



# Our View

## IN THE MIDDLE PATH: BETWEEN SIMPLIFICATION PROMISES AND STRUCTURAL GAPS

The Finance Bill 2025 (the Bill) represents an effort to walk the middle path – balancing the pressing need for tax simplification with the realities of economic and administrative constraints. While policymakers emphasize a streamlined tax framework, the challenges of maintaining fiscal discipline and ensuring stability in the regulatory environment mean that changes must be measured. The Bill demonstrates this tightrope walk, offering targeted reliefs while leaving several long-standing tax complexities unaddressed.

A significant focus of the bill is the middle class, which has received a notable expansion in tax reliefs. The extension of a Nil effective tax rate up to INR 12 lakh under the Income-tax Act, 1961 (ITA) is a substantial and welcome step, addressing the tax burden on salaried taxpayers. However, this relief partly overshadowed other tax concerns, such as corporate taxation, compliance streamlining, and incentives for research-driven growth. This prioritization only points to the trade-offs inherent in fiscal policy decisions.

The Bill arrives at a crucial juncture, attempting to reconcile tax simplification while leaving enduring structural inefficiencies untouched. As India enters another fiscal cycle, the expectations for a simpler, more predictable taxation framework have never been higher. The Bill attempts to address these concerns, yet the

overarching question remains—does it truly simplify taxation, or does it perpetuate the complexity of compliance?

### *The Paradox of Simplification – A Framework Still in Flux*

A key challenge in the Bill is balancing tax costs with the objective of a more transparent and efficient system. The government has championed its commitment to tax relief for middle-income earners, introducing a significant relief by keeping a Nil effective tax upto 12 lacs. However, instead of a cohesive restructuring, the retention of rebate-based relief creates an uneven landscape where individuals with varied income sources, such as capital gains and dividends, find themselves excluded from its benefits. A straightforward approach—broadening slabs instead of relying on rebates—would have ensured equitable relief across income classes.

Similarly, the tax treatment of charitable trusts continues to be cumbersome. Selective tinkering aside, there appears no change in the legacy legislative approach to trust taxation. This area arguably continues as the most complex area of the Income Tax Act, resulting in ambiguity and administrative inefficiencies.

Optimism hinges on the Finance Minister's announcement regarding the forthcoming direct tax bill, which aims to simplify the framework.

### *Assessments and Compliance*

The Bill introduces block assessments in transfer pricing (TP) and settlement mechanisms signalling a confidence in voluntary

compliance. Yet, rather than complementing this with a simplified compliance framework, it introduces new procedural hurdles, tighter GST credit rules, and higher pre-deposit requirements for appeals. The message is contradictory – taxpayers are encouraged to self-comply, but the administrative burden is higher.

An unattended pressing concern is the sluggish progress on tax dispute resolution and first appellate reforms. The backlog in Commissioner of Income Tax (Appeals) [CIT(A)] and GST tribunals remains a significant pain point for businesses. While the 2024 income-tax amnesty scheme (Vivaad se Vishwas 2.0) was introduced to expedite pending tax disputes, its impact appears muted (despite encouraging collections). Unlike the 2020 scheme, which allowed settlement of older disputes, this iteration is limited by the short gap between schemes and does not address systemic delays in appellate processes and also search assessments, which of late, have been quite arbitrary. Additionally, the Bill proposes an increase in the pre-deposit requirement for GST appeals, further deterring taxpayers from pursuing resolutions, thereby exacerbating the backlog issue.

### ***Focus on small entrepreneurs and start-ups***

For businesses, the Bill includes targeted reliefs for start-ups and sectors such as electric batteries and electronic manufacturing. In particular, the rationalisation of withholding tax provisions will benefit the small entrepreneurs immensely. The elimination of unnecessary compliance burdens in tax collection at source (TCS) is a welcome move too.

### ***AIFs & GIFT city – continues to get attention***

Relief measures for taxation of investments by Alternative Investment Funds (AIFs) and GIFT City have been introduced. While the bill introduces benefits for foreign fund managers operating in GIFT City, it does not address crucial industry concerns. Notably, the Bill recognizes investments by Funds in securities as capital assets, yet it fails to provide explicit clarity on the taxation of secondary transfers of AIF units itself, leading to continued legal ambiguity for investors. Additionally, ambiguity persists in Category III AIF taxation, which deters participation by institutional investors. The Bill also does not establish a clear framework for offshore fund managers, leaving India's ambitions of becoming a global financial hub uncertain. Furthermore, the absence of plans for another International Financial Services Centre (IFSC) beyond Ahmedabad is a miss.

### ***Business taxation and structural challenges***

#### *Global Citizens*

While the focus has been on middle-class tax relief, higher surcharge rates for super-rich taxpayers remain unchanged. A discussion on whether India should reconsider its progressive surcharge structure—especially in the context of capital mobility and global tax competitiveness—would add balance to the analysis.

### *Tax field of a global player yet some distance away*

While global tax reporting norms like Pillar Two (Global Minimum Tax) are evolving, the Bill does not offer much direction. A favourable tax regime for India-holding entities in addition to the existing provisions under section 80M, should be considered.

