

Union Budget 2025

February 01, 2025

Key Highlights – Economic Survey 2024-25

- | Underscored the importance of enabling businesses to concentrate on their core missions – “Get out of the way” and trust people.
- | “Deregulation” and “Ease of Doing Business” are essential for improving the efficiency of investments in the country, even if they do not directly boost the investment rate.
- | Economic Survey also highlighted the progress India made in its tax system though acknowledging there is room for greater tax certainty and stability.
- | Efficient Advance Pricing Agreements (APA), expanded Safe Harbour Rules (SHR) and streamlining transfer pricing assessments could boost India’s potential for housing IT, ITeS, and Global Capability Centres (GCC).



01

DIRECT TAX

Framework

Finance Minister Nirmala Sitharaman presented Union Budget on February 1, 2025, emphasizing a five-year vision as a unique opportunity to achieve 'Sabka Vikas'.

Some of the key highlights of direct tax proposals are as follows:

- | New Income Tax Code to be introduced in a week's time
- | Special focus on middle class – personal tax slabs changed across board
- | Simplified TDS / TCS regime and reduced compliance
- | Extension of sunset dates, at once, for 5 years for several provisions
- | Extended benefits in GIFT City IFSC

A close-up, warm-toned photograph of a person's hands working at a desk. The person is wearing a white long-sleeved shirt. One hand is holding a crumpled piece of paper, possibly a receipt or tax form, while the other hand is using a silver and red calculator. A spiral-bound notebook and a pen are also visible on the desk. The background is softly blurred, showing a window with natural light. A red diagonal graphic element is overlaid on the bottom right, with the text 'Personal Tax' in white serif font.

Personal Tax

New Tax Regime

| S. No | Total Income (INR) | Rate of Tax* |
|-------|-----------------------|--------------|
| 1. | Up to 4,00,000 | Nil |
| 2. | 4,00,001 - 8,00,000 | 5% |
| 3. | 8,00,001 - 12,00,000 | 10% |
| 4. | 12,00,001 - 16,00,000 | 15% |
| 5. | 16,00,001 - 20,00,000 | 20% |
| 6. | 20,00,001 - 24,00,000 | 25% |
| 7. | Above 24,00,000 | 30% |

- | No tax for resident individuals with income up to INR 12,00,000 due to increased rebate under section 87A.
- | For salaried individual, no tax up to INR 12,75,000 due to standard deduction of INR 75,000.
- | Increased benefit not extended to special-rate incomes such as capital gains.
- | The new rates are applicable with effect from Financial Year 2025-26.

**Above rates to be increased by applicable surcharge and cess*

Individual Tax

Perquisite

- | Perquisite limits on employer-provided amenities (INR 50,000) and expenditure on medical treatment outside India (INR 2,00,000) were set over 20 and 30 years ago, respectively.
- | Proposal to amend the section allowing power to prescribe rules for increasing these limits.

Self-occupied Property

- | The annual value of up to two self-occupied properties is proposed to be considered NIL, if the owner lives in it or cannot occupy it for any reason.
- | Previously, non-occupation was only permitted if the owner lived elsewhere due to employment, business or profession.

Individual Tax

National Savings Scheme (NSS)

- | Withdrawals from NSS, on or after August 29, 2024, for which a deduction has been allowed, to be tax-exempt.

NPS Vatsalya

- | Aggregate deduction of up to INR 50,000 allowed for parents/guardians.
- | No tax on proceeds received in the event of the minor's death.
- | Partial withdrawals (up to 25% of contributions) to be tax-exempt.

Unit Linked Insurance Policy (“ULIP”) – Clarification

- | Income tax exemption on sum received under a ULIP is not available if:
 - Annual premium exceeds INR 250,000 during any year of the policy term; or
 - Annual premium exceeds 10% of the sum assured in any year of the policy term.
- | Ambiguity existed on whether gains from such non-exempt ULIPs should be taxed as capital gains or income from other sources.
- | Budget 2025 has clarified that such non-exempt ULIPs are “**capital assets**”. Consequently, redemption will be taxable as capital gains.
- | Such non-exempt ULIPs are to be classified as equity-oriented funds and taxed accordingly.
- | This proposal will take effect from April 1, 2025.



