nasscom

Union Budget 2025-26

Key highlights

February 1, 2025

- The Union Budget 2025-26 (**Budget**) presented by the Hon'ble Finance Minister Ms. Nirmala Sitharaman, outlines the government's economic plans and initiatives for growth, inclusivity, and development across various sectors.
- The key domains covered in the Budget include taxation, power, urban development, mining, the financial sector and regulatory reforms. These areas are central to government's focus on driving growth, improving infrastructure, enhancing governance, and ensuring sustainable development across various sectors.
- The Revised Estimate of the fiscal deficit for 2024-25 is pegged at 4.8% of GDP, against 4.9 per cent estimated earlier. For 2025-26, the fiscal deficit is estimated to be 4.4% of GDP. To finance the fiscal deficit, the net market borrowings from dated securities are estimated at ₹11.54 lakh crore. The balance financing is expected to come from small savings and other sources. The gross market borrowings are estimated at ₹14.82 lakh crore.
- As nasscom, we are encouraged with the government's commitment to leverage and harness technology for growth, as is evident from a host of measures including exploration of Deep Tech Fund of Funds, establishment of a new Fund of Funds for Startups, allocation for private sector driven R&D and Innovation initiative, start of National Geospatial Mission, access to PM Gati Shakti Data for the private sector, Nuclear Energy Mission, setting up a Centre of Excellence in AI for Education and setting up of Atal Tinkering Labs in Government schools.

Key wins:

- **Exploring a DeepTech Fund:** The proposal to explore a Deep Tech Fund of Funds to catalyse next-generation startups is a welcome move. Nasscom has been advocating for setting up a structured Deep Tech fund to enhance access to patient capital for DeepTech startups. This will be important for India to have Global winners in DeepTech in key commercial segments and areas critical to India's requirements. We will work with the government and the industry to ensure that the proposal is crystalised.

- **Setting up a new Fund of Funds for startups:** The proposal to set up a new Fund of Funds (**FoF**) with expanded scope and a fresh contribution of ₹10,000 crore is a welcome proposal. This should help attract greater private investments into start-ups and position India as a global hub for innovation and technology-driven growth, promoting long-term economic growth and self-reliance.

- **National Framework for Global Capability Centres (GCCs):** The proposal to introduce a national framework as guidance to states for promoting GCCs in tier 2 cities is welcome. This is in line with nasscom's recommendations to the government on promoting talent and infrastructure in tier 2 cities.

- **Introduction of 3-year block assessment for international transactions:** The proposal to determine Arm's Length Price (**ALP**) of international transactions for a block period of three years is a welcome proposal. This proposal will streamline the transfer pricing assessments and will provide an alternative to yearly assessment. This will have a positive impact on the taxpayers audited for transfer pricing on yearly basis and is a welcome step. This is akin to an Advance Pricing Agreement (**APA**) in-reverse, so taxpayers do have the possibility to fast-track the audit closures and bring them up to date. This will lead to reduction in year-on-year transfer pricing audits for taxpayers for same international transaction, based on successful implementation.

- **Expansion in the scope of safe harbour rules:** The announcement to expand safe harbour rules reaffirms the commitment made by the government in the July Budget 2024 to provide certainty and streamline transfer pricing assessment procedures. This reaffirmation signals a strong push towards creating a more predictable tax environment for businesses engaged in international transactions. The matter is under examination by an *Internal Committee of CBDT on Transfer Pricing Matters*. We are working closely with the government so that these announcements translate into actual reforms for the industry.

- **Rationalisation of Tax Deduction at Source (TDS) provisions:** The announcement to reduce the number of rates and increase thresholds above which TDS needs to be deducted will improve ease of doing business and better compliance by taxpayers. This is an important announcement in line with nasscom's recommendations.

- **Omission of TCS provisions under S. 206C(1H) of Income Tax Act, 1961 on sale of goods** – This is a welcome move and is in line with nasscom's recommendations. This will provide certainty to the industry.