### *Business consolidation – key challenges unresolved*

The Finance Minister's speech emphasized the need for fast-tracked mergers and acquisitions (M&A) to drive economic consolidation and efficiency. However, the Finance Bill 2025 does not appear to provide meaningful tax incentives to support this agenda. The lack of revisions in thresholds for tax-neutral conversions of LLPs to companies remains a significant gap. Persistent challenges in the taxation of mergers and demergers, particularly concerning compliance burdens and interpretation issues, remain unaddressed. Moreover, the discontinuation of the evergreening of losses makes the acquisition of loss-making entities less attractive, reducing the financial viability of restructuring efforts.

### *New-Age Business & R&D: The Tax Push*

A more significant oversight in Budget 2025 is the lack of strong incentives for research and development (R&D). While India aims to lead in AI, deep tech, and digital transformation, the Finance Bill does not provide substantial incentives for R&D investments.

A case in point is the announcement of another Centre of Excellence (CoE) with a Rs. 500 crore outlay, despite limited updates on the Rs. 1,000 crore allocation for CoEs in 2023 and establishment of 3 CoEs in 2024. Given the rapid advancements in AI – dominated by OpenAI, ChatGPT, and DeepSeek – the government's stance on AI development remains unclear.

With global economies prioritizing tax incentives for innovation, India's passive approach risks slowing its competitiveness in these sectors. The much-needed clarity on digital transactions and cross-border e-commerce taxation is also absent, leaving businesses grappling with an evolving and uncertain tax landscape.

### *The hope remains...*

The realization of a genuinely simplified tax regime now depends on the new income-tax bill and upcoming GST Council decisions. The concern is whether this will be another cosmetic overhaul—akin to the Bharatiya Nyaya Samhita reforms, which largely retained the structure of earlier laws—or a fundamental shift in taxation philosophy. If meaningful reform does not materialize, India risks perpetuating a system of taxation that remains mired in inefficiency and missed opportunities for growth.

# DIRECT Tax Proposals

## A. RATES OF INCOME-TAX

### PERSONAL TAX RATES (EFFECTIVE FY 2025-26)

#### *'New' tax regime*

With effect from FY 2025-26 / AY 2026-27, the tax rates for individuals, Hindu Undivided Families, association of persons (other than a co-operative society), body of individuals and artificial judicial person, **under the new tax regime**, shall be as follows:

Total Income (INR)	Rate of Tax
Up to INR 4,00,000	Nil
From INR 4,00,001 to INR 8,00,000	5%
From INR 8,00,001 to INR 12,00,000	10%
From INR 12,00,001 to INR 16,00,000	15%
From INR 16,00,001 to INR 20,00,000	20%
From INR 20,00,001 to INR 24,00,000	25%
Above INR 24,00,000	30%

Under the above regime, the rebate on taxes on income (other than special rate income such as capital gains) is now Rs. 12,00,000 up from INR 7,00,000. As such, factoring the standard deduction of INR 75,000, there would be no tax liability up to an income of INR 12,75,000.

#### Additional remarks:

- For availing the above tax rates, the taxpayer will have to forego specified exemptions and deductions.

- The above taxable income slabs apply to all individuals irrespective of age. Hence, the basic exemption limit for senior and super senior citizens under the new tax regime will also be INR 4,00,000 from FY 2025-26.
- The new tax regime is proposed as the default tax regime for taxpayers.
- For taxpayers who wish to opt out of the new tax regime, such option is to be exercised at the time of filing of return of income every year.
- For taxpayers who earn income from business or profession and who opt out of the new tax regime, the option of opting back to the new tax regime can be exercised only once.
- The tax computed as above under the new tax regime will be increased by surcharge as follows:

Sl. No.	Total Income (INR)	Rate of Surcharge
A	Exceeding INR 50 Lakhs but not exceeding INR 1 crore (including dividend and income under section 111A, 112 and 112A)	10%
B	Exceeding INR 1 crore (including dividend and income under section 111A, 112 and 112A)	15%
C	Exceeding INR 2 crores (excluding dividend and income under section 111A, 112 and 112A)	25%
D	Exceeding INR 2 crores (including dividend and income under section 111A,	15%

	112 and 112A) but is not covered under clause (c)	
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Where the total income includes any income by way of dividend or income chargeable under section 111A, section 112 and section 112A of the ITA, the rate of surcharge on the amount of income-tax computed in respect of that part of income shall not exceed 15%.

For an association of persons consisting of only companies as its members, the rate of surcharge on the amount of income-tax shall not exceed 15%.

#### ***'Old' tax regime***

Where taxpayers who do not wish to avail of the above regime, the existing slab rates would apply for different 'types' of individual taxpayers such as senior citizens, super-senior citizens and others. The rate of surcharge in such cases would be as follows:

Sl. No.	Total Income (INR)	Rate of Surcharge
A	Exceeding INR 50 Lakhs but not exceeding INR 1 crore (including dividend and income under section 111A, 112 and 112A)	10%
b	Exceeding INR 1 crores (including dividend and income under section 111A, 112 and 112A)	15%

C	Exceeding INR 2 crores but not exceeding 5 crores (excluding dividend and income under section 111A, 112 and 112A)	25%
D	Exceeding INR 5 crores (excluding dividend and income under section 111A, 112 and 112A)	37%
E	Exceeding INR 2 crores (including dividend and income under section 111A, 112 and 112A) but is not covered under clauses (C) and (D)	15%

Where the total income includes any income by way of dividend or income chargeable under section 111A, section 112 and section 112A of the ITA, the rate of surcharge on the amount of income-tax computed in respect of that part of income shall not exceed 15%.