Corporate Tax & Transfer Pricing

Harmonisation of Significant Economic Presence (SEP) Provisions

- | Deeming provisions to tax income of non-residents include income from business connection and SEP.
- | For business connection – specific exclusion existed in respect of income from operations which are confined to the purchase of goods in India for the purpose of export.
 - Similar exemption was not for SEP – creating confusion
- | Budget 2025 proposes to amend the definition of SEP to provide that transactions or activities of a non-resident confined to the purchase of goods in India for export shall not constitute SEP in India.
- | This proposal will take effect from April 1, 2025.

Presumptive Tax - Electronic Manufacturing Facility

- | New presumptive taxation regime for non-residents engaged in providing support or technology:
 - to a Indian resident company which is establishing or operating *electronic manufacturing facility* or a *connected facility* for manufacturing or producing electronic goods in India
 - under a scheme notified by Ministry of Electronics and Information Technology
- | **Deemed income from business:** 25% of the amount received or deemed to be received
 - Resulting in effective tax rate of approximately 8.75%
- | No set-off of unabsorbed depreciation and brought forward loss shall be allowed against such deemed income.
- | This proposal will take effect from April 1, 2025.

Mergers and Succession – Restriction in carry forward of losses

- | Accumulated losses of the predecessor entity was deemed to be the loss of the successor entity – thereby allowed to be carried forward for a “fresh period” of eight years. This was applicable to:
 - the amalgamation of corporate entities,
 - succession of a proprietary concern or a firm by a company,
 - the succession of a private limited company or an unlisted public company by an LLP.
- | In order to discontinue evergreening of losses and potential infinite carry forward, Budget 2025 proposes to restrict the carry forward to a maximum period of 8 years.
- | This proposal will take effect from April 1, 2025.

Transfer Pricing

- | Rationalisation proposed: Arm's length price ("ALP") in relation to an international transaction or a specified domestic transaction for a particular tax year shall also apply to next two consecutive tax years (block of 3 years).
- | Specific procedure to be followed:
 - Taxpayer shall be required to exercise an option in the prescribed manner within the prescribed time limit.
 - Transfer pricing officer to declare option to be valid (subject to prescribed conditions) within one month from the end of the month in which such option is exercised.
 - No reference to transfer pricing officer can be made in such cases.
 - This option is not available for search cases.
 - Power granted to tax officer to recompute the income and amend the assessment order / intimation for two consecutive years in conformity with ALP determined by transfer pricing officer.
- | This proposal will take effect from April 1, 2025.



Funds / Business Trust

Fund / AIF

- | Definition of capital asset to be amended to provide that securities held by Category I or a Category II Alternative Investment Funds will be deemed to be capital assets
 - This will ensure that income arising from transfer of such security will qualify as “capital gains” income.
- | Tax rate for FPIs to be aligned with (uniform) tax rate of 12.5% from the transfer of unlisted shares and listed debt securities
 - Currently taxed at 10%

These proposal will take effect from April 1, 2025.

Sovereign Wealth Funds and Pension Funds

- | Long-term capital gains for SWFs and PFs exempt – includes unlisted debt securities
- | Gains from transfer of unlisted debt security – deemed as short term capital gains
- | Budget 2025 proposes that such deemed short term gains also eligible for exemption
- | Time limit for SWFs and PFs to make investments (for tax exempt income) increased from March 31, 2025 to March 31, 2030.

Business Trust (REITs and INVITs)

- | Income of REITs and INVITs chargeable to tax at maximum marginal rate (MMR), subject to lower tax rate under section 111A and 112 of the Income Tax Act.
- | It is proposed to clarify that the long-term capital gains arising from transfer of listed shares, units of an equity-oriented fund and unit of a business trust (all of these being subject to STT), shall be taxable at a lower rate of **12.5%**, and not at MMR.

This proposal will take effect from April 1, 2025.



