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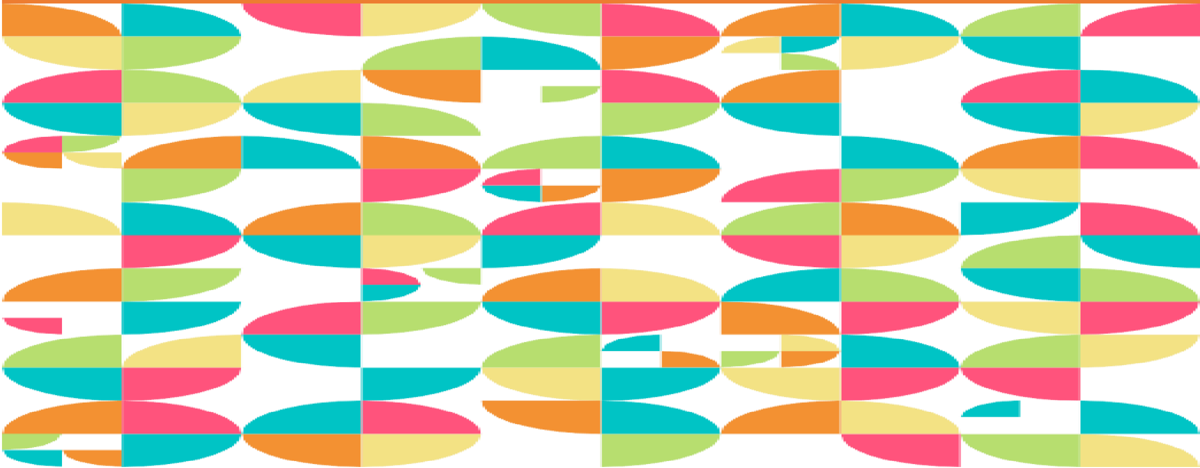
Corporate Update

SPECIAL EDITION ON



FOREWORD

Dear Reader,

The Budget as was presented by the Finance Minister, Government of India, on 1st of February 2025 has been passed by the Parliament and received the assent of the President of India in the last week and as such the proposals have now become effective from the specified dates.

During the discussions in the Parliament, the Finance Minister also presented a few amendments to the proposals which, in particular, included abolition of Equalization Levy, certain changes in the provisions relating to search and seizure and a few others.

This Update as such covers proposals as finally approved by the Parliament and which have been enacted.

The Minister of Finance, subsequent to the presentation of the Budget, had also presented Income-tax Bill, 2025 which proposes to substitute the currently applicable Income-tax Act, 1961.

The Finance Minister of India in her Budget 2024 speech had announced that the government will introduce a new Income Tax Bill to simplify the present legal provisions by making the Income Tax Act concise, lucid, easy to read and understand.

The new Income Tax Bill, 2025 as proposed is a condensed and simpler version of the present Income Tax Act. Whilst the existing provisions have been largely retained with simplified language, a substantial reduction has been made in the volume of the Act.

No substantive changes have been made in the bill. There are a few changes in procedural and other aspects that have resulted in reduction of present 47 chapters to only 23 chapters in the new Income Tax Bill, leading to reduction of approximately 283 sections. The existing taxation

principles have been mostly preserved to ensure continuity and with a view to avoid uncertainty on the interpretation of the new provisions.

The new Income Tax Bill has been referred to a Select Committee of the parliament to recommend changes required in the bill after consultation with the stakeholders. The Select Committee has sought the views of the industry, professional associations, revenue authorities and other stakeholders on the proposed bill. The Select Committee is likely to present its report in the monsoon session of the parliament to be held in July 2025. The new Income Tax Bill is proposed to be made applicable (after its enactment) from 1st April, 2026. Once the bill is enacted, new Rules and Forms shall be notified.

C.S. Mathur
Partner

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Tax Rates

Tax rates for residents other than Individuals or HUF

There is no change in the tax rates applicable to Corporates. Also, no changes have been made in the old tax regime applicable to individuals.