The above tax and surcharge are further increased by 'Health and Education Cess' of 4%.

### **CORPORATE TAX RATES**

There are no changes proposed in corporate tax rates. The tax rate for corporates whose turnover is less than INR 400 crores in FY 2023-24 is 25%. In all other cases, the rate is 30%.

Additionally, surcharge would be applicable as follows (except those opting for taxation under sections 115BAA and 115BAB (see next paragraph) of the ITA):

<b>Total Income (INR)</b>	<b>Surcharge</b>
Exceeding INR 1 crore but not exceeding INR 10 crores	7%
Exceeding INR 10 crores	12%

Special tax rates applicable in case of domestic companies are as follows:

<b>Domestic Company</b>	<b>Tax Rate</b>
Under section 115BAA who forego specific tax reliefs, set-off of brought forward losses etc.	22%
Under section 115BAB for new manufacturing companies	15%
<i>Rate of surcharge in case of above is 10% irrespective of amount of total income.</i>	

For foreign companies, the tax rate shall be 35%. The surcharge continues as follows:

<b>Total Income (INR)</b>	<b>Surcharge</b>
Exceeding INR 1 crore but not exceeding INR 10 crores	2%
Exceeding INR 10 crores	5%
<i>Amount of tax computed and surcharge will be further increased by 'Health and Education Cess' of 4%.</i>	

Surcharge shall not apply on advance tax / tax computed on income of specified fund (referred to in Explanation(c) to section 10 (4D) of the ITA) that is chargeable under section 115AD(1)(a) of the ITA.

In other cases [including section 92CE(2A), 115QA, 115R, 115TA or 115TD], the surcharge shall be levied at the rate of 12%.

Marginal relief is provided in surcharge in all cases. However, no marginal relief shall be available in respect of “Health and Education Cess on income-tax”, which also applies in all cases.

**B. RATIONALISATION OF TAX DEDUCTED AT SOURCE/ TAX COLLECTED AT SOURCE PROVISIONS (EFFECTIVE 01.04.2025)**

- To improve ease of doing business and better compliance by taxpayers, it is proposed to increase the threshold limit of TDS applicability.

Section	Current Threshold	Proposed Threshold
193 Interest on securities	Interest on debentures issued by non-closely held companies – INR 5,000	INR 10,000
	Other cases – Nil	INR 10,000
194	INR 5,000	INR 10,000

Section	Current Threshold	Proposed Threshold
Dividend paid to an individual shareholder		
194A Interest other than interest on securities. a. Banking company/ Co-operative society/Post office	INR 50,000 for senior citizens/ INR 40,000 for others	INR 1,00,000 for senior citizens/ INR 50,000 for others
b. Any other case	INR 5,000	INR 10,000
194B Winnings from lottery or crossword puzzle	Aggregate of amounts exceeding INR 10,000 during the financial year	Single transaction exceeding INR 10,000
194BB Winnings from horse race	Aggregate of amounts exceeding INR 10,000 during the financial year	Single transaction exceeding INR 10,000
194D Payment of insurance commission	INR 15,000	INR 20,000

<b>Section</b>	<b>Current Threshold</b>	<b>Proposed Threshold</b>
194G Commission etc on sale of lottery tickets	INR 15,000	INR 20,000
194H Payment of commission or brokerage	INR 15,000	INR 20,000
194-I Payment of rent	INR 2,40,000 during the financial year	INR 50,000 per month or part of a month
194J Payment of royalty or professional / technical fees	INR 30,000	INR 50,000
Section 194K Payment of income from units	INR 5,000	INR 10,000
Section 194LA Payment of compensation or enhanced compensation on compulsory acquisition of immovable property	INR 2,50,000	INR 5,00,000

- To improve ease of doing business and better compliance by taxpayers, it is proposed to rationalize the TDS rates.

<b>Section</b>	<b>Current TDS rate</b>	<b>Proposed TDS rate</b>
194LBC Income distribution by securitisation trust to resident investor	25% (where payee is individual / HUF) / 30% (for other payees)	10%

- The Government has noted that since presently there is no definition for the term 'forest produce' under section 206C(1) of the ITA, there were difficulties in applying these provisions. Hence, it is proposed to adopt the same meaning as in the Indian Forest Act, 1927 or in the State Act.
- TCS applicability under section 206C(1) of the ITA on traders of forest produce has been amended as below:

<b>Particulars</b>	<b>Current TDS rate</b>	<b>Proposed TDS rate</b>
Timber or any other forest product obtained under a forest lease	2.5%	2%
Timber not obtained under a forest lease	2.5%	2%