CHARITABLE INSTITUTIONS

Reforms for Charitable Institutions

- | Smaller trusts / institutions:
 - Total income not exceeding INR 5 crores during each of the two financial years
 - Validity period of registration increased from 5 years to 10 years to reduce compliance burden
- | Minor default such as incomplete application will not lead to cancellation of tax registration.
- | Application of income for benefit of specified persons (relatives) rationalized:
 - Threshold for substantial contribution (for specified person) increased to INR 1 lakh during the relevant year, or to INR 10 lakhs in aggregate up to the end of relevant financial year.
 - Relatives of person with substantial contribution or any concern in which such person has a substantial interest shall not be part of 'specified persons.'

Compliances / TDS and TCS

TDS Reforms – Increased Threshold

| S.No | Nature of payment | Existing Threshold (INR) | Amended Threshold (INR) |
|------|---|--|---|
| 1. | Interest on securities | Nil | 10,000/- |
| 2. | 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, co-operative society and post office; (iii) 10,000/- in other cases |
| 3. | Dividend, for an individual shareholder | 5,000/- | 10,000/- |
| 4. | Income in respect of units of a mutual fund or specified company or undertaking | 5,000/- | 10,000/- |
| 5. | Winnings from lottery, crossword puzzle etc. and winnings from horse race | Aggregate of amounts exceeding 10,000/- during the financial year | 10,000/- in respect of a single transaction |
| 6. | Insurance commission | 15,000/- | 20,000/- |
| 7. | Income by way of commission, prize etc. on lottery tickets | 15,000/- | 20,000/- |
| 8. | Commission or brokerage | 15,000/- | 20,000/- |
| 9. | Rent | 2,40,000/- during the financial year | 50,000/- per month or part of a month |
| 10. | Fee for professional or technical services | 30,000/- | 50,000/- |
| 11. | Income by way of enhanced compensation | 2,50,000/- | 5,00,000/- |

TCS Reforms

- | Threshold for remittance under LRS and overseas tour program package has been increased from INR 7 lakhs to INR 10 lakhs.
- | No TCS on LRS if remittance is for educational purposes through loan from specified financial institution.
- | TCS is not applicable on sale of specified goods.
- | Higher TDS / TCS in case of non-filing in income tax return has been removed.
- | No prosecution in case of failure to pay TCS at the prescribed time, if payment has been made to the government on or before the time prescribed for filing the quarterly statement for such payment.

Updated Income Tax Return (ITR-U)

- | Existing law - the time limit to file an updated return and the additional tax liability:

| Period (from end of relevant assessment year) | % of additional tax and interest |
|---|----------------------------------|
| 12 months | 25% |
| 12 - 24 months | 50% |

- | In order to encourage voluntary compliance, additional period provided:

| Period (from end of relevant assessment year) | % of additional tax and interest |
|---|----------------------------------|
| 24 - 36 months | 60% |
| 36 - 48 months | 70% |

- | Taxpayers not eligible to file updated return - show cause notice issued for initiation of reassessment proceedings after 36 months (unless proceedings are dropped).



IFSC

GIFT IFSC (1/3)

- | **Extension of sunset dates:** In order to avail of tax exemption / deductions in GIFT City / IFSC, sunset date extended as follows:

| S.No | Particulars | Existing | Extended |
|------|---|------------|------------|
| 1. | Income arising to Category III AIF and investment division of a banking unit of a non-resident located in IFSC | 31.03.2025 | 31.03.2030 |
| 2. | Royalty or interest income earned by a non-resident on account of lease of an aircraft or a ship to a unit of an IFSC | 31.03.2025 | 31.03.2030 |
| 3. | Capital gains income arising to a non-resident or a unit in IFSC (engaged in aircraft leasing) on transfer of shares of a domestic company (being a unit in IFSC engaged in aircraft leasing) | 31.03.2026 | 31.03.2030 |
| 4. | Transfer by a shareholder or unit holder or interest holder on account of relocation of a fund to GIFT IFSC | 31.03.2025 | 31.03.2030 |
| 5. | Income arising from the transfer of an aircraft or a ship, which was leased by an eligible unit in IFSC | 31.03.2025 | 31.03.2030 |

Relocation of Fund Managers (2/3)

Relief to fund managers:

- | Fund management in India to be at par with the fund management entities in competing foreign jurisdictions.
- | The aggregate participation or investment in the fund, directly or indirectly, by persons resident in India should not exceed 5% of the corpus of the fund – the law did not provide clarity on timing to test the threshold.
- | It is proposed to relax the above condition by requiring compliance to be tested only on April 1 and October 1. If the 5% threshold is breached, a grace period of four months will be provided to restore compliance.
- | This proposal will take effect from April 1, 2025.

