1 February 2025

Tax Alert - Key announcements of Union Budget 2025

Shape the future with confidence

Policy and tax reforms impacting the Financial Services sector

Keyur Shah

Partner - Financial Services Tax Leader

The FY25-26 Union Budget presented by the Indian Finance Minister continues the Government's efforts to catalyse economic expansion, provide inclusive development, stimulate private sector participation, boost consumer confidence, and augment the purchasing capacity of India's burgeoning middle class.

The following are the key changes/ initiatives proposed to the Financial sector:

- FDI limits for insurance sector to be raised from 74% to 100% subject to companies investing entire premium in India; current FDI guardrails and conditionalities to be reviewed and simplified
- KYC process to be simplified; revamped Central KYC Registry to be rolled out in 2025
- Forum for regulatory co-ordination and development of pension products to be instituted

From a direct taxes standpoint, the proposals seek to reform the personal income-tax especially for the middle class, rationalising TDS/ TCS provisions for easing difficulties, reducing compliance burden and taking further measures to enable ease of doing business. Further, the Budget aims to carry forward the spirit of 'Bharatiya Nyaya Sanhita' in the new Income-Tax Bill, proposed to be introduced next week in Parliament, to provide tax certainty and reduce litigation.

The indirect tax budget proposals aim to rationalise customs tariff structure to support 'Make in India' initiative, promote exports and introduce several enabling provisions in law for implementation of Input Service Distributor mechanism and Invoice Management System facility for GST compliances.

#EYonBudget2025

How does the budget impact Financial Services sector?

Key Policy Proposals

- FDI limits for insurance sector to be raised from 74% to 100% subject to companies investing entire premium in India. The current guardrails and conditionalities associated with foreign investment will be reviewed and simplified.
- To implement the earlier announcement on simplifying the KYC process, revamped Central KYC Registry to be rolled out in 2025.
- Forum for regulatory co-ordination and development of pension products to be instituted.
- Under the Financial Stability and Development Council, mechanism for evaluating the impact of current financial regulations and formulating a framework to enhance their responsiveness to be set up.
- Bilateral Investment Treaties to be revamped and made more investment friendly.
- High-Level Committee for Regulatory Reforms to be set up for review of all non-financial sector regulations, certifications, licenses and permissions.
- Government to contribute INR10,000 crore to a new Fund of Fund aimed at enhancing AIFs for startups.

Highlights

Extension of sunset clauses for IFSC units

74% → 100%

FDI Limit - Insurance Sector

AIF for Startups
INR10,000 crore

Key tax proposals

- **Exemption to Non-residents entering into derivative transaction with FPI being a unit in IFSC**
  - Currently, IT Act provides an exemption to non-residents in the case of transfer of NDF or ODI or OTC, or distribution of income on ODI. This exemption is limited to transactions entered into with an offshore banking unit in IFSC.
  - IFSCA vide Circular dated 3 May 2024 has permitted IFSC registered non-bank entities, registered with SEBI as FPIs, to issue derivative instruments with Indian securities as underlying, in IFSC. However, no tax exemption was granted to the counterparty i.e. non-resident entering into a derivative transaction with non-banking entities.
  - It is now proposed to exempt the income earned by non-residents entering into a derivative instruments issued by a FPI being an IFSC unit (subject to certain conditions to be prescribed).
  - This amendment is proposed to take effect from 1 April 2026.

- **Inclusion of Retail Schemes and ETFs in case of relocation to IFSC**
  - The IT Act provides for a tax neutral relocation of an offshore fund to the resultant fund set-up in IFSC, inter alia, exemption from capital gains to the offshore fund as well as the shareholder / unitholder.
  - The ‘resultant fund’ in IFSC is currently defined to only cover Category I or Category II or Category III Alternative Investment Fund located in IFSC.
  - The aforesaid definition of ‘resultant fund’ is expanded to also include ‘Retail Schemes’ and ‘ETFs’ in IFSC, allowing the tax neutral relocation of funds to IFSC.
  - This amendment is proposed to take effect from 1 April 2026.

