

## **IMPORTANT AMENDMENTS BY THE FINANCE ACT, 2025**

### **DIRECT TAX AMENDMENTS:**

#### **Introduction of a New Tax Bill**

A new Income Tax Bill will be introduced, which aims to replace the existing Income Tax Act of 1961. This bill is designed to simplify tax compliance and reduce the complexity of current tax laws by up to 60%.

#### **Changes in Tax Structure Under the New Regime**

Under the New tax regime, the tax structure is revised as follows:

<b>Income Tax Slabs</b>	<b>Tax Rate</b>
Upto Rs. 4,00,000	NIL
Rs. 4,00,001 - Rs. 8,00,000	5%
Rs. 8,00,001 - Rs. 12,00,000	10%
Rs. 12,00,001 - Rs. 16,00,000	15%
Rs. 16,00,001 - Rs. 20,00,000	20%
Rs. 20,00,001 - Rs. 24,00,000	25%
Above Rs. 24,00,000	30%

#### **Increase in Rebate u/s 87A**

Under the new tax regime, the rebate has been significantly increased from Rs. 25,000 to Rs. 60,000. This means that individuals with an income of up to Rs. 12,00,000 will now be eligible for a complete tax rebate, resulting in zero tax liability.

The rebate under Section 87A will not apply to income that is taxed at special rates, such as long-term capital gains.

### Rationalisation of TDS/TCS

The Union Budget 2025 proposed the rationalisation of Tax Deducted at Source (TDS) and Tax Collected at Source (TCS) to ease compliance challenges for taxpayers especially for middle-income earners. The government has raised the threshold limits across various TDS sections, aiming to simplify the tax process. The proposed changes are as follows:

Section	Present	Proposed
193 - Interest on securities	NIL	10,000
194A - Interest other than Interest on securities	(i) 50,000/- for senior citizen; (ii) 40,000/- in case of others when payer is bank, cooperative society and post office (iii) 5,000/- in other cases	(i) 1,00,000/- for senior citizen (ii) 50,000/- in case of others when payer is bank, cooperative society and post office (iii) 10,000/- in other cases
194 – Dividend, for an individual shareholder	5,000	10,000
194K - Income in respect of units of a mutual fund	5,000	10,000
194B - Winnings from lottery, crossword puzzle Etc. & 194BB - Winnings from horse race	Aggregate of amounts exceeding 10,000/- during the financial year	10,000/- in respect of a single transaction

194D - Insurance commission	15,000	20,000
194G - Income by way of commission, prize etc., on lottery tickets	15,000	20,000
194H - Commission or brokerage	15,000	20,000
194-I - Rent	2,40,000 (in a financial year)	6,00,000 (in a financial year)
194J - Fee for professional or technical services	30,000	50,000
194LA - Income by way of enhanced compensation	2,50,000	5,00,000
206C(1G) - Remittance under LRS and overseas tour program package	7,00,000	10,00,000

**Note:**

- The Tax Collected at Source (TCS) will be removed on remittances made for educational purposes when these remittances are financed through loans from specified financial institutions ([Section 80E](#)).
- The Tax Collected at Source (TCS) on the purchase of goods will be removed, effective from April 1, 2025.
- The higher TDS rate will apply in cases where taxpayers do not provide PAN.

## Extension of Time-Limit for ITR-U

The deadline for taxpayers to file updated income tax returns has been **extended from 2 years to 4 years from the end of the relevant assessment year**. This will make compliance with tax provisions voluntary by giving more time for tax filing and rectifying tax returns with ease, consequently ensuring a clean and efficient taxing process. The additional tax has to be paid while filing the ITR-U. The amount of additional tax that has to be paid is as follows:

ITR-U filed within	Additional Tax
12 months from the end of the relevant AY	25% of additional tax (tax + interest)
24 months from the end of the relevant AY	50% of additional tax (tax + interest)
36 months from the end of the relevant AY	60% of additional tax (tax + interest)
48 months from the end of the relevant AY	70% of additional tax (tax + interest)

## Charitable & Religious Trusts

Reduced compliance for small charitable trusts/institutions by increasing their period of registration from 5 years to 10 years provided their total income of two previous years, preceding to the previous year in which such application is made, does not exceed 5 crores in each of the years.

Presently 'specified persons' under section 13(3) also include a person who has contributed an amount of Rs. 50,000 in aggregate, i.e. upto the end of the previous year, to the trust.