Amendment in rates under New Tax Regime under section 115BAC for resident Individuals or HUF

Under the new tax regime contained in section 115BAC, concessional tax rates are provided to resident Individuals/ HUF/ AOP (other than co-operative society) / BOI without availing specified deductions. With effect from assessment year 2026-27, the tax rate structure has been further revised to benefit the taxpayers. A comparative chart of the existing tax rates under the provisions of Section 115BAC applicable for AY 2025-26 vis-à-vis the amended tax rates applicable for AY 2026-27 is provide hereunder:

Amended Tax Rates (AY 2026-27)		***Existing Tax Rates (AY 2025-26)***	
Total Income (₹)	***Tax Rate***	***Total Income (₹)***	***Tax Rate***
Up to 4,00,000	Nil	Up to 3,00,000	Nil
4,00,001 to 8,00,000	5%	3,00,001 to 7,00,000	5%
8,00,001 to 12,00,000	10%	7,00,001 to 10,00,000	10%
12,00,001 to 16,00,000	15%	10,00,001 to 12,00,000	15%
16,00,001 to 20,00,000	20%	12,00,001 to 15,00,000	20%
20,00,001 to 24,00,000	25%	Above 15,00,000	30%
Above 24,00,000	30%		

Tax rates for non-residents

There is no change in the tax rates applicable to non-residents.

International Taxation

Abolition of Equalisation Levy

The Finance Act, 2006 introduced Equalisation Levy (EL) to tax certain digital transactions. With effect from 1st June 2016, specified persons making payment to non-residents for online

advertisement and related services are obligated to deduct and deposit EL @ 6% of the gross consideration.

The scope of EL was expanded by the Finance Act, 2020 to include consideration received or receivable by non-resident e-commerce operators towards supply of goods or provision of services to specified persons, subject to certain conditions. 2% EL was levied on such consideration and the obligation to deposit the same was on non-resident e-commerce operators.

The amounts subjected to EL were exempt from income tax under the Income Tax Act, 1961.

The Finance (No. 2) Act, 2024 abolished 2% EL effective 1st August 2024 on e-commerce operator to reduce compliance burden in the hands of non-residents. However, 6% EL continued to apply on online advertisement and provision of digital advertising space/ facilities/ service in relation to online advertisement. Residents liable to pay for such services were required to discharge equalisation levy on such services.

The Finance Act, 2025 has abolished EL from April 1, 2025. Consequential amendment has been made in section 10(50) dealing with income tax exemption for the services covered under EL.

Rationalisation of provisions dealing with Significant Economic Presence

Under the Indian Income Tax Act, a taxable presence may arise in the hands of a non-resident if such non-resident has a ‘Business Connection’ in India. The concept of business connection is akin to that of Permanent Establishment, which is commonly found in tax treaties.

As per section 9(1)(i) of the Indian Income Tax Act, all income accruing or arising in India through or from any business connection are deemed to accrue or arise in India. However, the provisions relating to Business Connection prescribe that no income of a non-resident shall be deemed to accrue or arise in India if the operations of the non-resident are confined to purchase of goods in India for export.

Due to the advent of digital business models, the scope of Business Connection was extended to cover ‘Significant Economic Presence’ (“SEP”). SEP covers transactions in respect of any goods carried out by a non-resident with any person in India if the aggregate of payments arising from such transactions exceeds the prescribed threshold.

Representations were made that due to the above definition of SEP, the exemption relating to activities confined to purchase of goods for export may be denied. To assuage the concerns as raised, the Finance Act, 2025 has excluded operations being confined to the purchase of goods in India for the purpose of export from the scope of SEP.

This amendment will be applicable from AY 2026-27.

Presumptive Taxation Scheme for Non-Residents providing services for Electronics manufacturing facility in India

The electronics manufacturing industry is set to become a key driver of growth, with the increased demand for electronic goods. In order to position India as a global electronics manufacturing hub, the Ministry of Electronics and Information Technology of the Indian Government has rolled out various schemes and programs for promotion of manufacturing of electronic components and semi-conductors (SPECS).

To ensure a competitive tax framework and localized manufacturing, the Government has introduced a presumptive tax scheme under section 44BBD for non-residents who will offer technological support for electronics manufacturing in India. In terms of this scheme, 25% of the receipts shall be presumed to be the taxable profits of the non-resident, resulting in an effective tax rate to such non-resident at less than 10%. It has been further provided that the provisions of section 44DA or section 115A, providing for taxation of technical services in the hands of non-residents, shall not apply. This concessional tax rate is likely to attract foreign technology partners and shall facilitate influx of technology into India.