Work in progress:

- **Rate rationalisation and increase in threshold for applicability of Safe Harbour:** The implementation of Budget announcement 2024-25 highlights that the issue is under examination by an Internal Committee of CBDT on transfer pricing matters and we will work with the government on the rationalisation of safe harbour rates and increase in thresholds.
- **Measures to revamp the Advance Pricing Agreements (APA) regime:** This is not exclusively a Union Budget initiative but represents an important area for ongoing reform. The government's acknowledgment of the need to enhance the APA framework in the Economic Survey 2024-25 demonstrates their commitment to improving transfer pricing regime. We will continue to work with the government on this.
- **Rationalisation of the Income Tax provisions for business reorganisations:** We had requested the government to allow carry forward of business loss and accumulated depreciation to all services companies as well under S. 72A of IT Act. Currently, only industrial undertaking, banking companies are allowed to carry forward of business loss and accumulated depreciation in case of amalgamation.
- **Deferment of the time of payment of tax on Employee Stock Option Plan (ESOP) for employees of more start-ups:** In 2020, government allowed tax deferment on ESOP by employees of startups recognised by the Department for Promotion of Industry and Internal Trade (**DPIIT**) and certified by Inter-Ministerial Board (**IMB**). However, the IMB certified start-ups whose employees are eligible to avail of tax deferment on ESOPs are insignificant in number – around 3600. To foster a more inclusive startup ecosystem and enhance the effectiveness of ESOPs, there is a need to allow deferment of the time of payment of tax on ESOP for employees of all DPIIT recognised startups. Further, there is a also need to shift the point of taxation to the point of sale of shares. We will continue to work with the government on this issue.

Other important highlights of Union Budget 2024 are as follows:

Start-ups

- **Extension in sunset date for incorporation to qualify as eligible startup for tax holiday under S. 80-IAC of IT Act to March 31, 2030**. This will ensure continuity of S. 80-IAC exemption for eligible start-ups (where start-ups can claim tax exemption for 3 consecutive years out of first 10 years of their incorporation) for another one year.

- **Enhancement of credit availability with a guaranteed cover:** To improve access to credit, the credit guarantee cover for Startups will be enhanced from ₹10 crore to ₹20 crore, with the guarantee fee being moderated to 1% for loans in 27 focus sectors important for Atmanirbhar Bharat

R&D and Innovation

- **Research, Development & Innovation:** The ₹20,000 crore allocation for private sector-driven Research, Development, and Innovation (R&D&I) is a game-changer for India's Tech startup ecosystem. It has the potential to driving advancements in AI, quantum computing, semiconductors, space tech, biotech, and other frontier technologies.

Regulatory Reforms for Ease of Doing Business:

- **High-Level Committee for Regulatory Reforms:** This will be established to review and recommend updates to non-financial sector regulations, certifications, and compliance requirements within one year. The goal is to streamline processes and enhance trust-based governance, with States encouraged to participate.

- **Jan Vishwas Bill 2.0:** Building on the 2023 Jan Vishwas Act, the Government will introduce Jan Vishwas Bill 2.0 to decriminalize over 100 additional provisions across various laws, reducing regulatory burdens on businesses.
- **Launch of Investment Friendliness Index:** This will promote competitive federalism and encourage States to improve their investment climates by adopting best practices.
- **Strengthening the Financial Stability and Development Council (FSDC) Mechanism:** This will assess current financial regulations and develop a more responsive framework to support the sector's growth and stability.
- **Merger of Companies –** The procedures for speedy approval of company mergers will be rationalized. The scope for fast-track mergers will also be widened and the process made simpler.

Skilling

- **Setting up of Centres of Excellence (COEs)**: Building on the initiative announced in the July 2024 Budget, five National COEs for skilling will be set up with global expertise and partnerships to equip our youth with the skills required for "Make for India, Make for the World" manufacturing. The partnerships will cover curriculum design, training of trainers, a skills certification framework, and periodic reviews to support indigenous innovation.
- **Setting up of Atal Tinkering Labs (ATLs):** 50,000 ATLs will be set up in government schools in the next 5 years. The push to inculcate skills such as design mindset, computational thinking, adaptive learning, physical computing etc. will benefit the tiered skilling approach by establishing foundational technical capabilities at the school level.
- **AI COES**: An AI COE for education will be set up with a total outlay of ₹500 crore. This aligns with the government's push for skilling in AI and development of indigenous AI models. It will likely make available resources to benefit both these objectives.
- **Gig workers**: The government will provide dedicated ID cards and e-Shram registration for gig workers along with healthcare coverage under PM Jan Aarogya Yojana, aiming to benefit ₹1 crore gig workers. This reaffirms the government's commitment to improve social welfare benefits for gig workers and could provide a boost to the gig economy.
- **PM Research Fellowship scheme**: In the next five years, under the PM Research Fellowship scheme, the government will provide 10,000 fellowships for technological research in IITs and IISc. Focused on science and engineering, this initiative will provide much needed support for India's research capabilities in emerging technologies.