The threshold limit for considering a contribution as 'substantial contribution' to the trust or institution has been changed from total contribution exceeding Rs. 50,000 up to the end of the relevant previous year to Rs. 1,00,000 during the relevant previous year, or exceeding Rs. 10,00,000 in aggregate upto the end of the relevant previous year.

## **Rationalisation of 'specified violation' for cancellation of registration of trusts or institutions**

The proposed changes to Section 12AB aim to clarify the grounds for canceling the registration of trusts or institutions. Currently, if a trust's application for registration is incomplete or contains false information, it is considered a "specified violation," which can lead to the cancellation of registration and taxation on the trust's income.

The amendment seeks to address situations where the registration application is incomplete, stating that minor issues in the application will no longer be treated as a "specified violation" that could lead to cancellation. This change will take effect from April 1, 2025.

## **Withdrawal of Amount from NSS - Exempt**

Withdrawals from National Savings Scheme (NSS) accounts will be exempt from tax starting August 29, 2024. This tax relief is especially significant for senior citizens.

## **Extension of Deadline for Eligible Start-ups**

In Budget 2025, the deadline for the incorporation of eligible start-ups, which was originally set for 2025, has been extended to **2030** to avail of the tax holiday benefits.

## **Extension of Tax Benefits Under 80CCD(1B) to Contributions Made to NPS Vatsalya Accounts**

The same tax benefits available for NPS contributions under Section 80CCD(1B) will now apply to contributions made to NPS Vatsalya accounts, allowing Rs. 50,000 deduction under the old regime if you have invested in the NPS vatsalya scheme.

## **TDS on any income is payable by a securitisation trust to an investor**

Section 194LBC of the Act requires that where any income is payable by a securitisation trust to an investor, being a resident, in respect of an investment in a securitisation trust as specified therein, the person responsible for making the payment shall, deduct income-tax, at the rate of 25%, if the payee is an individual or a Hindu undivided family and 30%, if the payee is any other person.

It is proposed that TDS rate under section 194LBC of the Act be reduced from 25% and 30% to 10% as this sector is sufficiently organized and regulated. Applicable with effect from April 01, 2025.

### **Omission of Sections 206AB and 206CCA**

In Budget 2025, Sections 206AB and 206CCA, were removed. These sections imposed higher TDS and TCS rates - either twice the prescribed rate or 5% on non-filers with aggregate TDS/TCS of Rs. 50,000 or more. While intended to motivate taxpayers, these provisions led to significant compliance challenges, particularly for businesses and small taxpayers, as verifying return filings became cumbersome. The removal of these sections aims to reduce the compliance burden and simplify the tax process, with the amendments set to take effect from April 1, 2025.

### **Relaxation in TCS Provisions**

Section 206C(1H) of the Act, require collection of tax on sale of specific goods by a seller while Section 194Q provides for tax deduction at source (TDS) by a buyer on the same transaction. Therefore, in order to reduce compliance burden on the taxpayers, it is proposed to omit section 206C(1H) of the Act. Applicable with effect from April 01, 2025.

### **TCS on sale of goods of specified nature**

Section 206C(1) of the Act, presently TCS at 2.5 per cent is required to be collected on sale of goods of specified nature. Definition of 'forest produce' shall have the same meaning as same defined any State Act for the time being in force, or in the Indian Forest Act, 1927. Further, it is proposed to amend the rate to 2 per cent. Applicable with effect from April 01, 2025.

### **Relaxation in initiating prosecution**

Section 2768B of the Income-tax Act, 1961 has been amended to provide that prosecution shall not be instituted if the person has paid TCS to the credit of the Central Government at any time on or before the time prescribed for filing the statement under proviso to 206C (3) in respect of such payment. Applicable with effect from April 01,2025.

## **Inclusions of ULIPs and in Capital Asset**

Unit-Linked Insurance Plans (ULIPs) are insurance products that also serve as investment vehicles, with a portion of the premium invested in the stock market. Previously, only ULIPs with an annual premium above Rs. 2.5 lakh were considered capital assets. However, it is proposed to consider ULIPs as capital assets where the premium exceeds 10% of the policy's sum assured. Additionally, It is proposed to amend Section 2(14) to clarify that securities held by investment funds under Section 115UB, will be treated as capital assets.