- It is proposed to omit TCS applying to sale of goods. This is considering representations received which highlighted the challenges that sellers face in verifying whether buyers have deducted TDS on purchase of goods, which may result in both TDS and TCS applying to the same transaction.
  - It is proposed to remove the higher TDS rates for non-tax return filing deductees or collectees. This is considering representations regarding difficulties faced by deductors and collectors in identifying the return filing status of deductees and collectees.
  - It is proposed to increase the threshold for applying TCS on remittances abroad under the Liberalised Remittance Scheme and overseas tour programme package, from the extant INR 7 lakh to INR 10 lakh. Additionally, it is proposed that the TCS provisions would not apply if the overseas remittance is made for educational purpose from a loan borrowed (as specified).
- C. MEASURES TO PROMOTE INVESTMENT AND EMPLOYMENT (EFFECTIVE FY 2025-26)**
- To further incentivise operations from the IFSC, the following amendments are proposed:
    - a. Sunset provisions for availing select tax concessions for units in IFSCs and for commencement of operations in IFSCs is extended from 2025 to 2030.
    - b. Hitherto, proceeds received by non-residents from a life insurance policy issued by an IFSC insurance intermediary office was taxable where the maximum premium payable on such policy was INR 2.5 lakhs and INR 5 lakhs for unit linked and non-unit linked insurance policies respectively. This threshold on the premium is now removed such that there is a clear exemption from tax for such proceeds received by non-residents.
    - c. Non-residents or units of IFSC engaged in ship leasing would be exempt from:
      - i. Tax on dividends from a company being a unit of IFSC engaged in ship leasing.
      - ii. Tax on capital gains on transfer of equity shares of domestic companies being units of IFSC, engaged in ship leasing.
    - d. Any advance or loan between two group entities, where one of the group entities is a 'finance company' or a 'finance unit' in IFSC<sup>1</sup> and the 'parent entity' or 'principal entity' of such 'group entity' is listed on stock exchange

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<sup>1</sup> Which is setup as a global or regional corporate treasury centre for undertaking treasury activities or treasury services.

in a country or territory outside India, (other than specified countries), would not be treated as 'dividend'. Hence, these transactions would be outside the purview of dividend taxation. The conditions for a 'group entity', 'principle entity' and the 'parent entity' would be prescribed.

- e. Select provisions have been rationalised for IFSC-based fund managers, who manage funds situated in other jurisdictions. This amendment seeks to increase the threshold for their taxation in India and thereby, provide a level playing field for such fund managers vis-à-vis fund management entities in competing foreign jurisdictions.
- f. Income of a non-resident from transfer of the following instruments entered into with a Foreign Portfolio Investor being an IFSC unit would be exempt:
  - i. Non-deliverable forward contracts,
  - ii. Offshore derivative instruments,
  - iii. Over the-counter derivatives.

Similarly, income from distribution of income on offshore derivative instruments would also be exempt. The exemption is subject to certain conditions that would be prescribed.

- g. To encourage funds from outside India to migrate to and transact from an IFSC in India, the law provides capital gains tax exemption for relocation of original funds to a resultant fund in the IFSC. It is now proposed to further encourage retail schemes or Exchange Traded Funds (which were outside the purview of the exemption) to relocate similarly. Hence, retail schemes would also be

considered as 'resultant funds' so that relocation of original funds from the retail schemes to such funds in the IFSC is also tax exempt.

#### ***Taxation of securities transactions for specific investor entities***

- Overseas Sovereign Wealth Funds and Pension Funds which fulfil specified conditions are exempt from tax on dividend, interest, long-term capital gains (LTCG) or certain other incomes arising from investments that they make in India. Presently, this investment is to be made on or before 31 March 2025. It is proposed to extend this date to 31 March 2030. Further, gains from unlisted debt securities will be regarded as LTCG and not short-term capital gains per section 50AA and will continue to be exempt.
- it is proposed to consider securities held by investment funds as capital assets. Thus, any income arising from transfer of such security would be a capital gain. This is considering the uncertainty on whether, for investment funds, income arising from securities transactions is business income or capital gains.

#### ***Presumptive taxation for non-residents servicing set-up of electronics systems design manufacturing facilities in India***

- The Government has noted that it is required to promote electronics systems design manufacturing facilities in India. These facilities, in turn, require support services for their set-up

from non-residents. To incentivise such non-residents, it is proposed to provide for a presumptive tax regime for such non-resident services. Per the proposals, 25% of the total amount received / receivable by or paid / payable to the non-resident for services or technology provided to a resident company will be deemed as taxable income. This would thereafter be taxed in India with the effective tax rate being 10%.

### ***Miscellaneous proposals***

- Presently, the beneficial and simple tonnage tax scheme is not available to inland water transport vessels. These vessels are important to boost to inland water transportation and they are capital intensive. Considering this, it is proposed to extend the benefits of tonnage tax scheme to inland vessels registered under the Inland Vessels Act, 2021.
- Presently, the source taxation provisions of the ITA provide that a non-resident will be taxed in India on income that is deemed to accrue or arise in India, including that from a business connection. Here, non-residents engaged only in purchasing goods in India for export are not considered to have a business connection in India and are hence outside the Indian source taxation rules. In 2018, a lower threshold for a source rule for non-residents was introduced through the provisions relating to 'Significant Economic Presence' (SEP). SEP contemplates a taxable presence for a non-resident due to purchase of goods in India for export (which business connection provisions exclude). To align the SEP position with

the concept of business connection, it is proposed to exclude transactions of purchase of goods in India for export by non-residents from the ambit of SEP.