Digital Public Infrastructure

- **Establishment of Bharat Trade Net (BTN)** The Budget proposes to establish an integrated platform for trade documentation and financing solutions. This will complement the Unified Logistics Interface Platform and be designed in line with international best practices.
- **Launch of National Geospatial Mission**: This is to develop foundational geospatial infrastructure and data. Building upon the existing PM Gati Shakti initiative, the mission will facilitate modernisation of land records, urban planning, and design of infrastructure projects. This may create new market opportunities for space sector enterprises.
- **Access to PM Gati Shakti portal:** Private sector will be able to access relevant data and maps from the PM Gati Shakti portal. This will support the private sector in their project planning and enhance public-private partnerships.

Power Sector Reforms

- **Augmentation of Intra-State Transmission Capacity**: An additional borrowing of 0.5% of GSDP will be provided to states for incentivising electricity distribution reforms and augmentation of intra-state transmission capacities. This additional borrowing will be contingent upon states undertaking such reforms. This can solve several power-related issues at the state-level, which has been a constant ask of data center enterprises.

- **Nuclear Energy Mission:** The Government is aiming to generate at least 100 GW of nuclear energy by 2047. To achieve this goal with an active participation from the private sector, the government will make suitable amendments under the Atomic Energy Act and the Civil Liability for Nuclear Damage Act. Nuclear Energy

Mission will be set up with an outlay of ₹20,000 cr for R&D of Small Modular Reactors (**SMR**), and at least 5 SMR will be operationalised by 2033.

These initiatives will boost the data centre industry in the country and will enhance the potential of making it a global hub.

Micro, Small and Medium Enterprises (MSMEs)

- **Enhancement of credit availability with guaranteed cover:** Credit guarantee cover will be enhanced from ₹5 crore to ₹10 crore for micro-enterprises leading to additional ₹1.5 lakh crore credit in next five years. For well-run exporter MSMEs, for term loans, it will be up to ₹20 crore.
- **Export Promotion Mission:** Proposal to set up this mission with sectoral and ministerial targets, driven jointly by the Ministries of Commerce, MSME, and Finance. This will facilitate easy access to export credit, cross-border factoring support, and support to MSMEs to tackle non-tariff measures in overseas markets.
- **Proposal to introduce the customised credit cards** with INR 5 lakh limit for micro enterprises registered on Udyam portal.
- **Revision in classification criteria for MSMEs:** To help achieve higher tech upgradation and better access to capital, investment and turnover limit for all MSMEs enhanced to 2.5x and 2x respectively. This will ensure growth of MSMEs.

Direct tax

- **Removal of higher rate of TDS and TCS for non-filers of returns:** Proposal to omit S. 206AB/ 206CCA which outlines the requirement for deduction/ collection of tax at higher rates when the deductee/ collectee is a non-filer of income-tax return. This is a major compliance simplification measure and will result in ease of doing business.

- **Diluting prosecution provisions in the case of TCS default:** Similar to withdrawal of prosecution provisions for TDS default introduced in last year's budget, no prosecution proceedings will be initiated where taxes collected are deposited on or before the statutory deadline of TCS return for respective quarter.

- **Rationalisation of various TDS compliance provisions by increasing thresholds:** The Finance Bill proposes increased threshold limits under various TDS sections:

Particulars	Current threshold (in INR)	Proposed threshold (in INR)
193 – Interest on securities	5,000/- per financial year	10,000/- per financial year
194 - Dividend for individual shareholder	5,000/- per financial year	10,000/- per financial year
194A - Interest other than securities	50,000/40,000/5,000 per financial year	100,000/50,000/10,000 per financial year
194H - Commission or brokerage	15,000/- per financial year	20,000/- per financial year
194-I Rent	240,000/- during the financial year	50,000/- per month or part of a month
194J - Fee for professional or technical services	30,000/- per financial year	50,000/- per financial year

- **Presumptive taxation for non-residents -** A scheme of presumptive taxation is proposed to be introduced for non-residents providing support services or technology to an Indian resident company engaged in manufacturing of electronic goods as per scheme notified by Ministry of Electronics and Information Technology. Taxable income will be computed on presumptive basis at 25% of gross amount received or receivable by the non-resident, leading to an effective tax rate of 9.555%. This proposal seems to be in line with the Government's intention to boost make in India initiative and enable seamless availability of foreign technology support for achieving the vision of Viksit Bharat.

