EY
Shape the future with confidence

Union BUDGET 2025-26

Infrastructure | Investing in the Economy

Being part of the 4 powerful engines towards destination of Viksit Bharat@2047

Ms. Neetu Vinayek

Partner & Leader, Infrastructure Sector,
Tax & Regulatory Services

In her 8th budget, the Honourable Finance Minister presents a strategic vision to propel India's economic growth, with a strong focus on infrastructure as a catalyst for the Viksit Bharat @2047. Despite global economic headwinds, India maintains its position as the fastest-growing major economy, with a GDP growth forecast between 6.3% and 6.8%, in line with IMF projections.

The government demonstrates its commitment to infrastructure with an allocation of INR11.21 lakh crore, building on the previous year's INR11.11 lakh crore. A new Asset Monetization Plan is set to unlock value from public assets, while a three-year pipeline for PPP projects will encourage private sector engagement.

Building on the theme of inclusive and economic development and better connectivity across India, the UDAN – Regional Connectivity Scheme aims to revolutionize air travel by adding 120 new destinations and targeting 4 crore passengers over the next decade. The 2025 budget also advances the Purvodaya vision (laid in the budget for 2024), with plans for new and expanded airports in Bihar to enhance connectivity in the eastern region. On the backbone of strong infrastructure, developing 50 top new tourist destinations sites along with world class facilities will further create employment led growth and boost domestic spent.

Towards growth and improving quality of life in rural areas, extension of the Jal Jeevan Mission to achieve 100 percent coverage until 2028 is in line with the theme of 'Sabka Vikas'. Balancing urban development through setting up of Urban Challenge Fund of INR 1 lakh crore will transform cities into growth hubs.

The fourth engine of growth i.e. Exports will require a strong supply chain system and availability of dedicated transportation vessels. Building a strong maritime ecosystem is the need of the hour. Setting up of Maritime Development Fund with INR 25,000 crore to foster private sector participation and expand maritime infrastructure is a step towards building **Atmanirbhar** Bharat.

These initiatives, along with policy announcements and tax proposals discussed in this alert, outline the government's integrated approach to fortifying India's infrastructure and setting the foundation for a resilient and progressive nation

How does the budget impact Infrastructure sector?

Key amendments

Direct Tax

- New Income Tax Bill (Bill 2025) to be placed in Parliament in the week of 3 February 2025
- No specific proposal on Pillar Two/ Global Minimum Tax implementation in India

Domestic and foreign companies

- No changes in tax rates proposed for domestic and foreign companies

Sunset date for commencement of operations by units in the IFSC engaged in lease of aircraft or ship:

- Currently, capital gain tax exemption is available to non-resident or a unit in the IFSC in connection with transfer of equity shares of a domestic company in the IFSC engaged in the business of leasing of aircrafts which commences operations on or before 31 March 2026
  - It is proposed that capital gain tax exemption is extended to non-resident or a unit in the IFSC in connection with transfer of shares of a domestic company (being a unit in the IFSC) primarily engaged in the business of ship leasing
  - Further the date of commencement of operations of such domestic company in the IFSC has been extended to on or before 31 March 2030
- Currently, dividend income of a unit in the IFSC engaged in the business of leasing of aircrafts from a company (being a unit in the IFSC) primarily engaged in the business of leasing of aircraft is exempt
  - It is proposed that dividend income of a unit in the IFSC engaged the business of leasing of ship from a company (being a unit in the IFSC) primarily engaged in the business of leasing of ship is exempt
- Currently, income of a non-resident by way of royalty or interest from aircraft or ship leasing from units in IFSC is exempt subject to commencement of operations by unit on or before 31 March 2025
  - The date of commencement of operations of such unit in the IFSC has been extended to on or before 31 March 2030
- Currently, the income from transfer of an asset, being an aircraft or a ship, transferred by a unit in IFSC engaged in leasing of such asset is eligible for tax holiday subject to commencement of operations on or before 31 March 2025
  - The date of commencement of operations of unit in the IFSC has been extended to on or before 31 March 2030