### **D. SIMPLIFICATION AND RATIONALISATION (EFFECTIVE FY 2025-26)**

#### ***Non-profit organisations (NPOs)***

- NPOs are required to be registered under section 12AB of the ITA. This registration can be obtained upon filing of an application containing requisite information. The registration could be denied if there was a 'specified violation' as provided in section 12AB.

One such violation was an incomplete application. Hitherto, if the said application was incomplete, the same could be considered as a 'specified violation' and rejected. Thus, even a minor default in the application led to the denial of the registration. Considering the consequential burden, it is proposed that incomplete application cannot be treated as a 'specified violation'.

- To ease the compliance burden for smaller trusts or institutions, that is, NPOs that have a total income of not more than INR 5 crores (in each of the 2 FYs immediately before the application is made), it is proposed to extend the validity of their registration from 5 years to 10 years.

- NPOs are presently denied tax relief if their income is used for the benefit of the following persons:
  - a. People who contribute significantly to the trust (more than INR 50,000 in total contributions).
  - b. Relatives of those contributors.
  - c. Businesses or concerns in which these contributors have a substantial interest.
- Given the difficulty to provide details about such contributors' relatives and their businesses, it is proposed to:
  - a. Define a 'substantial contributor' as anyone who contributes over INR 1 lakh in a single year or over INR 10 lakhs in total.
  - b. Relatives of these contributors and business where these contributors have substantial interest will no longer be included in the restricted list.

#### ***Decriminalisation of select TCS non-compliance***

- Presently, failure to deposit TCS to the Central Government within the stipulated time can lead to rigorous imprisonment for a term ranging from a minimum of 3 months to a maximum of 7 years, along with a fine. It is proposed to decriminalise the above non-compliance where the payment for the respective quarter is made to the Central Government within the due date for the quarterly returns – 15 days from the end of the quarters in respect of the first three quarters of the FY and 15 May in respect of the last quarter of the FY.

#### ***Business trusts***

- A special tax regime provides pass-through status to certain incomes of business trusts, such as interest and dividend received from a special purpose vehicle. Such income is taxable in the hands of the unit holders unless it is exempt. Separately, the total income of the business trust is charged to tax at maximum marginal rate (MMR) subject to the provisions of sections 111A and 112. Capital gains tax on securities is governed not only by sections 111A and 112 but also by section 112A. However, this latter section reference was conspicuously absent in the extant provisions. Hence, as a measure of rationalisation, it is proposed to provide that the MMR would be subject to the provisions of not only sections 111A and 112 but also section 112A.

#### ***Clarification on redemption of Unit Linked Insurance Policy ('ULIP')***

- The ITA provides an exemption on the sum received from a life insurance policy, including any bonus. However, to qualify for this exemption, the premium paid during the policy term must not exceed 10% of the actual sum assured. The exemption was capped to 'small and genuine' cases where the premium did not exceed INR 2.5 lakh during the term of the policy.

Considering these nuances, it is proposed to provide as follows:

- a. ULIPs are considered a capital asset when the exemption under section 10(10D) doesn't apply. Thus, profits from the redemption of ULIPs will be taxed as capital gains.
- b. Such ULIPs would be regarded as equity-oriented funds for the purposes of capital gains tax under section 112A.

#### ***Extension of timeline for tax benefits to start-ups***

- Presently, a 100% tax deduction is provided on profits for eligible start-ups for 3 consecutive years out of the first 10 years of incorporation, subject to certain conditions. One of the conditions was that the start-up should be incorporated before April 1, 2025. This period is now extended to April 1, 2030.

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

- Foreign Institutional Investors are subject to a special tax regime on income from securities (other than specified units). The tax regime presently contemplates a tax rate of 10%. This rate is proposed to be increased to 12.5% to align with the LTCG tax rates applicable to residents.

#### ***Curbing evergreening of loss carry forward on mergers***

- To curb evergreening of tax benefits due to carry forward and set-off of tax losses due to multiple mergers, it is proposed to disallow carrying forward and setting off business losses

beyond 8 years from the year the loss was first computed for the original predecessor entity. This proposal would apply to any amalgamation or business re-organisation which is effected on or after 01.04.2025.

#### ***Obligation to furnish information in respect of crypto-asset***

- In continuation of the amendments made since 2022 to bring virtual digital assets (VDAs) within the ambit of income-tax, it is now proposed to require 'prescribed entities' to furnish information in respect of a transaction of a crypto-asset. The manner of reporting would be notified.

#### ***Block assessment for search and requisition cases under new search assessment regime in Chapter XIV-B***

- A new regime for search and requisition cases was introduced in 2024 vide sections 158B to 158BI of the ITA (Chapter XIV-B). The said provisions are proposed to be purportedly rationalised:
  - a. VDAs are sought to be included in the definition of "undisclosed income" under section 158B;
  - b. Pending assessments which would abate due to a search and application of provisions of Chapter XIV-B, will be revived if the search and assessments etc. under the said Chapter are annulled in appeal or any other legal proceeding.
  - c. Where a new search is undertaken on a taxpayer and assessments under Chapter XIV-B for the prior search

were not completed, such assessments are now 'required to be made' and not dovetailed into the new search. Only thereafter, assessment pursuant to the new search would be undertaken.

