles (including mopeds) and cycles fitted with an auxiliary motor (excluding electrically operated motor cycles and cycles), with or without side cars, and side cars, new, which have not been registered anywhere prior to importation and with engine capacity of not exceeding 1600 cc -			↓
	(1) as a completely knocked down kit containing all the necessary components, parts or sub-assemblies, for assembling a complete vehicle, with-			
	(a) engine, gearbox and transmission mechanism not in a pre-assembled condition;	15 BCD + 1.5 (SWS)	10 BCD + 1 (SWS)	
	(a) engine or gearbox or transmission mechanism in pre-assembled form, not mounted on a body assembly;	25 BCD + 2.5 (SWS)	20 BCD + 2 (SWS)	
	(2) in a form other than (A)(1) above	50 BCD + 5 (SWS)	40 BCD + 4 (SWS)	
3	(B) Motor cycles (including mopeds) and cycles fitted with an auxiliary motor (excluding electrically operated motor cycles and cycles), with or without side cars, and side cars, new, which have not been registered anywhere prior to importation and with engine capacity of 1600 cc and above -			↓
	(1) as a completely knocked down kit containing all the necessary components, parts or sub-assemblies, for assembling a complete vehicle, with			
	(a) engine, gearbox and transmission mechanism not in a pre-assembled condition;	15 BCD+ 1.5 (SWS)	10 BCD + 1 (SWS)	
	(b) engine or gearbox or transmission mechanism in pre-assembled form, not mounted on a body assembly;	25 BCD + 2.5 (SWS)	20 BCD + 2 (SWS)	
	(2) in a form other than (B)(1) above	50 BCD + 5 (SWS)	30 BCD + 3 (SWS)	

- Reduction in customs duty to reduce input costs, deepen value addition, promote export competitiveness, correct inverted duty structure, boost domestic manufacturing etc [with effect from 02 February 2025]

S. No.	Commodity	Effective Rate of Custom Duty		Overall change in Effective Rate
		From (per cent)	To (per cent)	
1	Waste and scrap of Antimony, Beryllium, Bismuth, Cobalt, Cadmium, Molybdenum, Rhenium, Tantalum, Tin, Tungsten, Zirconium, Copper scrap covered under tariff items 74040012, 74040019 and 74040022	10/ 5/ 2.5 BCD	Nil	↓
2	Waste and scrap of Lithium-Ion Battery, Cobalt powder, waste and scrap of Lead, Waste and scrap Zinc	5 BCD	Nil	↓
3	Addition of 35 capital goods/machinery for use in the manufacture of lithium-ion battery of EVs and 28 capital goods/machinery for use in the manufacture of lithium-ion battery of mobile phones	7.5 to 15 BCD	Nil	↓

Glossary

CBDT - Central Board of Direct Taxes

EGR - Electronic Gold Receipts

FB - Finance Bill

MAT - Minimum Alternate Tax

MSME - Micro, Small and Medium Enterprise

MSME Act- Micro, Small and Medium Enterprise Development Act 2006

NR - Non-resident

ITL - Income Tax Act 1961 read with Income Tax Rules 1962

PE - Permanent Establishment

WHT - Withholding taxes

AIDC - Agriculture Infrastructure and Development Cess

BCD - Basic Customs Duty

CESTAT - Customs, Excise and Service Tax Appellate Tribunal

CGST Act - Central Goods and Services Tax Act, 2017

GST - Goods and Services Tax

IGST - Integrated Goods and Services Tax

ITC - Input Tax Credit

SWS - Social Welfare Surcharge

APA - Advance Pricing Agreement

FRBM - Fiscal Responsibility and Budget Management

Gol - Government of India

GST - Goods and Services Tax

GTR - Gross tax revenues

IPD - Implicit price deflator

CIT(A) - Commissioner of Income Tax (Appeals)

SDT - Specified Domestic Transaction

TP - Transfer Pricing

TPO - Transfer Pricing Officer



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