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BUDGET EXPECTATIONS

2025-26

DIRECT TAX EXPECTATIONS

1.0 Reintroduction of concessional tax rate for new manufacturing companies

Current Scenario

The existing concessional corporate tax rate u/s 115BAB, set @ 15%, introduced in 2019, has been pivotal in attracting investments into India. This rate is currently available to new eligible domestic manufacturing companies. However, a crucial requirement for these companies is to commence manufacturing operation by 31-03-2024 which has now lapsed. Introduced in 2019, this concessional rate yielded remarkable results, significantly boosting the influx of Foreign Direct Investment (FDI) into the Indian manufacturing sector.

Expected Changes

Considering the substantial role of concessional tax regime u/s 115BAB in advancing economic objectives and attracting foreign investments, the beneficial tax regime may be reintroduced for new manufacturing company to boost the "Make in India' initiative and make India a global manufacturing hub. Alternatively, the sunset clause to commence manufacturing which was extended to 31-03-2024 from 31-03-2023 vide Finance Act, 2022 may be amended and further extension may be granted, say, to 31-03-2030.

2.0 One time opportunity for opting out of new regime of taxation u/s 115BAA for domestic companies

Current Scenario

Sec. 115BAA provides an option to the existing domestic companies to pay tax at a lower rate of 22%++ [Effective tax Rate (ETR) – 25.17%] on Total Income w.e.f. AY 2020-21. Once new regime is opted, switching over to old regime is not permissible. On opting for the new tax regime, provisions of MAT u/s 115JB shall not be applicable. Further, accumulated MAT Credit entitlement shall lapse; certain allowances and deductions such as claim of additional depreciation, deduction u/s 32AD & 35(2AB), etc. and deduction under Chapter VIA except deduction u/s 80M & 80JJAA would have to be foregone. Various companies have opted for this new regime based on their projected tax liabilities or incorrect advice or assumptions. However, after opting for new regime, it is possible that the companies have realized that it had made wrong estimation of the total tax liability under the old regime due to huge eligible Tax Holidays and utilization of MAT credit which would have been available had it continued to remain under the old scheme of taxation; thereby paying lower taxes. In such case, there is no option available to such companies to opt out of the new regime of taxation and go back to old regime of taxation.

Expected Changes

Due to the above mentioned reasons, existing domestic companies who had opted for the new regime of taxation is facing undue hardship. Hence, a separate window may be opened for providing one time opportunity to such existing domestic companies to switch and go back to old regime of taxation retrospectively. The said provisions shall then be in alignment with the provisions of Sec. 115BAC for Individual & HUF having PGBP as income.

3.0 Rationalisation of provisions relating to Buy Back of Tax

Current Scenario

Vide Finance (No.2) Act, 2024, w.e.f. 01-10-2024, there is a significant change in the tax implications arising on the buyback of shares by abolishing the buy back tax in the hands of the company and shifting the incidence of tax in the hands of shareholders.

As per the amended provisions, the consideration received on account of buyback is treated as dividends which is taxed in the hands of the shareholders as "income from other sources". Further, the acquisition cost for shares bought back is considered a capital loss, which can be set off and carried forward against other capital gains. As a result, the shareholder end up paying higher tax and may not be able to take advantage of capital loss if there is no capital gain in current year or subsequent years.

Expected Changes

The government may bring an amendment that on buyback to the extent of cost of the shares, there should be no tax liability in the hands of the shareholders. Corresponding capital loss would not be admissible in the hands of the shareholder.

4.0 Rationalisation of the period of holding for computing capital gain tax in Slump Sale

Current Scenario

Sec. 50C provides that gains arising on transfer of one or more undertaking held by an assessee for not more than 36 months shall be considered as short term capital gains.

Expected Changes

In line with the changes made in Finance (No. 2) Act 2024 wherein the period of holding of all capital assets has been rationalised to 12 months and 24 months for computing long term and short term capital gain tax, it is expected in the case of slump sale also, the period of holding of undertakings for computing short term capital gain shall be reduced to 24 months from the existing 36 months.

5.0 Concessional and alternative tax regimes for firms and LLPs

Current Scenario

Currently there are provisions for concessional and alternative tax regimes for domestic companies, individuals, HUF and cooperative societies. However, partnership firms and LLPs are still taxable at a flat rate of 30% plus applicable Surcharge and Cess.