- d. The total income of the block period ought to include 'undisclosed income' as defined in section 158B and not 'total income disclosed' as the provisions presently provide. This lacuna is proposed to be corrected. Similar lacunae in section 158BB(1) is sought to be ironed out.
- e. It is also proposed to extend the time-limit for completion of block assessment to be 12 months from the end of the quarter in which the last of the authorisations for search or requisition has been executed, instead of 12 months from the end of the month of the last of the authorisations for search.

#### ***Legacy search penalty provisions to explicitly not apply to new search assessment regime***

- Presently, section 271AAB provides for levy of penalty pursuant to assessments made consequent to searches initiated after 15 December 2016. The said provision excludes from its ambit penalty proceedings pursuant to proceedings under the new search assessment regime contained in Chapter XIV-B. However, it is proposed to be unambiguous about the non-application of section 271AAB. Hence it is proposed to amend this section to provide that these provisions would not apply to a taxpayer in whose case search has been initiated under section 132 on or after 01 September 2024.

#### ***Rationalising time limits for retention of books and documents seized pursuant to actions under sections 132 and 132B for rationalising provisions***

- Presently, for retaining seized books and documents pursuant to a search beyond the assessment / reassessment etc., an approval has to be obtained within 30 days from the date of assessment, reassessment, etc. It is noted that this has created a burden. Hence, it is proposed to extend the time limit for obtaining the approval for retention to 1 month from the end of the quarter in which the assessment, reassessment, or re computation order is passed.

#### **E. SOCIO-ECONOMIC WELFARE MEASURES (EFFECTIVE FY 2025-26)**

##### ***Annual value of the self-occupied property simplified***

- Hitherto, the annual value of a house property could be considered as nil if:
  - a. It was occupied by the owner for their residence or
  - b. If the owner was unable to occupy it due to employment, business, or profession at another location.

This provision curtailed the free claim of nil annual value for two houses owned by the taxpayer, by placing the condition of non-occupation due to employment, business, or profession at another location. It is now proposed to remove this condition such that the annual value will be nil if the owner occupies it for his own residence or cannot actually occupy it due to any

reason. With this, a taxpayer can avail of exemption from taxation for two residential properties.

#### ***Deduction under section 80CCD for contributions made to NPS Vatsalya***

- The NPS Vatsalya Scheme was started in 2024 to enable parents and guardians to start a NPS account for their children. It is proposed to extend tax benefits that are presently available for contribution to the National Pension Scheme (NPS) to contributions made to the NPS Vatsalya Scheme. The relief is as follows:
  - a. A deduction up to INR 50,000 would be allowed to the parent / guardian's total income for the contribution.
  - b. Withdrawals of amounts on which deduction was claimed (or accrued income) will be taxable when withdrawn, except if received on account closure due to the minor's death.
  - c. A parent / guardian would be exempt on any income received from partial withdrawals from the minor's account, provided such withdrawals do not exceed 25% of the contributions made by the parent / guardian and follow the specified terms and conditions.

#### ***Increase in the limits on the income of the employees for the purpose of calculating perquisites***

- Where the income of an individual taxpayer did not exceed a threshold limit, the law contemplated threshold-based relief from perquisite taxation towards:
  - a. Amenities and benefits (in general) received by employees.
  - b. Expenditure incurred by the employer for travel outside India on the medical treatment of an employee or for employee's family member.

The limit was INR 50,000 and INR 2,00,000 respectively. Since these limits were specified in 2001, it is now sought fit to amend to empower the Central Government to prescribe the new limits.

#### ***Exemption to withdrawals by Individuals from National Savings Scheme from taxation***

- It is proposed to grant an exemption on National Savings Schemes withdrawals, including interest, made by individuals on or after 29th August 2024. This is subject to the deposits being made before 1st April 1992 and deductions have been claimed in respect of these deposits.

## F. TAX ADMINISTRATION (EFFECTIVE FY 2025-26)

### **Updated return**

- Presently, an updated return is permitted to be filed up to 36 months from the end of the concerned FY. The additional income-tax rate is:
  - a. 25% of aggregate of tax and interest payable for updated return filed upto 24 months from the end of the relevant FY.
  - b. 50% of aggregate of tax and interest payable for updated return filed after 24 months and upto 36 months from the end of the relevant FY.

It is proposed that additional time of 60 months from the end of the relevant FY be provided for an updated return with the additional tax rate being:

- a. 60% of aggregate of tax and interest payable for updated return filed after 36 months and upto 48 months from the end of the relevant FY.
- b. 70% of aggregate of tax and interest payable for updated return filed after 48 months and upto 60 months from the end of the relevant FY.