This scheme (new Section 44BBD) is applicable to non-residents, irrespective of legal status, i.e., the same can be availed by individuals, companies etc alike. Such non-residents should be engaged in the provision of ‘services’ and ‘technology’:-

(a) for the purpose of setting up an electronics manufacturing facility; or
(b) in connection with manufacturing or producing electronic goods, articles or thing in **India;**

Furthermore, the resident company to whom such technology or service is provided, should be engaged in either establishing an electronics manufacturing facility or a ‘connected facility for manufacturing or producing electronic goods, articles or thing in **India.** These operations shall be governed by a detailed scheme which shall be notified in due course.

The recent Frequently Asked Questions (“FAQs”) issued by the government has clarified that the aforesaid benefit shall be available even where a non-resident is providing technical manpower for the desired purposes.

This aforesaid amendment has been mostly received favourably by stakeholders. That being said, the attractiveness of this presumptive provision would largely hinge upon on the fine print of the future scheme which shall be rolled out by the Government, as well as conditions to be imposed in future.

Moreover, certain other aspects require greater examination, such as interplay with tax treaty provisions, interplay with existing provisions dealing with royalties and fee for technical services. One may expect further clarity on these aspects in due course.

The above amendment shall apply from AY 2026-27.

Extension of Tonnage Tax Scheme to Inland Vessels

In 2004, the Government introduced Tonnage Tax Scheme to boost Indian shipping industry. The tonnage tax scheme provides for taxation on tonnage capacity of qualifying ships (sea faring vessels or ships registered Merchant Shipping Act, 1958 or ship registered outside India for which licence is obtained from DGS) instead of profits of the shipping company.

Although India has an extensive network of inland waterways and a huge potential to support rail and road transportation, this capital-intensive sector has however largely remained underutilised, with dearth of inland water transport vessels fleet. The Government, which has prioritised the maritime industry in the current budget, has now expanded the scope of tonnage tax scheme to inland vessels as well, to provide the much-needed fillip and capital investment to the inland water transportation industry. The corresponding amendments have been made in Chapter XII-G of the Act.

The aforesaid amendments will be applicable from assessment year 2026-27.

Simplified regime for Fund Managers under Section 9A

Under Indian domestic tax law, incidence of tax may arise in the hands of a non-resident if a taxable presence in the form of a 'Business Connection' (akin to a Permanent Establishment) is created. Various offshore funds, which undertake fund management activities in India through a fund manager, often run the risk of constituting a business connection in India, leading to tax outflows along with additional compliance burden. In 2015, the Government introduced an exhaustive framework (Section 9A) to incentivize offshore funds, whereby such offshore funds would not be regarded as having a business connection in India if the prescribed conditions are satisfied. Thereafter, to encourage offshore fund managers located in International Financial Services Centers ("IFSC"), the Government was empowered to relax certain conditions of Section 9A for IFSC located offshore fund managers which had commenced operations on or before 31st March, 2024.

To ensure maximum participation by non-residents in such funds, a 5% cap on resident participation (whether directly or indirectly) was imposed under section 9A(3)(c). It was often felt that monitoring the aforesaid condition on a continuous basis posed difficulties. The Finance Act, 2025 has amended the aforesaid Section to provide that the aforementioned cap shall be considered with respect to direct participation or investment in the fund by the residents and the

further, this condition is to be satisfied on two dates of the relevant financial year, i.e. 1st April and 1st October, with a grace period of four months from each of the said dates.

The commencement date of operations of IFSC located offshore fund managers has been extended from March 31st, 2024 to March 31st, 2030.

The above amendments will apply from April 1, 2025.

Impetus to International Financial Service Centres

The government of India has been promoting the GIFT City (Gujarat International Finance Tec-City) to integrate the Indian financial market with the world market. Currently, the only International Financial Services Centre in India, this priority project has received special focus, especially, in order to set up a robust regulatory ecosystem. Each annual union budget witnesses a slew of tax sops to make GIFT City more business and investor friendly.

In order to further incentivize IFSC, the Central Government has introduced the following tax concessions for IFSCs by the Finance Act, 2025:

(A) *Exemption on life insurance policy from IFSC Insurance Office:* Receipts under life insurance policies are exempt from tax subject to certain conditions as well as premium based monetary limits. Currently, receipts out of Unit linked insurance policies with a premium exceeding INR 250,000 and other policies with a premium exceeding INR 500,000 are not exempt. In order to promote IFSCs, it has now been provided that the receipts from life insurance policies issued by an IFSC insurance office shall not be subject to such premium based monetary limits.