- **Deemed dividend exemption for Treasury Centres in IFSC**
  - Currently, IT Act provides that a loan or advance paid by a closely held company to its shareholder or to a concern in which such a shareholder holds substantial interest, would be deemed to be regarded as dividend.
  - Relaxation is provided from aforesaid deemed dividend under IT Act in case of loan or advance between two group entities, where one of it is a Finance Company or Unit in IFSC set-up as Global / Regional Treasury Centre and undertaking treasury activities or services.
  - Additionally, the parent or principal entity of such group should be listed on a stock exchange outside India for availing the aforesaid exclusion.
  - This amendment is proposed to take effect from 1 April 2025.

- **Simplified regime for offshore fund manager in India (including IFSC)**
  - Currently, one of the condition to obtain safe harbour to manage an offshore fund from India is to ensure that the direct and indirect participation of residents is less than 5% of the corpus of such fund.
    - Given that there were difficulties in meeting with this condition on an ongoing basis, it is now proposed that this condition should be tested twice a year (on 1 April and 1 October).
    - Where the condition is not met on either of the above days, a further relaxation has been provided to fulfil the said condition within four months of the respective date.
  - Further, it is proposed that the power available with Central Government to provide relaxation by way of notification for the above condition shall no longer be available.
  - Additionally, the Central Government is permitted to relax any other condition for an eligible fund manager based in IFSC where the fund manager commenced operations on or before 31 March 2024.
  - The eligibility is now extended for any such relaxations to eligible fund managers that commence operations in IFSC on or before 31 March 2030.
  - This amendment will be effective from 1 April 2025.

- **Extension of sunset clause for various tax incentives in IFSC**

Section	Incentive applicable to	Sunset extension
10(4D)	Investment Division of non-resident IBU	The sunset clause for commencement of investment operations by such IBUs has been extended from 31 March 2025 to 31 March 2030
10(4F)	Tax exemption to IFSC unit from royalty/ interest by non-residents on leasing aircraft/ ship	The sunset clause for commencement of operations of such aircraft/ ship leasing IFSC units for the purpose of this exemption has been extended from 31 March 2025 to 31 March 2030
10(4H)	Capital gain tax exemption for non-resident	The sunset clause for commencement of operations of such aircraft leasing IFSC units for the purpose of this exemption has been extended from 31 March 2026 to 31 March 2030
80LA	Transfer of Asset by Aircraft / Ship leasing companies in IFSC	The sunset clause for commencement of operations of such aircraft/ship leasing IFSC units for the purpose of this exemption, has been extended from 31 March 2025 to 31 March 2030
9A	Fund managers in IFSC	The sunset clause for commencement of operations of such IFSC fund manager for the purpose of this exemption, has been extended from 31 March 2025 to 31 March 2030
47(viiad)	Tax neutral relocation of funds to IFSC	The sunset clause for transfer of assets for the purpose of this exemption, has been extended from 31 March 2025 to 31 March 2030

- **Tax incentives for ship leasing activities in IFSC**
  - Capital gains exemption proposed for non-resident shareholder or unit of IFSC engaged primarily in ship leasing, from the transfer of equity shares of domestic company, an IFSC unit engaged primarily in ship leasing. The capital gains eligible for exemption should occur within a period of 10 years from the date of commencement of operations of investee IFSC unit
  - Dividend paid by a unit of IFSC to a unit of IFSC engaged in ship leasing also proposed to be exempt.
  - This amendment is proposed to take effect from 1 April 2025.

- **Rationalisation of tax exemptions provided to SWFs and PFs**
  - Presently, an exemption is provided to notified SWFs and PFs on income, inter-alia, in the nature of dividend, interest and long-term capital gains arising from investments made in specified Indian infrastructure entities during the period 1 April 2020 to 31 March 2025, subject to meeting certain prescribed conditions.
  - However, gains on transfer of certain capital assets like unlisted debt securities were deemed to be short-term capital gains under section 50AA of the IT Act and such gains were taxable in the hands of SWFs and PFs.
  - It is proposed that such short-term capital gains under section 50AA of the IT Act are also exempt under section 10(23FE) of the IT Act.
  - This amendment will take effect from 1 April 2025.
  - Further, the time limit for making specified investments has been extended from 31 March 2025 to 31 March 2030.

