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Tax Alert - Key announcements of Union Budget 2025


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# Start-up Liftoff - From Seed to Scale

## Policy and tax reforms impacting the Start-up sector


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The Budget continues the Government's commitment to strengthening India's start-up ecosystem by boosting funding, encouraging innovation and bringing in simplification.

To this end, a fresh contribution to the existing Start-up Fund of Funds has been announced, along with the exploration of a Deep Tech Fund of Funds to support next-generation start-ups. Window for new startups to claim tax holiday has been proposed to be extended till 31 March 2030. Additionally, the Budget proposes rationalization measures such as the revision of TDS and TCS provisions, transfer pricing, and measures to expedite mergers, all aimed at reducing procedural burdens.

A new Income Tax Bill will also be shortly announced, which is aimed at simplification, tax certainty and reduction of litigation.

#EYonBudget2025

## How does the budget impact the Start-up sector?

- Extension of timeline for tax benefits to start-ups
  - Eligible startups enjoy tax holiday of 100% on profits for 3 consecutive years out of their first 10 years post-incorporation
  - The cut off for incorporation date was hitherto being extended on a year on year basis. The Budget now proposes to extend the window by five years, till 31 March 2030 which provides startups greater certainty.
  - The scope of coverage for the exemption remains the same, including the requirement for specific approval from the Inter-Ministerial Board to be eligible for the exemption.
  - Proposed amendments are effective from 1 April 2025

- Amendment to the definition of 'Capital asset' for securities held by investment funds
  - Alternative Investment Funds (AIFs) have been a cornerstone of India's startup ecosystem
  - The Finance Bill 2025 proposes an amendment to the definition of capital assets whereby securities held by AIFs are explicitly classified as capital assets. Consequently, gains from transfer of securities would be taxed as capital gains, and not business income.
  - This amendment brings AIFs on par with Foreign Portfolio Investors (FPIs) in India as far as classification of income from securities is concerned.
  - Proposed amendments are effective from 1 April 2026.

- Currently, on sale of goods exceeding INR 50 lakhs in a financial year, both Tax Deduction at Source (TDS) under Section 194Q by buyers and Tax Collection at Source (TCS) under Section 206C(1H) by sellers may apply to the same transaction.
  - Determining applicability of TDS or TCS had to be done on a case to case basis, in consultation with the counterparty which involved considerable administrative overhead.
  - The Finance Bill now proposes to withdraw the applicability of TCS on the sale of goods, thereby simplifying transaction flows.
  - The amendment applies from 1 April 2025, impacting transactions from financial year 2025-26 onward.

- The Budget proposes to simplify transfer pricing compliances by permitting tax payers to opt for the arm's length price determined in one year to similar transactions in the next two consecutive years.
  - The above provisions are at the option of the taxpayer, and is subject to approval of the tax authorities.
  - These provisions will come into effect from 1 April 2026, for assessment years 2026-27 and beyond.

- Scope of safe harbour rules is proposed to be expanded to reduce litigation and provide certainty in international taxation.

- There have been no changes in corporate tax rates.

# How does the budget impact the Startup sector?

- Certain platforms would be required to report cryptocurrency transactions. This improvement in transparency represents a step forward towards mainstreaming of the cryptocurrency industry. These amendments will take effect from 1 April 2026.

- Section 206AB of the Act requires deduction of tax at higher rate when the deductee has defaulted in filing of income-tax returns. Similar provisions were present for tax collected at source.
  - To simplify the compliance process and to avoid blocking of capital, the said provisions are proposed to be withdrawn.
  - In effect, the higher rate of TDS / TCS would be applicable only to cases where the deductee does not have a Permanent Account Number (PAN).

- New income tax bill to be introduced next week, expected to bring further tax reforms.

- Other key policy proposals in the Budget speech
  - Recognizing the need to maintain the flow of investments into the start-up sector, a new Fund-of-Funds focussed on start-ups has been announced, with a Rs 10,000 crore contribution from the Government
  - A Deep Tech Fund of Funds will also be explored to catalyze the next generation startups
  - Comprehensive measures are proposed to be introduced to formalize and secure social welfare for India's gig workforce. Key initiatives as a part of this would include identity cards, e-Shram portal registration, and healthcare coverage under PM Jan Arogya Yojana for an estimated 1 crore gig workers.
  - A high-level committee for regulatory reforms is proposed, aimed at simplifying and rationalizing existing regulations for non-financial sectors.
  - The Budget introduces regulatory reforms for fast-track mergers aimed at streamlining corporate restructuring processes. These measures are designed to enhance India's ease of doing business ranking and promote market-driven consolidation, aligning with the government's broader economic goals.
  - The FDI limit for the insurance sector is proposed to be raised from 74 to 100 percent. The current guardrails and conditionalities on foreign investment will be reviewed and simplified.

# How does the budget impact the Startup sector?

## Impact analysis

The Budget outlines a multi-pronged set of measures to foster the growth of India's start-up ecosystem, with a focus on enhancing investment flow, skill development, and regulatory ease.

A significant step is the establishment of a new Fund-of-Funds for start-ups, with a Rs 10,000 crore contribution from the government. Additionally, a deep-tech focused Fund-of-Funds is being considered to support innovation in advanced technologies.

Recognizing the importance of building a skilled workforce for high-tech industries, the Budget also proposes an increase in capacity at IITs and IISc. Additionally, 10,000 research fellowships have been announced to strengthen the country's innovation capabilities. These measures are expected to provide the talent pool necessary for start-ups and other tech-focused industries to succeed in the global market.

On the tax front, the government proposes to extend the window for new startups to claim tax holiday till 31 March 2030. Moreover, the Budget proposes rationalizing TDS and TCS provisions, which will reduce the compliance burden on start-ups, allowing them to focus on growth rather than administrative processes.

Changes to the transfer pricing regime are also on the table, which will improve certainty and reduce litigation risks for start-ups. The government is also working toward a simpler and more concise Income Tax legislation, which promises to streamline tax compliance and minimize legal disputes.

Finally, a high-level committee will be set up to rationalize and simplify regulations in the non-financial sector, with the goal of making it easier for start-ups to navigate India's business environment.

These initiatives will continue to support India's position as a premier hub for start-ups and innovation.

It is hoped that the other asks of the startup sector will be addressed in the future – including ESOP taxation at point of sale, broadening the scope of start-up incentives.

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