## **Introduction of the Arm's Length Price Scheme for International Transactions**

The government announced a scheme to determine the arm's length price of international transactions over a block period of three years. This approach is designed to simplify transfer pricing regulations and offer an alternative to the annual examination process typically required for such transactions. Furthermore, the government has announced an expansion of safe harbour rules, which are intended to minimize litigation and enhance clarity in international taxation matters.

## **Rationalisation of taxation of capital gains on transfer of capital assets by non-residents**

The existing provisions of Section 115AD of the Act provide that where the total income of a specified fund or Foreign Institutional Investor includes—

- (a) income received in respect of securities (other than units referred to in section 115AB); or
- (b) income by way of short-term or long-term capital gains arising from the transfer of such securities,

the income-tax on the income by way of long-term capital gains referred to in clause (b), if any, included in the total income, shall be calculated at the rate of 10 per cent.

As per Finance (No.2) Act, 2024, the rate of taxation on long-term gains arising from the transfer of capital assets was amended to 12.5% in the case of all assesseees, whether resident or non-resident, with effect from 23.07.2024.

While the rates of taxation in the case of specified fund or FIIs in case of long-term gains referred to in section 112A have been brought to parity with the rates applicable for residents, the rate of income-tax calculated on the income by way of long-term capital gains not referred to in section 112A were retained at 10 per cent vide Finance (No.2) Act, 2024.

Now, it is proposed to amend the provisions of section 115AD to provide that income-tax on the income by way of long-term capital gains on transfer of securities (other than units referred to in section 115AB) not referred to in section 112A, if any, included in the total income, shall be calculated at 12.5%. Applicable from AY 2026-27.

### **Harmonisation of Significant Economic Presence applicability with Business Connection**

An amendment has been carried out in Section 9 to provide that the transactions or activities of a non-resident in India which are confined to the purchase of goods in India for the purpose of export shall not constitute significant economic presence of such non-resident in India and hence such income will not be considered as deemed to accrue or arise in India.

### **Presumptive Taxation for Non-residents**

A new provision, [Section 44BBD](#), is proposed to be inserted in the Income Tax Act for the Financial Year 2025-2026. This section introduces a presumptive taxation scheme specifically for non-residents who provide services or technology to Indian companies engaged in electronics manufacturing. Under this provision, 25% of the amounts paid or payable to non-residents, or received or receivable by them for providing such services or technology, will be considered as their gross receipts for tax purposes. The main objective of this provision is to incentivise the growth of the Indian electronics sector by facilitating the infusion of advanced technology and services from international providers. This move aligns with India's focus on strengthening its electronics manufacturing ecosystem and attracting global expertise to drive innovation and growth.

## INDIRECT TAX PROPOSALS

### Amendments in the CGST Act, 2017

#### Input Tax Credit (ITC) Distribution for Reverse Charge Transactions:

- *Effective from April 1, 2025.*
- The definition of Input Service Distributor (ISD) under Section 2(61) of the CGST Act is amended to allow the distribution of ITC availed on taxes paid under reverse charge mechanisms. This correction addresses previous limitations in ITC distribution for inter-state supplies under Sections 5(3) and 5(4) of the IGST Act.

#### Amendment in Clause (d) of Sub-section (5) of Section 17 of the CGST Act, 2017

- The proposal seeks to **replace the term “plant or machinery” with “plant and machinery”** in Clause (d) of Sub-section (5) of Section 17 of the Central Goods and Services Tax (CGST) Act. This change is intended to remove any ambiguity in interpretation regarding the eligibility for Input Tax Credit (ITC) in cases where businesses acquire plant and machinery.
- The change ensures that there is no confusion about whether the term refers to only plant or only machinery-**businesses can claim ITC for both plant and machinery**

#### Amendments in Section 34 of the CGST Act, 2017

- The Finance Minister amended the Proviso to sub-section (2) to explicitly provide for the requirement of reversal of corresponding input tax credit in respect of a credit-note. It means if the supplier issues a credit note for reducing their tax liability, the recipient *must* reverse the corresponding ITC, *if already availed*. Now businesses should enhance systems/processes to monitor credit note-related ITC reversals efficiently.

#### Amendments in Section 38 of the CGST Act, 2017

- Section 38(1) is being amended to omit the expression "autogenerated" indicating that the ITC statement i.e. GSTR-2B may no longer be entirely system-generated. Businesses now might need to validate and reconcile

invoices and ITC through Invoice Management System (IMS) rather than relying solely on system-generated data. Also, a new clause (c) to sec 38(2) is added, allowing the government to specify additional details in the ITC statement through rules.