- **Tax Collection at Source on Liberalised Remittance Scheme (LRS):** No TCS on remittances under LRS scheme up to INR 10 lakh, as against earlier limit of INR 7 lakh. Further, no TCS on amount remitted for education purposes out of loan obtained from any financial institution as notified under section 80E

- **Restriction on carry forward and set off of accumulated losses:** In case of amalgamation of taxpayers specified under S. 72A, it is proposed that losses shall not be carried forward for a period exceeding 8 assessment years immediately succeeding the assessment year for which such loss was first computed for original predecessor entity. Proposed amendment is aimed to prevent evergreening of the losses of the predecessor entity resulting from successive amalgamations.

- **Extension of time limit for filing updated return:** Timeline to file updated tax return proposed to be extended to 4 years from the end of the relevant assessment year (erstwhile 2 years) for voluntary compliance by taxpayers who had omitted to report their correct income. The proposed additional tax payable has been tabulated below:

• **Timeline**	• **Additional Income-tax payable**
• Upto 12 months	• 25% of aggregate of tax & interest payable
• After 12 months – upto 24 months	• 50% of aggregate of tax & interest payable
• After 24 months – upto 36 months	• 60% of aggregate of tax & interest payable
• After 36 months – upto 48 months	• 70% of aggregate of tax & interest payable

- **Expansion of tax regime for Virtual Digital Assets (VDA):** It has been proposed to expand the definition of VDA to include that any crypto asset being a digital representation of value that relies on a cryptographically secured distributed ledger or a similar technology to validate and secure transactions, whether or not already included in the definition of virtual digital asset or not. Further, scope of definition of undisclosed income has been expanded to include virtual digital assets w.e.f. 01st February 2025. A new section 285BAA has now proposed to be inserted which provides an obligation to furnish information of crypto-asset transaction

Goods and Services Tax (GST):

- **Invoice Management system (IMS):** S. 34(2) of CGST Act has been amended to link reduction of output liability pertaining to credit notes with the reversal of credit. This is intended to give legal backing to addition of output liability for the supplier on account of rejection of credit notes. Parallel amendments have been made to S. 38 (Communication of details of inward supplies and input tax credit) to link IMS and entries appearing in GSTR-2B, by removal of the words 'auto-generated'.
- **Input Service Distributor (ISD) mechanism**: S. 20 and definition of ISD have been amended to enabling coverage of inter-State RCM supplies under S. 5(3) and 5(4) of the IGST Act.
- **Ineligible credit relating to plant and machinery**: S. 17(5)(d) has been amended retrospectively w.e.f. 01 July 2017, and where any supply used for construction other than 'plant and machinery' has been deemed to be ineligible. This is contrary to the Safari retreats ruling and this is intended widely to deny benefit of input tax credit on goods and services used for construction of immovable property.
- **Alignment of pre-deposit provisions:** Appeal provisions amended to provide for pre-deposit in following cases:
  - Filing appeal with Appellate authority in cases where no demand of tax is involved and only penalty amount has been demanded.
  - Filing appeal in Appellate Tribunal in respect of cases involving only demand of penalty without any demand for tax
- **Taxation of vouchers**: S. 12(4) and 13(4) of CGST Act have been deleted, as discussed in 55th Council meeting that 'voucher' itself are neither supply of goods nor supply of services and only the underlying supply is liable to be taxed.

Customs:

- **Time limit for Provisional Assessment**: Proposal to introduce definite time limit of 2 years for finalization of provisional assessments, extendable by one year, with certain exceptions. The Customs authorities shall communicate the reasons, as provided above, for non-finalization within the prescribed time to the concerned importer/ exporter.

- **Voluntary post clearance revision of bill of entry:** A new Section 18A is proposed for voluntary revision of entry post-clearance in relation to imported/ exported goods within such time limit as may be prescribed. This provision also enables one to voluntarily declare material facts and pay duty with interest (without penalty). Revised entry to be considered for a refund claim under section 27. The period of limitation for refund under such voluntary revision will be one year from the date of payment of duty or interest. No revision will be allowed in some cases

NEXT STEPS:

Nasscom will soon be submitting a detailed post budget memorandum highlighting concerns and recommendations to strengthen the Budget proposals. Request you to send your inputs at the earliest to tejasvi@nasscom.in.

Disclaimer: The above highlights are based on our preliminary analysis.