GIFT IFSC (3/3)

| Ship Leasing:

- Tax exemption extended to non-residents or a unit of an IFSC (engaged in business of ship leasing) on capital gains arising on transfer of shares of a domestic company (being a unit in IFSC engaged in ship leasing).
- Tax exemption extended to dividend paid by a company (being a unit in IFSC engaged in ship leasing) to another unit in IFSC engaged in ship leasing.

| **Life Insurance:** In order to provide parity to non-residents availing life insurance from insurance office in IFSC vis-a-vis other foreign jurisdiction, it is proposed that proceeds from life insurance policy issued by IFSC insurance intermediary shall be exempted without any condition in relation to maximum premium payable (current limit of INR 2.5 lakhs / 5 lakhs applied).

| **No 'deemed' dividend for loan / advances made by treasury centres in IFSC:** It is proposed that advances or loans between group entities, where one entity is a 'finance company' or a 'finance unit' in IFSC acting as a global or regional treasury center, and the parent entity (which is listed on a foreign stock exchange), will not be treated as deemed dividend.



Others / Miscellaneous

Crypto Assets / Virtual Digital Assets

- | Special provisions were introduced *vide Finance Act, 2022* to establish the tax framework for virtual digital assets (VDA).
- | The definition of VDA is proposed to be expanded to include *“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.”*
- | New provision is proposed to be introduced with an obligation to furnish information on transaction of crypto-asset by the reporting entity in a prescribed manner.

Undisclosed income

- | VDA will be included in the definition of “undisclosed income” with effect from February 1, 2025.



INDIRECT TAX

Limitation Prescribed to Finalize Provisional Assessments

- | **Two Year Limitation:** Provisional assessments are now prescribed to be finalized within a period of two years from the date of provisional assessments.
- | **Extension:** Principal Commissioner or Commissioner of Customs are empowered to grant an extension of one year, for reasons to be recorded in writing.
- | **Pending Assessments:** For assessments pending as on the date of Finance Bill 2025 receiving the assent of the President, two years is to be reckoned from the date of such assent
- | **Exceptions:** Where finalization within prescribed limitation is not possible due to prescribed circumstances, as below, the importer / exporter will be duly informed about such reasons, and two-year limitation shall be reckoned from the date when such circumstances cease to exist:
 - Pending information from authorities outside India through a legal process
 - Appeal or application pending before Tribunal, Courts or Settlement Commission, including where interim stay is ordered
 - Directions by board to keep such matters pending

Revision of Entries, After Clearance of Consignment

- | **Voluntary revisions having impact on duties:** Importers / Exporters are now enabled to make revisions of their entries, after clearance, and self-assess the duties based on such revisions. Pursuant to self-assessments, the impact could be two-fold:
 - Payment of short-levied / short-paid duties, along with applicable interest
 - Refund of excess duties
- | **Verification:** Authorities empowered to verify self-assessment and to re-assess the duties
- | **Exclusions:** Voluntary revisions are not permitted in the following cases
 - Audit or investigation is already initiated and intimated
 - Refund cases where the underlying consignment was subjected to re-assessment or provisional assessment
 - Any other notified cases by CBIC
- | **Limitation:** For refund claims on account of such revisions, one year limitation shall apply, which shall be computed from the date of payment of duty or interest

Amendment of Bills of Entry Under Section 149

- | **Continues to operate:** Mechanism of voluntary revision, as newly introduced, does not override the enablement prescribed under Section 149 of the Customs Act. Importers will continue to remain entitled to seek amendments under the said provision.
- | **Limitation:** Through the Finance Bill, the Government has also prescribed a limitation period of one year, for any refund claims arising on account of amendment of bills of entry. While the provisions of Section 149 empowers the government to prescribe limitation with respect to amendment of bills of entry, extending such limitation to refund claims as a consequent of amendment appears to be arbitrary. **Owing to such limitation, a substantive benefit accruing to an importer on account of amendment is likely to get curtailed, if one year from date of payment of duty stands lapsed.**