### **Amendments in Section 107 and 112 of the CGST Act, 2017**

- Section 107(6) is being amended to provide for 10% mandatory pre-deposit of penalty amount for appeals before Appellate Authority in cases involving only demand of penalty without any demand for tax.
- Section 112(8) is amended to provide for 10% mandatory pre-deposit of penalty amount for appeals before Appellate Tribunal in cases involving only demand of penalty without any demand for tax.

### **Insertion of a new section 122B of the CGST Act, 2017**

A new Section 122B is being inserted to provide penalties for contraventions of provisions related to the Track and Trace Mechanism provided under section 148A. A unique identification system, termed 'Unique Identification Marking' (UIM), is introduced for specified commodities. Businesses dealing with these goods must affix secure, non-removable digital marks or stamps. Non-compliance could result in penalties of ₹1,00,000 or 10% of the tax payable, whichever is higher.

### **Rationalisation of Customs Tariff and Duty Inversion:**

- Removal of 7 more tariff rates over and above the 7 tariff rates that were removed in 2023-24 budget, leaving only 8 rates, including 'zero' rate.
- Only one cess or surcharge per item to be levied; exempting Social Welfare Surcharge on 82 tariff lines with cess.

### **Healthcare Relief – Duty Exemptions on Medicines:**

- 36 lifesaving drugs/medicines to be granted a full Basic Customs Duty (BCD) exemption, in a bid to provide relief to patients, particularly those suffering from cancer, rare diseases and other severe chronic diseases; 6 lifesaving medicines to be granted a concessional 5% customs duty. Full exemption and concessional duty on the bulk drugs for manufacturing the former.

- BCD exemption for patient-assistance programmes run by pharmaceutical companies, provided the medicines are supplied free of cost to patients; 37 new medicines and 13 additional programmes to be added.

### **Boosting Domestic Manufacturing – Key Customs Proposals for Certain Industries:**

- Critical minerals: Full BCD exemption on 25 critical minerals that are not available domestically. Cobalt powder, lithium-ion battery scrap, lead, zinc, and 12 more critical minerals are fully exempt to support domestic manufacturing and job creation.
- Textiles: Full exemption on two additional types of shuttle-less looms for technical textiles; Revised BCD on knitted fabrics: Now 20% or ₹115/kg, whichever is higher.
- Electronics: To rectify inverted duty structure, BCD on Interactive Flat Panel Display (IFPD) increased from 10% to 20% and reduced to 5% on open cell and other components; Open cell components on LCD/LED TVs will now stand fully exempted from BCD to boost domestic manufacturing.
- Lithium-Ion Battery: BCD on 35 capital goods for EV battery manufacturing to be exempted along with 28 additional capital goods for mobile phone battery manufacturing.
- Shipping: BCD exemption on raw materials, components, consumables for shipbuilding for another 10 years; Same benefit to be extended to shipbreaking to boost competitiveness.
- Telecommunication: BCD to be reduced from 20% to 10% on carrier grade ethernet switches to make it at par with non-carrier grade ethernet switches.

### **Export Promotion Initiatives - Handicrafts, Leather, Marine, and MRO**

- Handicrafts: Export time extended from 6 months to 1 year, with an additional 3-month extension, if needed; 9 more duty-free inputs added to the list.
- Leather: Full BCD exemption on Wet Blue leather to boost domestic production and jobs; Export duty exemption of 20% on crust leather to support small tanners.

- Marine products: BCD on Frozen Fish Paste (Surimi) cut from 30% to 5% to enhance exports; BCD on fish hydrolysate reduced from 15% to 5% for shrimp and fish feed production.
- Railway MROs: Extended time limit for the repair of foreign-origin railway goods from 6 months to 1 year, with a 1-year further extension option (same as aircraft and ships).

### **Key Customs Reforms for Trade Facilitation**

- New time limit for provisional assessment: A new time limit of two years (extendable by one year) to be introduced to finalise provisional assessments.
- Voluntary compliance initiative: Importers/exporters can soon voluntarily declare material facts post-clearance and pay duty with interest but without penalty. However, this will not apply in cases where audit or investigation proceedings have already been initiated.
- Extended time for end-use compliance: Time limit for utilising imported inputs extended from six months to one year. Further, quarterly reporting will replace monthly statements, reducing administrative burden.

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