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Tax Alert - Key announcements of Union Budget 2025

Union BUDGET 2025-26

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# Budget 2025 focused on stepping-up Heathcare ecosystem


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Budget 2025 presents a positive outlook for the Pharma and Life Sciences sector, beginning with the increase in the overall budgetary allocation – increase of approximately 10% from previous year to ~INR 98,311 crores.

A significant relief given in this year's budget is basic customs duty exemption on medicines and drugs for rare diseases, cancer and other severe chronic diseases. Additionally, for Patient Assistance Programmes (PAP), basic customs duty exemption provided for 37 more specified drugs and medicines and 13 new PAPs (supplied free of cost) by pharma companies – this should help pharma companies cover more patients under their PAPs in India.

One key ask and expectation of pharma and healthcare industry players that remains unmet in the current budget is an ask of higher tax deduction on research and development expenditure.

Having said that, the overall focus on improvement of medical infrastructure, expansion of medical education, promotion of medical tourism and 'Heal in India' campaign, and allocation of INR 20,000 crore to boost private sector-driven R&D and innovation are in line with the strategy of the four engines driving the development and growth of the country for advancing the *Viksit Bharat* mission.

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# How does the budget impact Pharma and Life Science sector?

- Government to facilitate setting up of Day Care Cancer Centres in all district hospitals over next three years, with a target of 200 centres for financial year 2025-26.
- Expansion of medical education with a 130% increase over the past decade – Government to add 10,000 additional seats next year in medical colleges and hospitals; and aiming for 75,000 seats in next five years.
- 10,000 fellowships for tech research in IITs & IISc under 'PM Research Fellowship' scheme over the next five years with enhanced financial support.
- Promotion of Medical Tourism and 'Heal in India' campaign through private sector collaboration, capacity building and simplified visa norms.
- INR20,000 crore allocated to boost private sector-driven R&D and innovation.
- Enhanced cost allocation for 'Saksham Anganwadi and Poshan 2.0' programme, providing nutritional support to over nine crore beneficiaries.
- FDI in insurance sector increased from 74% to 100% under certain conditions and guardrails should also help developing health and life insurance segments, which in turn should help the pharma and healthcare industry.

## Key amendments

- New Income-tax bill to be introduced to make the law simple to understand for both taxpayers and tax administrators with the objective of reducing litigation and moving towards tax certainty.
- Significant economic presence ('SEP') provision harmonised in line with business connection provisions:
  - Activities of non-resident confined to purchase of goods in India for the purpose of export do not constitute SEP in India. This amendment will be effective from assessment year 2026-27.
- Tax benefit (i.e., 100% deduction of business profit for a period of three consecutive years out of 10 years) is now extended to eligible startups incorporated up to 31 March 2030.
- Limiting the period of carry forward of losses of predecessor entity in the hands of successor entity:
  - Section 72A amended to limit carry forward of brought forward of losses of predecessor entity in the hands of successor entity upto eight assessment years succeeding the years in which the loss was first determined in the hands of predecessor entity.
  - This amendment shall apply to any amalgamation / business reorganization effected on or after 1 April 2025.
- Increase in time limit to file updated return:
  - Time limit to file updated return increased from two years to four years from the end of the assessment year.

## Highlights

**INR98,311 crore**

Healthcare expenditure

**Focus on capacity building to step-up Heathcare ecosystem**

Basic custom duty exemption

   - The additional tax on filing updated return after two years but up to three years shall be 60% of aggregate of tax and interest payable and after three years it shall be increased to 70%.
   - No updated return can be filed after three years from the end of an assessment year if a notice has been issued for proposing to initiate reassessment for that assessment year. However, if reassessment proceedings are not initiated for that assessment year, then an updated return may be filed till the expiry of four years.
   - These amendments will be effective from 1 April 2025.
- Rationalization in prosecution provision:
   - Exemption from prosecution proceedings has been granted where TCS has not been deposited within the due date but deposited before the timeline for filing the TCS return for that quarter.
- Rationalization of TDS/ TCS provisions:
   - Removal of Section 206C(1H) i.e., TCS provisions on sale of goods from 1 April 2025. However, TDS provisions on purchase of goods i.e., Section 194Q shall continue to apply.
   - Threshold for applicability of TCS on foreign remittance under the Liberalised Remittance Scheme ('LRS') increased to INR10 lakhs.
   - Removal of higher TDS/TCS rates in case of non-filers of return of income from 1 April 2025.
   - Increase in threshold for applicability of TDS under various sections with effect from 1 April 2025.
- Simplification of tax provisions for small charitable trusts effective from 1 April 2025.
- Removal of time limit for Central Government on framing schemes in certain cases:
   - The last date for notifying faceless schemes by the Central Government for proceedings before the Transfer Pricing Officer, Dispute Resolution Panel and Income-tax Appellate Tribunal omitted. The amendment will be effective from 1 April 2025.