- **Clarification on characterisation of income earned by AIF**
  - Currently, there is ambiguity in characterisation of income arising from transaction in securities as capital gain or business income for Investment fund (i.e. Category I and Category II AIFs).
  - In order to provide clarity, it is proposed to include securities held by an Investment fund (i.e. Category I and Category II AIFs) in accordance with the Securities Exchange Board of India regulations within the definition of capital assets and shall be taxable as capital gains.
  - This amendment will be effective from 1 April 2026.

- **Rationalisation of taxation of long-term capital gains for business trust**
  - Currently, the long-term capital gain on listed equity shares, equity-oriented mutual fund and units of business trust are taxable at maximum marginal rate in the hands of business trust and long-term capital gains on other assets are taxable at 12.5%[1].
  - To bring the parity with other tax payers, it is proposed to tax the long-term capital gains on above securities at the rate 12.5%[1] in excess of INR 1.25 lakhs.
  - This amendment will be effective from 1 April 2026.

- **Rationalisation of taxation of long-term capital gains for specified fund and FII**
  - Currently, long-term capital gains on assets other than listed equity shares, equity-oriented mutual fund and units of business trust are taxed at 10%[1] in the hands of specified funds and FIIs.
  - To achieve parity with other taxpayers, it is proposed that long-term capital gains on such assets be taxed at the rate of 12.5%[1].
  - This amendment will be effective from 1 April 2026.

[1] This rate it to be increased by applicable surcharge and cess.

- **Rationalisation of taxation of non-qualifying ULIP**
  - Currently, ULIPs where annual premium exceeds INR 2,50,000 per annum (High Value ULIPs) are treated as a capital asset. However, certain ULIPs not qualifying for exemption under section 10(10D) of the IT Act on account of the premium payable in a year exceeding 10%/ 20% (as applicable) of the sum assured (i.e. non-qualifying ULIPs) were hitherto not treated as capital asset.
  - It is now proposed to amend the definition of 'capital asset' to cover all types of ULIPs which are not eligible for exemption under section 10(10D) of the IT Act both on account of it being a High Value ULIPs as well as a non-qualifying ULIPs. Accordingly, all taxable ULIPs are now proposed to be taxed as capital gains.
  - Consequently, it has also been proposed to amend the definition of 'Equity Oriented Fund' to include all taxable ULIPs including non-qualifying ULIPs.
  - This amendment will be effective from 1 April 2026.

- **Rationalisation of carry forward of losses in case of amalgamation**
  - Currently, in case of specified amalgamation or business reorganisation, the accumulated loss of the predecessor entity is eligible to be carried forward and set-off for a fresh period of eight years from the previous year in which amalgamation or business reorgansiation is effected or brought into force.
  - It is proposed that such loss will be allowed to be carried forward by the successor company for eight assessment years from the assessment year in which such loss was first computed for the predecessor entity.
  - This amendment is applicable for amalgamation effected on or after 1 April 2026.

- **Extension in tax exemption for start-ups**
  - Currently, the profit-linked tax exemption was available for eligible start-ups incorporated prior to 1 April 2025.
  - It is now proposed to extend its applicability to start-ups incorporated on or before 31 March 2030.

- **Enhancement in scope of 'virtual digital asset' to include 'crypto-asset' and related amendments**
  - Scope of 'virtual digital assets' has been expanded to include 'crypto-assets' that rely on cryptographically secured distributed ledger to validate and secure transactions.
  - It has further been proposed to introduce reporting of crypto-asset transactions on an annual basis.
  - This amendment will take effect from the 1 April 2026.

- **Removal of higher rate of TDS/ TCS for non-filers of return of income**
  - Currently, TDS and TCS are applicable at higher rates where the deductee/ collectee is a non-filer of return of income.
  - It is proposed to omit these provisions requiring deduction/ collection of higher taxes.
  - This amendment is proposed to take effect from 1 April 2025.

- **Rationalisation of withholding tax rate where income is payable by securitisation trust to investors**
  - It is proposed to reduce withholding tax rate from 30% to 10% as this sector is sufficiently organised and regulated.
  - This amendment will take effect from the 1 April 2025.

- **Relaxation in applicability of TCS on foreign remittances**
  - It is proposed to increase the threshold for applicability of TCS from INR7 lakhs to INR10 lakhs on foreign remittances.
  - It is proposed to remove TCS where remittance is from loan obtained from financial institutions for pursuing education.
  - These amendments are proposed to take effect from 1 April 2025.