### **'Block' approach for transfer pricing assessments at the taxpayer's volition**

- Presently, cases are selected for scrutiny for computation of arm's length price and are referred to a Transfer Pricing Officer (TPO). The TPO examines documents and based on his / her

evaluation undertakes an ALP adjustment. This process could be repeated on an annual basis. It is noted that this process is repetitive when similar international or specified domestic transactions occur in consecutive years, purportedly leading to compliance and administrative burdens.

Hence, it is proposed to purportedly streamline the process by allowing the ALP determined for a transaction in a given year to apply to similar transactions in the 2 consecutive tax years that follow and thereby reduce repetitive assessments. The proposal contemplates the following procedure:

- a. The taxpayer shall exercise an option to apply the ALP for similar transactions for the 2 following tax years.
- b. This option must be exercised within a prescribed time frame in the prescribed manner.
- c. The TPO should validate the option that the taxpayer has exercised within 1 month from the end of the month of the taxpayer exercising the option.
- d. Upon validation, the TPO will determine the ALP for the 2 consecutive tax years based on the prior year's determination.
- e. No special reference will be required for these years, except in specific cases.

Consequential powers and time limits have been given to the AO to give effect to such determination by the TPO.

### **Select penalty proceedings no longer to be concluded by Joint Commissioner of Income-tax (JCIT)**

- Presently, the following penalty proceedings are to be conducted and orders passed by the JCIT. It is proposed that such proceedings can now be conducted and orders passed by the AO himself.
  - a. Penalties for failure to deduct or collect tax at source under sections 271C and 271CA of the ITA respectively.
  - b. Penalties for failure to comply with provisions of sections 269SS, 269ST, 269SU and 269T (on cash transactions and transactions through non-electronic modes) under sections 271D, 271DA, 271DB and 271E of the ITA respectively.

### **Extending time limits**

- Presently, section 275 of the ITA provides for different time limits to complete penalty proceedings and pass associated orders for different cases (e.g., when appeals are pending before ITAT, JCIT(A), or Commissioner (Appeals)). Noting that this makes it difficult for the Revenue to track multiple time barring dates for effective and efficient tax administration, it is proposed to provide that no penalty order shall be passed after the expiry of 6 months from the end of the quarter in which:
  - a. Connected proceedings are completed, OR
  - b. Appeal order is received, OR
  - c. Revision order is passed, OR
  - d. Penalty notice is issued (whichever applies).

- For the faceless schemes that are presently in the ITA, a time limit was provided for notifications for such schemes. This time limit was extended to 31 March 2025 due to various challenges in the formation of the scheme under these sections. It is proposed to remove such time limit. This would result in the notifications being issued by the CBDT at any time of its convenience without an end date.
- Presently, taxpayers are permitted to apply for immunity from penalties pursuant to assessment proceedings subject to certain conditions. This application is to be processed by the AO within 1 month from the end of the month of receiving the applications. It is provided that the AO can process such applications within 3 months from the end of the month of receipt of the application. No such relaxation is given to the assessee.
- The tonnage tax scheme can be availed by a taxpayer by filing an application with the JCIT. The JCIT is required to dispose the application within 1 month from the end of the month in which the application is received. Noting that this time limit is too short to review the application, it is proposed to provide that the JCIT is to dispose of the application within 3 months from the end of the quarter in which the application was received.

# INDIRECT Tax Proposals

## A. GST

### *Input Service Distributor (ISD)*

- Definition of ISD is amended to include an office of the supplier that receives invoices relating to inter-State supplies liable to tax under reverse charge. *Hitherto, only intra-State supplies were included.*
- Taxpayers receiving inter-State supplies that liable to tax under the reverse charge mechanism (RCM) relating to multiple GSTINs (under same PAN) will now be mandatorily required to obtain ISD registration for distribution of the corresponding input tax credit (ITC).

*Effective 01.04.2025*

### *Time of Supply*

- **Ambiguity on taxability of vouchers eliminated:** Provisions related to time of supply of vouchers (either as goods / services) are proposed to be omitted following the recommendations in the GST Council Meet and clarifications issued thereafter to the effect that vouchers by itself cannot be treated as supply of goods / services and GST will be leviable on the underlying goods / services only.

### Input tax credits

- **ITC restricted on supplies used for construction of immovable property other than plant 'and' machinery.** The term “plant or machinery” is proposed to be amended to “Plant and Machinery” retrospectively w.e.f 01.07.2017, thus restricting ITC on goods or services used for construction of any immovable property on own account of the taxpayer, except for ‘plant and machinery’. Further, any reference to ‘plant or machinery’ in prior orders, judgements or rulings of any Court or Tribunal is proposed to be construed as ‘plant and machinery’, nullifying the impact of the judgement passed by the Supreme Court in CC-CGST v. Safari Retreats Private Limited (167 taxmann.com 73).

*Effective retrospectively 01.07.2017*

### Tax Invoice, Debit and Credit Notes

- **Reversal of tax with respect to Credit Note in the recipient's hands, if supplier wants to reduce output tax:** The Bill has proposed to mandate the requirement of reversal of ITC in the hands of the registered recipient (if availed), for the purpose of reduction in output tax liability by the supplier.