## Transfer Pricing

- Introduction of "assessments in a block" for transfer pricing ('TP'):
   - Assessment of arm's length price ('ALP') determined by the taxpayers with respect to international transaction / specified domestic transaction ('SDT') is based on specific reference to the transfer pricing officer ('TPO') by the assessing officer ('AO') for each financial year.
   - To bring efficiency in the assessment/ audit process and in line with the international standards/ practices, the proposal now provides for an elective option to carry out the TP assessments covering a block of three years. Amendment proposed to conform to international standards on TP audits and reduce compliance burden on taxpayers and administration burden on TPOs where transactions are same or similar.

## Proposed amendments

- Elective option provided to taxpayers upon reference made for a transfer pricing audit for a financial year.
   - Option not available for cases involving search and seizures.
- Option to be exercised by taxpayers within such time frame and in such form as may be prescribed.
- The TPO must verify and declare if the taxpayer's option is valid, based on certain conditions.
- If the TPO declares the option exercised as valid, the ALP determined for a financial year will also apply to the two consecutive financial years for similar transactions.
- The AO will recompute the total income of the three financial years in conformity with the ALP determined by the TPO and the Dispute Resolution Panel.
- This adjustment will be done within three months after the month when the assessment or audit is completed.
- The Central Board of Direct Taxes ('CBDT') can issue guidelines to clarify any issues, which must be approved by Parliament and will be binding on both taxpayers and tax authorities.
- This amendment will be effective from 1 April 2026 (financial year 2025-26).

**No specific proposal on Pillar Two/ Global Minimum Tax implementation in India.**

## Personal Tax

- Revised tax slabs and rates under the new tax regime. Individuals can now enjoy a tax-free income up to INR12 lakhs, excluding income subject to tax at special rates.
- Under the revised new tax regime, the tax rebate has been enhanced, rising from INR25,000 to an elevated threshold of INR60,000.

## Indirect taxes

- Apart from the existing list of exempted medicines, Basic Customs Duty exemption has been extended to import of 36 lifesaving drugs and medicines (including 3 previously covered under concessional rate of 5%), along with bulk drugs used in their manufacture, with effect from 2 February 2025.
- Basic Customs Duty exemption on import of following goods extended for period upto 31 March 2029:
  - Lifesaving drugs and medicines, along with bulk drugs used in their manufacture as specified in List 4 of Notification No. 50/2017 – Customs dated 30 June 2017 (as amended)
  - Drugs, medicines or Food for Special Medical Purposes (FSMP) used for treatment of rare diseases by an individual for personal use, as specified in List 38 of Notification No. 50/2017 – Customs dated 30 June 2017 (as amended).
- Apart from the existing list of medicines under concessional rate, concessional Basic Customs Duty rate of 5% extended to import of 6 drugs and medicines, along with bulk drugs used in their manufacture, with effect from 2 February 2025.
- Concessional Basic Customs Duty rate of 5% on import of following goods extended for period upto 31 March 2029:
  - Drugs and medicines, along with bulk drugs used in their manufacture as specified in List 3 of Notification No. 50/2017 – Customs dated 30 June 2017 (as amended)
  - Bulk drugs used in the manufacture of Polio Vaccine and Monocomponent Insulins
- In relation to the existing Basic Customs Duty exemption provided for import under Specified Patient Assistance Programme run by notified pharmaceutical companies, 37 more medicines along with 13 new Patient Assistance Programmes have been notified.

## Impact analysis

**Overall, Budget 2025 remains largely positive for healthcare and health sciences, reinforcing India's goal of medical innovation and excellence. The Pharma and Life Sciences sector continues to be a priority area in the overall budget agenda, with a focus on improving healthcare infrastructure, enhancing access to life-saving drugs, and promoting medical tourism. The long standing expectations of tax incentives for R&D and innovation, as well as extending the sunset clause for new manufacturing units still remains under the wishlist. While the focus on indirect relief measures such as customs duty exemptions are beneficial, they may not comprehensively fulfil the broader expectations of the sector.**

## 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

GoI – 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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