- **Exemption from prosecution for delayed payment of TCS**
  - Currently, prosecution applies in case of failure to pay TCS to the credit of Central Government.
  - It is proposed to provide relief from prosecution if payment of TCS is made on or before due date of filing of quarterly TCS return.
  - This amendment is proposed to take effect from 1 April 2025.

- **Rationalisation of TDS and TCS provisions on sale of specified goods**
  - Currently, sale of goods are subject to TDS as well as TCS provisions subject to certain conditions.
  - To facilitate ease of doing business and reduce compliance burden on the taxpayers, it is proposed to terminate applicability of TCS on sale of goods.
  - This amendment will be effective from 1 April 2025.

- **Rationalisation of withholding tax provisions**
  - It is proposed to increase the threshold for withholding taxes on certain payments, inter alia, as under:

Section	Nature of payment	Current threshold	Proposed threshold
193	Interest on securities		
	▪ On debentures issued by company in which public are substantially interested	5,000	10,000
	▪ In any other cases	NIL	10,000
194D	Insurance commission	15,000	20,000
194K	Income in respect of units of a mutual fund or specified company or undertaking	5,000	10,000
194A	Interest other than interest on securities		
	▪ Where payer is bank, cooperative society and post office		
	▪ ▪ For senior citizens	50,000	1,00,000
	▪ ▪ For others	40,000	50,000
	▪ In any other cases	5,000	10,000

  - This amendment will be effective from 1 April 2025.

Indirect Tax

- **Enabling legal provisions for IMS proposed in Act (date to be notified)**
  - IMS facility introduced by GSTN on 1 October 2024.
  - Process related provisions expected to be prescribed in GST Rules
  - Acceptance of credit note by recipient mandated to reduce output tax liability of the supplier
  - Filing of GSTR-3B to be restricted until GSTR-2B is finalised

- **Changes in ITC**
  - 'Input Service Distributor' now enabled to distribute ITC on all reverse charge transactions (from 1 April 2025)
  - Retrospective amendment introduced (from 1 July 2017) subsequent to Supreme Court ruling [Safari Retreats Pvt Ltd], term 'plant or machinery' proposed to be amended to 'plant and machinery' in section 17(5)(d) of CGST Act.

- **Other key proposals**
  - Requirement of 20% pre-deposit now extended to appeals against orders levying only penalty (date to be notified)
  - Rationalisation of tariff structure by reducing BCD and restricting only one cess or surcharge for goods (effective 2 February 2025)
  - Time limit of 2 years for finalization of provisional assessment (date to be notified)
  - Enabling provisions introduced for voluntary revision of import/export documents after clearance, including filing of revised customs liability (date to be notified)

Impact analysis

The Budget, with its clear focus on putting more cash in the hands of the citizens, provides an impetus to spending and stimulating growth. The changes proposed in relation to the IFSC are also welcomed, though this continues to be an unfinished agenda. The new Income-tax Bill should also, if it delivers on its promise of simplification and reduced litigation, will lead India to the path of 'Sabka Vikas'.

Glossary

AIF – Alternative Investment Funds

ETF - Exchange Traded Funds

FDI – Foreign Direct Investment

FII - Foreign Institutional Investors

FPI - Foreign Portfolio Investors

GSTN – The Goods and Service Tax Network

IFSC – International Financial Services Centre

IFSCA - International Financial Services Centres Authority

IMS - Invoice Management System

IT Act – Income-tax Act, 1961

ITC – Input Tax Credit

KYC – Know Your Customer

NDF - Non-Deliverable Forward Contracts

ODI - Offshore Derivative Instruments

OTC - Over The-Counter Derivatives

PF – Pension Fund

SEBI - Securities and Exchange Board of India

SWF – Sovereign Wealth Fund

TDS – Tax Deducted at Source

TCS – Tax Collected at Source

ULIP – Unit Linked Insurance Policy

Our offices

Ahmedabad

22nd Floor, B Wing, Privilon
Ambli BRT Road, Behind Iskcon Temple
Off SG Highway
Ahmedabad - 380 059
Tel: + 91 79 6608 3800