Phasing out of Mechanism for Settlement of Cases

- | **Sunset Clause:** Finance bill has set an end date of 31st March 2025 for filing of fresh applications to seek settlement of cases under customs laws and central excise laws. Based on this, the mechanism for seeking any settlement of cases, post the sunset date, shall come to an end.
- | **Interim Board for Settlement:** All settlement applications pending as on 31st March 2025 are to be adjudicated by newly constituted Interim Board(s), which is prescribed to comprise of three (3) Chief Commissioners as nominated by CBIC.
- | **Multiple Interim Boards:** Pursuant to proposed amendments under Central Excise Act (and made applicable for settlement of cases under Customs laws as well), the Central Government is empowered to constitute many Interim Boards, as found necessary, for disposal of applications pending as on 31st March 2025.
- | **Powers and process kept identical:** All powers and processes as are prescribed for Settlement Commission will be exercised by the Interim Board, from 01st April 2025 onwards.
- | **Extension of limitation:** Interim Board is also empowered to extend the limitation prescribed for disposal of pending applications, which can be extended up to twelve (12) months from their constitution.

Rationalization of Customs Tariff Structure for Industrial Goods

- | On various items, the Agriculture Infrastructure and Development Cess has been applied vide Notification No. 06/2025 – Customs, w.e.f. 02.02.2025. This is inter alia to include motor vehicle industry, solar cells, toys.
- | It has been proposed that not more than one cess or surcharge will be levied. Thus, Social Welfare Surcharge on 82 tariff lines which are subject to cess, have been exempted. This is inter alia to include electric toys, meters, solar cells, etc.
- | It has been proposed that seven tariff rates will be removed. Hence, now there will be only eight remaining tariff rates including 'zero' rate.

Customs Exemptions Under Various Sectors

Healthcare sector

- | Exemption to be provided to 36 life saving drugs from custom duties. Further, 6 lifesaving medicines will also be added to 5% concessional duty. In this regard, full/concessional exemptions shall be extended to bulk drugs for manufacturing these medicines. These medicines are mainly for cancer patients.
- | Patient Assistance Programmes: Specified drugs and medicines run under Patient Assistance Programmes are fully exempt from BCD, on the condition that these medicines are supplied free of cost to the patients. 37 more medicines to be added along with 13 new patient assistance programmes.

Textile sector

- | BCD Exemption on two or more types of looms for textile production.
- | In order to support the domestic industry, BCD on knitted fabrics has been revised from 10/20% to 20% or Rs. 115/kg, whichever is higher.

Customs Exemptions Under Various Sectors

Telecommunication sector

- | In order to prevent classification of disputes, BCD has been reduced from 20% to 10% on Carrier Grade Ethernet Switches to align it with Non-Carrier Grade ethernet switches.

Shipping sector

- | Exemption of BCD on raw materials, components, consumables or parts for the manufacture of ships extended for another ten years.
- | The same dispensation to continue for ship breaking.

Customs Exemptions to Facilitate Export Promotion

| Items | Current Effective Rate Of BCD | Proposed Effective Rate Of BCD |
|--|-------------------------------|--------------------------------|
| Frozen Fish Paste (Surimi) for Manufacture and Export of its Analogue Products | 30% | 5% |
| Fish Hydrolysate for use in Manufacture of Aquatic Feed | 15% | 5% |
| Crust Leather | 20% | Nil |

- | Export time limit for repaired railway goods that are foreign origin to be extended from 6 months to 1 year (further extendable by 1 year).
- | Export time limit for handicrafts has been extended from six months to one year and further extendable by another three months, if required. Further, 9 items were added to list of duty free inputs.
- | BCD exemption on wet blue leather to support domestic processing and employment.

Facilitating the Electronics and EV Market in the Country

- | Towards the aim of building India's sustainable energy infrastructure and boosting the domestic manufacture of lithium-ion batteries in the country, amendments proposed in Notification No. 25/2022 - Customs which exempts certain imported capital goods used in the manufacture of specified finished products from Customs duty.
- | The Government has proposed 35 additional exempted capital goods for the manufacture of lithium-ion cells to be used in the batteries of electronic-vehicles and 28 additional exempted capital goods for mobile phone battery manufacturing.