Highlights

INR 11.21 lakh crore

Allocated to capex for FY 2025-26

Second Asset Monetization Plan

INR 10 lakh crore

Tonnage tax scheme extended to Inland Vessels

INR 25,000 crore

Maritime Development Fund to be set-up

Rationalization of definition of 'dividend' for treasury centres in IFSC

- Borrowings by the corporate treasury centre in IFSC from any group entities could trigger deemed dividend provisions in the hands of the shareholders
- This amendment provides that any advance/ loan between two group entities shall not be treated as 'dividend' subject to the following:
  - One of the entity is a 'Finance company' or a 'Finance unit' in IFSC set up as global or regional corporate treasury centre and
  - The 'parent entity' or 'principal entity' is listed on stock exchange in a country outside India
- 'Group entity', 'principal entity' and 'parent entity' shall be such entities which satisfy such conditions as prescribed
- This amendment will be effective from 1 April 2025

Tax exemptions to Sovereign wealth fund (SWF) / Pension fund (PF)

- Currently, dividend, interest, any specified sum received by unit holders from business trust or long-term capital gains from equity or debt investment made on or after 1 April 2020 and before 31 March 2025 by SWF/ PF in India is exempt from tax. However, unlisted bonds and debentures are deemed as short-term capital asset. This results in capital gains from sale of such unlisted bonds and debentures taxable in the hands of SWF/PF
- It is proposed to extend the benefit of capital gain exemption to income from sale of unlisted bonds and debentures. This exemption is subject to satisfaction of existing conditions which, inter-alia, include holding such investment for at least 3 years.
- Further, sunset date for investment extended till 31 March 2030

Extension of Tonnage Tax Scheme (TTS) to inland vessels

- Currently, TTS is applicable only to ships registered under the Merchant Shipping Act, 1958
- TTS is extended to include Inland Vessels registered under the Inland Vessels Act, 2021
- This amendment will be effective from 1 April 2025

SEP provisions harmonised in line with existing business connection provisions

- Currently, income accruing or arising by a non-resident from purchase of goods in India for the purpose of export does not create any business connection in India and hence such a transaction is not liable to tax in India.
- However, a business connection can be created in India by a non-resident having a SEP on account of transaction, which *inter alia* includes goods, with any person in India does not specifically exclude the transaction of purchase of goods in India for export from the definition of SEP.
- A proviso is introduced to state that purchase of goods in India for the purpose of export shall not constitute SEP in India.
- This amendment will be effective from 1 April 2025

Taxation of capital gain in the hands of InvITs from sale of listed investments

- Currently, income of business trust other than income from short-term capital gain (under Section 111A), and long-term capital gain (under Section 112) is taxed at maximum marginal rate
- Now, it is proposed that long-term capital gain on sale of listed securities covered under Section 112A shall be taxable at specified rate of 12.5%. This amendment will be effective 1 April 2025

Rationalisation of provisions related to merger/ amalgamation

- Loss transitioned to successor entity pursuant to amalgamation or business re-organizations shall be available for carry forward and set-off for not more than eight years from the assessment year for which such loss was first computed for predecessor entity
- This amendment will apply to any amalgamation or business re-organisation which is effected on or after 1 April 2025

Rationalisation of TP provisions

- Currently, the TP audits are undertaken for each financial year on a standalone basis
- At the option of the taxpayer, TP assessments/ audits can be conducted in a block to cover a period of three financial years
- The transfer pricing officer must verify and declare if the taxpayer's option is valid, based on certain conditions and determine the arm's length price accordingly
- Safe harbour rules to be expanded to reduce litigation and provide certainty
- This amendment will be effective from 1 April 2025

Rationalisation of TDS threshold / rates on payments to resident payee (other than salaries)

