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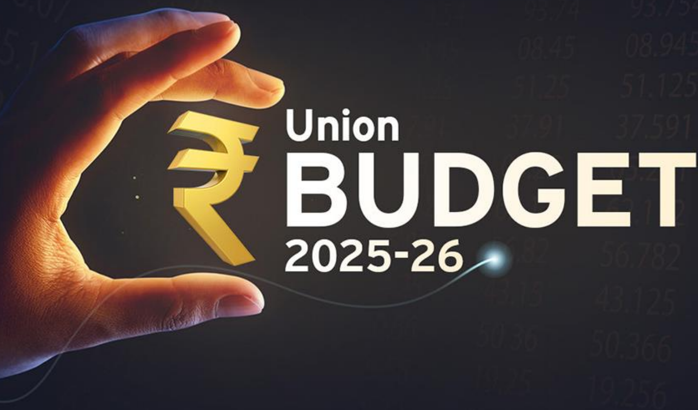
Tax Alert – Key announcements of Union Budget 2025



Shape the future with confidence

Fostering growth with fiscal prudence

Transformation of regulatory landscape set to boost a sustainable economy

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The Budget adeptly strikes a harmonious balance between the nation's aspirations for growth and the imperative of fiscal prudence. It underscores the Government's commitment to technology, innovation, and infrastructure, which are pivotal to realizing the vision of a developed India, or 'Viksit Bharat.' The introduction of the Investment Friendliness Index for states is a laudable step that promises to stimulate a dynamic of competitive yet cooperative federalism, spurring states to cultivate an investment-friendly atmosphere. Moreover, the emphasis on export promotion, bolstering Micro, Small and Medium Enterprises (MSMEs), and the establishment of a national framework to advance Global Capability Centres in tier-two cities are strategic moves that will enhance the nation's business ecosystem. Further, the reduction in personal tax rates aims to boost consumption and stimulate economic growth.

Delving into the details of the Budget, the earmarking of approximately INR 5,932 crores for strategic oil reserves signifies a prudent measure for bolstering the country's energy security. Additionally, the Expenditure Budget allocates financial support for biomass collection to the tune of INR 150 crore and INR 250 crore for the development of pipeline infrastructure essential for the injection of Compressed Bio Gas (CBG) into the City Gas Distribution (CGD) network. Furthermore, Public Sector Enterprises are set to continue their investment in exploration and production projects, with a uptick in investments within the refinery and marketing sectors.

As we anticipate the unveiling of the new income-tax bill next week, the key tax proposals outlined in the Budget are summarized below for your consideration.

#EYonBudget2025

How does the budget impact Oil & Gas sector?

Key amendments

Direct Tax

- New Income Tax Bill (Bill 2025) to be placed in Parliament next week
- 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

Incentives for International Financial Services Centre

- The IFSC ship leasing framework, which includes leasing of vessels for oil and gas operations, offers following new tax incentives:
  - Non-resident shareholders or IFSC units primarily engaged in ship leasing to be granted capital gains tax exemption on the transfer of equity shares in domestic IFSC units, provided the gains are realized within 10 years of the investee unit's operational commencement
  - Dividend paid by a company being a unit of IFSC engaged primarily in ship leasing, to a unit of IFSC engaged primarily in ship leasing to be exempt from tax
- Sunset clause for following tax exemptions linked to commencement of operations by IFSC unit engaged in leasing of ships extended to 31 March 2030 (from 31 March 2025):
  - Royalty/ interest income paid by an IFSC unit to non-resident on leasing of ships
  - Gains arising on sale of leased ships (within the tax holiday period) by the IFSC unit

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

Highlights

New Income Tax Bill in next week

No announcement for Pillar Two/ Global minimum tax

Dividend and capital gain exemption – extended to Ship leasing in IFSC

SEP provision harmonised in line with business connection provisions

- As per Business Connection provisions no income is deemed to accrue or arise in India from the purchase of goods for the purpose of export. However, the definition of SEP does not specifically exclude the purchase of goods in India
- Explanation is introduced to state that purchase of goods in India shall not constitute SEP of NR in India
- This amendment will be effective from 1 April 2025

Rationalisation of provisions related to merger/ amalgamation

- Scope for fast-track merger of companies to be widened and merger process to be rationalised
- 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 transfer pricing provisions

- Currently, the TP audits are undertaken for each financial year on a standalone basis
- Now, 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

Extension of time-limit for tax benefits to start-ups

- Sunset date for incorporation of eligible start-ups has been extended from of 1 April 2025 to 31 March 2030 for availing tax concessions

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

Rationalization of prosecution provisions for delay in deposit of TCS

- The Income-tax Act, 1961 contains prosecution provisions for delay in deposit of TCS within the prescribed time limit
- Now, an exemption from such prosecution provisions has been introduced where TCS has been deposited on or before the due date for filing the WHT return for that quarter similar to exemption provided for TDS
- This amendment will be effective from 1 April 2025

Rationalisation of withholding tax rates

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

Rationalisation of withholding tax rates (...continued)

	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

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 INR50 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 INR7 lakh to INR10 lakh per financial year
- Compliance burden on collector to collect tax at higher rate with respect to non-filers of return of income is now removed with effect from 1 April 2025

Indirect Tax

Customs

- Custom duty rates will be rationalised to further support the "Make in India" initiative
- Time limit of two years have been provided for finalisation of provisional assessment (except in certain cases), further extendable by one year
- 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

GST

- Retrospective amendment introduced 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
- Enabling legal provisions for Invoice Management System proposed 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
- System proposed 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 Rs 2 Lakhs (whichever is higher) for failure to comply with track and trace mechanism
- 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

Impact analysis

The Budget meticulously strikes a balance between economic growth and fiscal prudence, introducing a suite of measures to spur development and streamline the tax system in India, with particular attention to key drivers such as MSMEs, agriculture, investments, and exports. The emphasis on artificial intelligence and Global Capability Centres is a promising development. It will be intriguing to observe the details of the new Income-tax Bill and the additional steps to be announced in the coming weeks, which will set the direction for future simplification.

Glossary

CGST Act – Central Goods and Services Tax Act, 2017

DTA – Domestic Tariff Area

FTWZ – Free Trade Warehousing Zone

GST – Goods and Service Tax

GSTN – Goods and Services Tax Network

GSTR – Goods and Service Tax Return

IFSC – International Financial Services Centre

IMS – Invoice Management System

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

LRS – Liberalised remittance scheme

NR - Non-resident

SEP – Significant Economic Presence

SEZ – Special Economic Zone

TCS – Tax Collected at Source

TDS – Tax Deducted at Source

TP – Transfer Pricing

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