*If the Invoice Management System (IMS) is not in place from 01.04.2025, this proposal will significantly increase the compliance burden in the hands of supplier as no mechanism currently exists to track the reversal of ITC (if any) by the recipient.*

### Returns

- An enabling clause is proposed to be introduced to prescribe certain conditions or restrictions (*yet to be notified*) for filing of returns by registered taxpayers.

### Appeals

- **Pre-deposit required for appeals involving only penalty demand:** The Bill has proposed to mandate a pre-deposit of 10% of penalty while preferring an appeal before the First Appellate Authority and additional 10% for appeals preferred before the Appellate Tribunal, for all cases involving demand of penalty without involving demand of tax. *Hitherto, no such pre-deposit was required except for orders relating to detention or seizure of goods or conveyances.*

Consequently, the existing requirement of pre-deposit of 25% of penalty for appeals before the First Appellate Authority against orders relating to detention or seizure of goods and conveyances is reduced to 10%.

### Track and trace mechanism introduced for specified commodities

- The Bill has proposed to introduce a track and trace mechanism for supply of specified evasion-prone commodities (*yet to be notified*), wherein a unique mark would be affixed on the goods / packages, which includes a digital stamp/mark and will be secure and non-removable. This is

primarily aimed at tracking the specified commodities throughout the supply chain to reduce tax evasion and fraudulent activities.

- Notified persons will be required to:
  - a. Affix Unique Identification Marking on such goods or packages containing information;
  - b. Furnish information and details and maintain records;
  - c. Furnish details of machinery installed in the place of business of manufacture of such goods, including identification, capacity, and duration of operation within the time limit prescribed;
  - d. Pay an amount in relation to the track and trace system introduced.
- Contravention of these provisions will result in an additional penalty which is higher (a) 1 lakh or (b) 10% of tax payable on the goods.

#### **Outside the GST Net**

- The transaction with respect to supply of goods warehoused in a Special Economic Zone (SEZ) or in a Free Trade Warehousing Zone (FTWZ) to any person before clearance for Exports or supply to a Domestic Tariff Area (DTA) will neither be considered as a supply of goods nor services. Further, no refund shall be granted for tax already paid in respect of the above transactions.

*Effective retrospectively 01.07.2017*

## **CUSTOMS**

### ***Time-limit fixed for finalising provisional assessments***

- A time-limit of **2 years** has been proposed, to complete the final assessments of BOEs assessed provisionally (subject to exceptions cited below), with a further extension of 1 year by the Commissioner of Customs, if sufficient cause is shown. *Hitherto, no statutory timelines for finalisation of provisional assessments existed.* The exceptions are as follows:
  - a. Information is sought from a foreign authority through a legal process;
  - b. An appeal is pending, in a similar matter, of the importer or any other person before the Appellate Tribunal, High Court, or Supreme Court;
  - c. An interim order of stay has been issued by any of above authorities;
  - d. CBIC has issued specific directions to keep the matter pending in a similar case; or
  - e. The importer/exporter has a pending application before the Settlement Commission or the Interim Board.

### ***Voluntary Revision of Entry Post Clearance permitted***

- The Bill has proposed to introduce Section 18A which provides for voluntary revision of any entry made in relation to the goods, within a prescribed time and manner (Rules awaited). *Hitherto, there was limited recourse to correct any errors in the entries made at clearance.*

- If the revision results in additional duty payable, the importer must remit the differential amounts along with interest. Conversely, if the revision reveals an overpayment, refund can be claimed. In either case, no penalties will be imposed.
- However, revision is not permitted in cases where:
  - a. Proceedings in nature of audits or search, seizure, or summons have been initiated;
  - b. Revision results in refund, where the Proper Officer (PO) has already re-assessed or finally assessed the duty.
- The PO is empowered to verify and re-assess the self-assessment done.
- The Bill further proposes that:
  - a. In cases involving refund on account of revision, the claim for refund must be filed within 1 year from the date of payment of duty or interest .
  - b. The relevant date, for any proceedings for duty paid by way of voluntary revision, be the date of payment of such duty or interest.
- The Interim Board is proposed to be constituted of senior officers of the rank of Chief Commissioner or above (nominated by the CBIC), without any judicial members, signifying a shift in the settlement process from a judicial to an executive function.
- Necessary amendments are proposed in the Customs and Excise laws, to provide for settlement of cases by the Interim Board, which were lodged before April 1, 2025 and pending with the Settlement Commission.

#### ***Relaxations Provided under Customs (ICGR or For Specified End Use) Rules, 2022***

- As a measure of relaxation, it is proposed that for importers having to comply with Customs (Import of Goods at Concessional Rate of Duty or For Specified End Use) Rules, 2022:
  - a. They would furnish a quarterly statement in IGCR-3. *Hitherto, a monthly statement was to be furnished.*
  - b. In line with the GST laws, the time-limit for receiving goods sent for job-work, is proposed to be extended to 12 months from the date of sending the goods. Hitherto, the said goods were to be received back within 6 months.

#### ***Settlement Commission To be replaced by Interim Board from April 1, 2025***

- The Customs & Central Excise Settlement Commission, established to expedite the resolution of disputed customs and excise duties, will cease operations from April 1, 2025 and will be replaced by an 'Interim Board'.



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