	Existing	Proposed
Rates w.e.f. 1 April 2025:		
TDS on payment of income by securitization trust to resident individual and HUFs investors	25% for individual investors, and 30% for HUF investors	10%
Annual thresholds w.e.f. 1 April 2025 for resident payee:		
TDS on interest other than on securities	- INR 0.5 Lakh for senior citizen - INR 0.4 Lakh in other cases when payer is bank, cooperative society and post office - INR 0.05 Lakh in other cases	- INR 1 Lakh for senior citizen - INR 0.5 Lakh in other cases when payer is bank, cooperative society and post office - INR 0.1 Lakh in other cases
TDS on dividend to individual shareholders	INR 0.05 Lakh	INR 0.10 Lakh
TDS on insurance commission, or lottery commission or any other commission or brokerage	INR 0.15 Lakh	INR 0.20 Lakh
TDS on professional or technical services or royalty or non-compete fees	INR 0.30 Lakh	INR 0.50 Lakh
TDS on compensation for compulsory acquisition of immovable property	INR 2.5 Lakh	INR 5 Lakh
Other thresholds w.e.f. 1 April 2025:		
TDS on rent	INR 2.4 Lakh	INR 0.50 Lakh per month or part of the month

- Compliance burden on deductor to deduct tax at higher rate with respect to non-filers of return of income is removed with effect from 1 April 2025

Reduction in TCS compliance

- Currently, TDS is applicable on sale of goods at the rate of 0.1% where the aggregate purchase value exceeds INR50 lakh in any year. Where TDS is not deducted on such purchase of goods, TCS is applicable at the rate of 0.1% of the sale consideration exceeding INR 50 lakh. Owing to the difficulty in determining whether TDS provisions have been complied, the transaction was subject to both TDS and TCS. Now, TCS will not be applicable on sale of goods with effect from 1 April 2025
- Threshold for applicability of TCS for LRS remittance and overseas tour program package is increased from INR 7 lakh to INR 10 lakh per financial year
- Compliance burden on collector to collect tax at higher rate with respect to non-filers of return of income is removed with effect from 1 April 2025

Rationalization of prosecution provisions for delay in deposit of TCS

- Currently, the ITL contains prosecution provisions for delay in deposit of TCS within the prescribed time limit
- An exemption from such prosecution provisions has been introduced where TCS has been deposited on or before the due date for filing the TCS return for that quarter, similar to exemption provided for TDS
- This amendment will be effective from 1 April 2025

Extension of time-limit to file the updated return

- The time limit to file an updated tax return is extended to 5 years (as compared to 3 years) from the end of the financial year
  - An additional 60% tax is payable if filed after 3 years but within 4 years from the end of the financial year
  - An additional 70% tax payable if filed after 4 years but within 5 years from the end of the financial year
- This amendment will take effect from 1 April 2025

Indirect Tax

Customs

- Custom duty rates will be rationalised to further support the "Make in India" initiative
- Definitive timelines have been provided for finalisation of provisional assessment
- A new mechanism to be introduced for revision of entry post clearance of goods allowing importers and exporters to voluntarily revise any entry within a prescribed time.
- Initial period for re-export of railway goods imported into India for repairs extended from six months to 1 year, further extendable by one year (with effect from 2 February 2025)
- BCD exemption for import of below extended from 31 March 2025 to 31 March 2035 (with effect from 2 February 2025)
    - Vessels and other floating structures for breaking up
    - Raw materials, components, consumables or parts for use in the manufacture of ships and vessels

Goods and Services Tax (GST)

- Retrospective amendment introduced subsequent to Supreme Court ruling [Safari Retreats Pvt Ltd (2024 INSC 756, dated 3 October 2024)]
    - Term 'plant or machinery' proposed to be amended to 'plant and machinery' in section 17(5)(d) of CGST Act
- Enabling legal provisions for Invoice Management System ('IMS') proposed in Act from the date to be notified
    - IMS facility was introduced by GSTN on 1 October 2024 on optional basis while hard locking of the GSTR-3B on GSTN has been deferred
- Reduction in output tax liability of the supplier on issuance of credit note will not be permitted if input tax credit as is attributable to such credit note, if availed, has not been reversed by the registered recipient
- Other key GST proposals (date to be notified)
    - Requirement of pre-deposit (10% at First Appellate Authority and further 10% at GST Appellate Tribunal) now extended to appeals against orders levying only penalty
    - 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
    - Definition of 'Local fund' and 'Municipal fund' introduced to clarify scope of 'local authority
    - System prosed for 'Track and Trace Mechanism' requiring Unique Identification Marking on specified goods/ class of persons (date to be notified). Penalty of 10% of value of tax payable or INR 2 lakhs (whichever is higher) for failure to comply with track and trace mechanism