Expected Changes

The Government may introduce corresponding concessional tax regimes for firms and LLPs as well.

6.0 Rationalisation of restrictions on updated returns and extension of time limit for filing revised returns & belated returns

Current Scenario

The time limit to file revised return and belated returns have been substantially reduced from 2 years from the end of the relevant previous year to merely 9 months. At times, genuine claim by the assesse is missed out and the same is noticed beyond the period where the "Return of Income can be revised" by the assessee. Due to this difficulty, the assessee is very often deprived of the right to make genuine claim.

Further, condition imposed in case of Updated Return is that (a) it cannot be filed in a case where it is a Return of Loss and (b) where it has an effect of decrease in tax liability or increase in refund. Say for example, an assessee has a loss of ₹1 Cr. as per original Return and he wants to file an updated Return of loss declaring a reduced loss of ₹0.90 Crs. by removing an apparent error. In such a situation also, due to the language of the first proviso, since the updated Return will continue to be a Return of Loss, the assessee is not permitted to file an updated Return. This results in undue dispute on the error of ₹0.10 Crs. Further, any genuine claim or items like additional TDS resulting in increase in refund is also not permitted.

Expected Changes

Time limit to file revised return and belated return to be increased by atleast 3 months i.e. 12 months from the end of the relevant previous year since filing of the same within 1-2 months of filing of original return has no material meaning.

The current provisions for updated returns works only to the advantage of the revenue and an assessee can in no way take benefit by filing an updated return. Hence, updated return may be allowed for where the assessee has genuinely missed out to make a claim for an eligible deduction in the Return of Income or modify its losses, although with certain restrictions and/or conditions.

7.0 Proposal to Increase Basic Exemption Limit to ₹5 Lacs

Current Scenario

Presently, individual assessee under the slab rate system currently benefit from a basic exemption limit of ₹2,50,000 under the old regime and ₹3,00,000 under the new regime. Despite rapid year-on-year inflation and the rising cost of living, these thresholds have not increased significantly. Adjusting the basic exemption limit would provide much-needed relief to assessees and better align it with prevailing economic conditions.

Expected Changes

The Union Budget may propose to increase the basic exemption limit from the current ₹2,50,000 under the old regime and ₹3,00,000 under the new regime to around ₹5,00,000, providing significant relief to assessees.

8.0 Changes to House Rent Allowance (HRA) exemption calculation [Sec. 10(13A) r.w.r. 2A]

Current Scenario

Presently, only Chennai, Mumbai, Delhi and Kolkata qualify as metro cities for House Rent Allowance (HRA) calculations under the Act and are eligible for exemption of 50% of salary. Non-metro cities are eligible for HRA exemption of 40% of salary. It is worthwhile to note that the cities like Bengaluru, Hyderabad, Gurgaon, Pune, etc., have experienced significant progress in terms of infrastructural development and are at par with the traditional metro cities. As a result, these urban centres now attract a much higher rent outflow, sometimes surpassing the rent paid in the traditional metro cities.

Expected Changes

Budget 2025 is expected to include these established cities under metro cities category and allow 50% allowance for these cities as well.

9.0 Global Minimum Tax (GloBE Rules)

The member countries of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting ('Inclusive Framework') agreed to two Pillar solution to reform the international tax framework in response to the challenges arising from Digitisation of the Economy.

The Globe Rules consists of an inter-locking and co-ordinated system of rules which are designed to be implemented into the domestic law of each jurisdiction and operate together to ensure large MNE groups are subject to minimum effective tax rate of 15% on any excess profits arising in each jurisdiction where they operate. As per the Rules, in-scope Groups would be required to compute their income and taxes on that income on a jurisdictional basis. Where the Effective tax rate is below 15%, MNE group is required to pay a top-up tax that will bring the total amount of tax on MNE Group's excess profits in the low-tax jurisdiction to the 15% rate. The Top-up tax is either collected by the low-tax jurisdiction itself [Qualified Domestic Minimum Top-up Tax (QDMTT)], or where no QDMTT exists, by another implementing jurisdiction through implementation of the Income Inclusion Rule or Undertaxed Profits Rule.