Facilitating the Electronics and EV Market in the Country

- | Amendments have also been proposed to Notification No. 57/2017 – Customs which exempts certain goods used in the manufacture of mobile phones – now components like inputs used in the manufacture of Printed Circuit Board Assembly (PCBA) of cellular mobile phones, camera module (excluding lenses), connectors, etc., which were earlier subject to a duty of 2.5%, stand completely exempted – Notification No. 10/2025.
- | With a goal to facilitate the renewable energy sector in India, the BCD on Solar Cells and Solar Modules has been reduced from 25% to 20% and from 40% to 20%, respectively.
- | **National Action Plan for Toys** – With an aim to make India a global hub for toy manufacturing as an extension of the 'Make in India' initiative. In furtherance of the same, the BCD on 'Parts of Electronic Toys' and 'Parts of Electronic Toys for Manufacture of Electronic Toys' has been proposed to be slashed from 70% to 20% and from 25% to 20% respectively.

Critical Minerals – Aiding Import of Non-Domestically Produced Minerals for the Local Market

- | The Finance Minister has announced the proposal to fully exempt BCD on cobalt powder, lithium-ion battery waste, lead, zinc, along with 12 more critical minerals which were subject to duty in the range of 5% to 10% - vide Notification No. 04/2025 – Customs.

| Key Critical Minerals Exempted |
|--------------------------------|
| Tin Waste and Scrap |
| Tungsten Waste and Scrap |
| Molybdenum Waste and Scrap |
| Cobalt Waste and Scrap |
| Tantalum Waste and Scrap |
| Zirconium Waste and Scrap |

Instances of Reductions in BCD

| Items | Current Effective Rate of BCD | Proposed Effective Rate of BCD |
|--|-------------------------------|--------------------------------|
| Ethernet Switches (Carrier Grade) | 20% | 10% |
| Open Cell for Interactive Flat Panel Display Module | 15%/10% | 5% |
| Inputs and Parts of the Open Cells for use in the manufacture of Television Panels of LED/LCD TV. | 2.5% | Nil |
| Electricity Meters for Alternating Current (Smart Meter) | 25% | 20% |
| Metal Scrap & Lithium-Ion Battery Waste and Scrap | 5%-10% | Nil |
| Frozen Fish Paste (Surimi) for Manufacture and Export of its Analogue Products | 30% | 5% |
| Fish Hydrolysate for Use in Manufacture of Aquatic Feed | 15% | 5% |
| Crust Leather | 20% | Nil. |
| Inputs used in the manufacture of PCBA of cellular mobile phones, camera module (excluding lenses), connectors, etc. | 2.5% | Nil. |
| Solar Cells | 25% | 20% |
| Solar Modules | 40% | 20% |
| Parts of Electronic Toys | 70% | 20% |
| Parts of Electronic Toys for Manufacture of Electronic Toys | 25% | 20% |

Instances of Enhancement in BCD

| Items | Current Effective Rate of BCD | Proposed Effective Rate of BCD |
|--------------------------------------|-------------------------------|--|
| Interactive Flat Panel Display (LCD) | 10% | 20% |
| Knitted Fabrics | 10 or 20% | 20% or Rs. 115 per kg, whichever is higher |

Key Changes – Central Goods and Services Tax Act, 2017

- | **ITC Distribution through ISD Mechanism:** The definition of Input Service Distributor (“ISD”) is amended to allow the distribution of input tax credit (“ITC”) paid under the reverse charge mechanism for inter-state supplies, effective from April 1, 2025.
- | **Amendment Negating Safari Retreat Judgement:** Clause (d) of Sub-section (5) of Section 17 of Central Goods and Services Tax Act (“CGST Act”) is amended to substitute the words “Plant or Machinery” for “Plant and Machinery” as employed under Clause (c) of the Sub-section (5) of Section 17– this amendment is proposed to take retrospective effect from July 1, 2017.
 - In the Safari Retreats case, the Supreme Court examined this section, which restricts input tax credit (ITC) for goods and services used in the construction of immovable property, except when such property is "plant or machinery." The Apex court highlighted the deliberate use of "plant or machinery" in this clause, distinguishing it from "plant and machinery" used elsewhere in the Act. This distinction suggested that buildings integral to business operations could be classified as "plant," potentially allowing ITC claims for their construction.