8th Floor, Building No. 14A
Block 14, Zone 1
Brigade International Financial Centre
GIFT City SEZ
Gandhinagar - 382355, Gujarat
Tel +91 79 6608 3800

Bengaluru

12th & 13th Floor
"UB City", Canberra Block
No.24 Vittal Mallya Road
Bengaluru - 560 001
Tel: + 91 80 6727 5000

Ground & 1st Floor
11, 'A' wing
Divyasree Chambers
Langford Town
Bengaluru - 560 025
Tel: + 91 80 6727 5000

3rd & 4th Floor
MARKSQUARE
#61, St. Mark's Road
Shantala Nagar
Bengaluru - 560 001
Tel: + 91 80 6727 5000

1st & 8th Floor, Tower A
Prestige Shantiniketan
Mahadevapura Post
Whitefield, Bengaluru - 560 048
Tel: + 91 80 6727 5000

Bhubaneswar

8th Floor, O-Hub, Tower A
Chandaka SEZ, Bhubaneswar
Odisha – 751024
Tel: + 91 674 274 4490

Chandigarh

Elante offices, Unit No. B-613 & 614
6th Floor, Plot No- 178-178A
Industrial & Business Park, Phase-I
Chandigarh - 160 002
Tel: + 91 172 6717800

Chennai

6th & 7th Floor, A Block,
Tidel Park, No.4, Rajiv Gandhi Salai
Taramani, Chennai - 600 113
Tel: + 91 44 6654 8100

Delhi NCR

Aikyam
Ground Floor
67, Institutional Area
Sector 44, Gurugram - 122 003
Haryana
Tel: + 91 124 443 4000

3rd & 6th Floor, Worldmark-1
IGI Airport Hospitality District
Aerocity, New Delhi - 110 037
Tel: + 91 11 4731 8000

4th & 5th Floor, Plot No 2B
Tower 2, Sector 126
Gautam Budh Nagar, U.P.
Noida - 201 304
Tel: + 91 120 671 7000

Hyderabad

THE SKYVIEW 10
18th Floor, "SOUTH LOBBY"
Survey No 83/1, Raidurgam
Hyderabad - 500 032
Tel: + 91 40 6736 2000

Jaipur

9th floor, Jewel of India
Horizon Tower, JLN Marg
Opp Jaipur Stock Exchange
Jaipur, Rajasthan - 302018

Kochi

9th Floor, ABAD Nucleus
NH-49, Maradu PO
Kochi - 682 304
Tel: + 91 484 433 4000

Kolkata

22 Camac Street
3rd Floor, Block 'C'
Kolkata - 700 016
Tel: +91 33 6615 3400

6th floor, Sector V,
Building Omega, Bengal Intelligent
Park, Salt Lake Electronics Complex,
Bidhan Nagar
Kolkata - 700 091
Tel: +91 33 6615 3400

Mumbai

14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (W), Mumbai - 400 028
Tel: + 91 22 6192 0000

5th Floor, Block B-2
Nirlon Knowledge Park
Off. Western Express Highway
Goregaon (E)
Mumbai - 400 063
Tel: + 91 22 6192 0000

3rd Floor, Unit No.301Building
No.1, Mindspace-GigaplexIT Park,
MIDC, Plot No. IT-5
Airoli Knowledge Park
Airoli West,
Navi Mumbai - 400 708
Tel: + 91 22 6192 0003

Altimus, 18th Floor
Pandurang Budhkar Marg
Worli, Mumbai - 400 018
Tel: +91 22 6192 0503

Pune

C-401, 4th Floor
Panchshil Tech Park, Yerwada
(Near Don Bosco School)
Pune - 411 006
Tel: + 91 20 4912 6000

10th Floor, Smartworks
M-Agile, Pan Card Club Road
Baner, Pune - 411 045
Tel: + 91 20 4912 6800

Ernst & Young LLP

EY | Building a better working world

EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

EY teams work across a full spectrum of services in assurance, consulting, tax, strategy and transactions. Fueled by sector insights, a globally connected, multi-disciplinary network and diverse ecosystem partners, EY teams can provide services in more than 150 countries and territories.

All in to shape the future with confidence.

ey.com/en_in

@EY_India EY EY India EY Careers India @ey_indiacareers