Since the approval and press release of these Rules by Inclusive Framework, many jurisdictions [such as Belgium, Bermuda, Austria etc.] have enacted the implementation of these rules into their domestic law. As was indicated by the Hon'ble Finance Minister in the post-budget 2024 conference, India is intending to implement GloBE Rules and accordingly relevant enabling provisions are likely to be announced in this Budget.

10.0 Rationalisation of Significant Economic Presence (SEP) provisions

Current Scenario

The SEP provisions are very wide and even non-digital business could fall within its ambit, including business of import of goods in India.

Expected Changes

Clarification may be issued limiting SEP applicability to digital businesses (i.e. import of physical goods should be expressly kept outside the purview of SEP provisions). Further, specific attribution rules may be prescribed for SEP.

INDIRECT TAX EXPECTATIONS

1.0 Rate Rationalisation in Health Care Sector

Current Scenario

Presently, the GST rate on health insurance premiums is 18%.

Also, the GST levy on pharmaceutical products ranges between different GST rates, i.e. Nil, 5%, 12% and 18%. The Nil rate typically applies to life-saving drugs and vaccines, whereas the 18% rate applies to products such as nicotine gum, surgical, medical, dental or veterinary furniture such as operating tables, hospital beds, examination tables, etc., with mechanical fittings; dentists' chairs; barbers' chairs, etc.

The important life-saving medical equipment such as Linear Accelerators are standard radiation machines which are necessary for the treatment of Cancer that are unavailable in the country. Imposition of GST and Custom duties on Imports of these equipment makes the treatment of cancer expensive.

Expected Changes

Removal or Reduction of GST on health insurance premiums.

Various measures to revamp the health sector are expected. It includes rationalisation of GST rates such as a uniform GST rate of 5% to 12% on medical devices, from the current GST rates ranging from 5% to 18%. This uniform tax structure could simplify compliance, improve operational efficiency, and lower costs in the sector.

Reduction in the rates of GST and custom duty on important medical equipments such as Linear Accelerators is expected so as to make advanced cancer treatment cheaper and available in more parts of the country.

2.0 Steel Industry advocates for protection from rising imports

Current Scenario

Domestic steel manufacturers are facing stiff competition from rise in steel imports over the past one year, especially from countries like China, Japan and Vietnam, which are flooding the Indian market with low-cost steel.

Expected Changes

To tackle this import menace, the steel industry is expecting the Government to roll out protectionist measures in the upcoming Budget. To this effect, the Steel Ministry is proposing a 25% safeguard duty on these steel imports with an aim to safeguard interest of domestic steel players.

3.0 Amnesty Scheme

Current Scenario

Central Government had earlier introduced Sabka Vishwas (Legacy Dispute Resolution) Scheme, 2019 to resolve disputes related to erstwhile Excise and Service Tax issues. Likewise, the GST Council introduced the GST Amnesty Scheme 2024 which provides for significant relief to the taxpayers by waiving penalties and interest for the specified period, making it a crucial step towards tax compliance.

Expected Changes

One time dispute resolution/settlement scheme may be announced under the Customs Law to settle the pending disputes. This scheme would provide much-needed relief to industry, particularly small businesses, by offering an opportunity to resolve past disputes and move forward without the burden of pending litigations.

4.0 Addressing anomalies due to inverted duty structures

Current Scenario

Currently manufacturers pay import duties on many raw materials and intermediate goods that are higher than levies on finished goods creating an inverted duty structure. This scenario typically exists in information technology hardware items, automobile parts and textiles, among others.

Expected Changes

Duty correction is likely to be done with a view to boost domestic production and enhance the manufacturer's competitiveness.

5.0 Facilitation and rate rationalisation of EV manufacturing

Current Scenario

Currently technology, machines, equipment for manufacturing Lithium Ion Cells (batteries) have to be sourced out of India. Lithium Ion cells are an important component in the manufacture of Electric Vehicle and Custom duty payment on the same leads to cost inefficiencies.

Expected Changes

With Electric Vehicle sector focus area of the Government, relief is expected for manufacturing EVs and parts of EVs particularly Lithium Ion Cells. This may get some consideration in the Budget, 2025.

BUDGET EXPECTATIONS 2025-26

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