Policy

- Infrastructure related ministries in the Union Government to come up with a 3-year pipeline of projects that can be implemented in PPP mode. States will be encouraged to do the same and can seek support from the IIPDF to prepare PPP proposals
- INR1.5 lakh crore proposed as 50 year interest free loans to states for capital expenditure and incentives for reforms
- Second Plan for asset monetisation for 2025-30 to be launched to plough back capital of INR10 lakh crore in new projects
- Jal Jeevan Mission extended till 2028 focusing on quality infrastructure and rural piped water supply schemes
- Urban sector reforms related to governance, municipal services, urban land and planning to be incentivized
- Urban Challenge Fund of INR1 lakh crore announced to implement the proposals for 'Cities as Growth Hubs', 'Creative Redevelopment of Cities' and 'Water and Sanitation' as announced in the Interim Budget 2024. Allocation of INR 10,000 crore proposed for 2025-26.

- **Maritime Sector**
  - **Shipbuilding and shipbreaking**
    - Shipbuilding Financial Assistance Policy to be revamped
    - Shipbreaking Credit Note Policy will support ship recyclers based on the scrap value of vessels
    - HML to include large ships exceeding a specified size
    - Shipbuilding Clusters will be facilitated to increase the range, categories and capacity of ships
  - Maritime Development Fund with a corpus of INR 25,000 crore to be set up with contribution by the Government, ports and private sector
- **Aviation sector**
  - UDAN – Regional Connectivity Scheme to aim at enhancing regional connectivity to 120 new destinations and carry 4 crore passengers in the next 10 years
  - Scheme will also support helipads and smaller airports in hilly, aspirational, and North East region districts
  - Greenfield airports to be facilitated in Bihar to meet future requirement of the state
  - To facilitate upgradation of infrastructure and warehousing for air cargo
- Access to relevant data and maps from the PM Gati Shakti portal will be provided to private sector in project planning
- NaBFID will set up a 'Partial Credit Enhancement Facility' for corporate bonds for infrastructure
- Requirements and procedures for speedy approval of company mergers including scope for fast-track mergers to be widened and rationalized

Impact analysis

The Hon'ble Finance Minister has acknowledged investment in economy as one of the vital engine for development of the country. Key reforms, including the Asset Monetization Plan 2.0, a three-year PPP project pipeline and an overhaul of existing model of Bilateral Investment Treaties, are forward looking measures designed to draw private sector investment and boost government liquidity for funding new projects. The above reforms are aligned to achieve the objective of continued step-up of investment in the sector as stated in the Economic Survey (2024-25). Further, the initiative to launch of a National Framework for Global Capability Centers, alongside efforts to promote tourism with support from states and the private sector, is expected to lift the nation's GDP and drive job creation, with a focus on equipping the youth with necessary skills. Lastly, tax proposals for the maritime sector shall help in strengthening India's competitiveness globally and encourage domestic participation in coastal shipping. Overall, the proposals are designed to develop 'India First' ethos by attracting private sector investment, accelerating growth and creating skilled workforce.

Glossary

CD – Basic Customs Duty

CGST Act – Central Goods and Services Tax Act, 2017

DTA- Domestic Tarif Area

FTWZ- Free Trade Warehousing Zone

GDP- Gross Domestic Product

GST- Goods and Services Tax Act, 2017

GSTN - Goods and Services Tax Network

HML - Infrastructure Harmonized Master List

HUF - Hindu Undivided Family

IFSC- International Financial Services Centre

IIPDF - India Infrastructure Project Development Fund

IMF- The International Monetary Fund

InvIT – Infrastructure Investment Trust

ITL – Income-tax Act, 1961 read with Income-tax Rules, 1962

LRS- Liberalised Remittance Scheme

NaBFID - National Bank for Financing Infrastructure and Development

NR- Non-resident

PF - Pension fund

PPP – Public-Private Partnership

SEP – Significant Economic Presence

SEZ- Special Economic Zone

SWF - Sovereign Wealth Fund

TCS - Tax Collected at Source

TDS - Tax Deducted at Source

TP – Transfer Pricing

TTS – Tax Tonnage Scheme

UDAN - Ude Desh ka Aam Nagrik

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