Key Changes – Central Goods and Services Tax Act, 2017

- | Following this judgment, the 55th GST Council meeting recommended amending sub-section clause (d) of sub-section (5) of Section 17 to replace "plant or machinery" with "plant and machinery," effective retrospectively from July 1, 2017. This change aimed to align the provision with the original legislative intent, ensuring that the term is interpreted as per the Explanation at the end of Section 17, which excludes land, buildings, and other civil structures from the definition of "plant and machinery".
- | This amendment effectively nullifies the Supreme Court's interpretation in the Safari Retreats case, reinforcing the restriction on ITC for construction of immovable properties, including those intended for leasing or renting. Consequently, businesses involved in constructing such properties will be unable to claim ITC on related expenses, even if the properties are used to generate taxable income. This amendment will have significant impact on taxpayers who have gone ahead to avail ITC as per the Apex court's ruling and could also open up new litigations.
- | **Retrospective Changes to Schedule III of the CGST Act:** 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 to the Domestic Tariff Area ("DTA") shall be treated neither as supply of goods nor as supply of services.

Key Changes – Central Goods and Services Tax Act, 2017

- | **Time of Supply for Vouchers:** relevant sections which provides the time of supply provisions for vouchers is omitted. By way of a recent circular no 243/37/2024- GST dated December 31, 2024, the Government did clarify that transactions in vouchers are neither supply of goods nor supply of services. This amendment complements the clarification provided *vide* this circular.
- | **Output Tax Reduction Linked to Recipient's ITC Reversal:** relevant Section is amended to explicitly provide for requirement of reversal of corresponding ITC in respect of a credit-note, if availed, by the registered recipient, for the purpose of reduction of tax liability of the supplier in respect of the said credit note.
- | **Pre-deposit for Appeal for Penalty:** relevant provisions are amended to provide 10% mandatory pre-deposit of penalty amount for appeals before Appellate Authority and Appellate Tribunal in cases involving only demand of penalty without any demand for tax.
- | **Track and Trace Mechanism:** New Section 148A is being inserted to provide for enabling mechanism for a 'Track and Trace Mechanism' for specified commodities. Further, 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. Also, a new definition of "Unique Identification Marking" has also been introduced in the CGST Act to support implementation of Track and Trace Mechanism.

Key Change - Service Tax

- | **Service Tax on Reinsurance Services:** The Finance Bill proposes a retrospective exemption from service tax on reinsurance services provided by insurance companies under the Weather-Based Crop Insurance Scheme and the Modified National Agricultural Insurance Scheme for the period from April 1, 2011, to June 30, 2017.

Contact Us



Lokesh Shah

Partner

lokesh.shah@induslaw.com



Shashi Mathews

Partner

shashi.mathews@induslaw.com

OUR OFFICES

BENGALURU

101, 1st Floor,
“Embassy Classic” # 11
Vittal Mallya Road
Bengaluru 560 001
T: +91 80 4072 6600
F: +91 80 4072 6666
E: bangalore@induslaw.com

MUMBAI

1502B, 15th Floor
Tower – 1C, One Indiabulls Centre
Senapati Bapat Marg, Lower Parel
Mumbai – 400013
T: +91 22 4920 7200
F: +91 22 4920 7299
E: mumbai@induslaw.com

CHENNAI

#11,
Venkatraman Street,
T Nagar,
Chennai 600 017
T: +91 44 4354 6600
F: +91 44 4354 6600
E: chennai@induslaw.com

GURUGRAM

9th Floor, Block-B
DLF Cyber Park,
Udyog Vihar Phase-3, Sector-20,
Gurugram – 122 008
T: +91 12 4673 1000

DELHI

2nd Floor, Block D
The MIRA, Mathura Road,
Ishwar Nagar
New Delhi 110 065
T: +91 11 4782 1000
F: +91 11 4782 1097
E: delhi@induslaw.com

HYDERABAD

204, Ashoka Capitol,
Road No. 2
Banjara Hills
Hyderabad 500 034
T: +91 40 4026 4624
F: +91 40 4004 0979
E: hyderabad@induslaw.com