This amendment shall apply retrospectively from AY 2025-26.

(B) *Extending exemption of capital gains and dividend income to ship leasing business:* To encourage the foray of IFSCs into the aircraft leasing business, the Finance Act, 2023 had introduced certain tax concessions. Such concession related to certain capital gains exemptions under section 10(4H) (i.e. on sale of shares of a domestic company, being a unit of a qualifying IFSC which has commenced operations on or before March 31, 2026) as well exemption from dividends under section 10(34B). These exemptions have been extended to IFSCs engaged in the ship leasing business as well.

Secondly, the sunset period of March 31, 2026 for capital gains exemption has been extended to March 31, 2030.

Both the aforesaid amendments shall be applicable retrospectively from AY 2025-26.

(C) *Exemption related to forward contracts etc extended to Foreign Portfolio Investors:* The Government had earlier introduced tax exemptions under section 10(4E) for non-residents in respect of income from transfer of certain forward contracts, offshore derivate contracts etc to offshore banking units of an IFSC. The scope of the exemption has been expanded to the income as a result of distribution of income on over-the-counter derivatives. Further, the benefit of exemption has been extended to such contracts with foreign portfolio investors (which are a unit of IFSC) as well.

This amendment is applicable from AY 2026-27 onwards.

(D) *Rationalisation of deemed dividend provisions for treasury centres in an IFSC:* Under section 2(22) of the Act, loans and advances to shareholdings holding a significant stake (more than 10% of the voting power) are treated as dividends and taxed accordingly. This excludes loans and advances made in the normal course of business.

The International Financial Services Centres Authority had earlier laid down a framework for setting up treasury centres to undertake global treasury functions. This was to facilitate centralized fund management such as intra group financing, cash and liquidity management etc. However, such transactions by the finance units with group entities were falling within the rigours of deemed dividend. An amendment has been made by the Finance Act, 2025 to exclude such transactions from the scope of deemed dividend, where the 'parent entity' or 'principal entity' of such 'group entity' is listed on stock exchange in a country or territory outside India, other than the country or territory outside India as may be specified.

This amendment will apply retrospectively from AY 2025-2026.

(E) *Extension of date of making investment by Sovereign Wealth Funds, Pension Funds & others and rationalisation of tax exemptions:* Section 10(23FE) of the Act provides for tax exemption to Sovereign Wealth Fund (SWF), Pension Fund (PF), etc (which fulfils the prescribed conditions) from the income in the nature of dividend, interest, long-term capital gains or certain other incomes arising from an investment made by it in India. The exemption is available if the investment is made on or after the 1st day of April, 2020 but on or before the 31st day of March, 2025.

In order to provide the stability and time frame necessary for global investors to make substantial contribution to India's infrastructure development, the deadline for investment under clause (23FE) of section 10 has been extended from 31st day of March, 2025 to 31st day of March, 2030.

Further, as per section 50AA, capital gains from unlisted debt securities are treated as short-term capital gains, irrespective of the holding period. Due to this, long term capital gains from investment in unlisted debt investments may not be entitled for exemption in

the hands of SWFs and PFs. Therefore, Section 10(23FE) has been amended to provide that long-term capital gains (whether or not such capital gains are deemed as short-term capital gains under section 50AA) arising from an investment made by it in India shall be exempt from tax.

This amendment will apply retrospectively from AY 2025-2026.

(F) *Incentives to retail schemes and exchange traded funds:* Under the Indian tax law, certain income of specified funds (the units of which are held by non-residents, except for sponsor held units) have been exempted from tax [Section 10(4D)]. Such specified funds include Category III AIFs, retail schemes and exchange-traded funds which are located in an IFSC.

The Finance Act, 2025 has provided that the specified fund which has been granted a certificate as a retail scheme or an Exchange Traded Fund should satisfy the conditions laid down for such schemes or funds under the International Financial Services Centres Authority (Fund Management) Regulations, 2022.

In order to incentivize shareholders to relocate existing funds to specified funds, the transfers to facilitate relocation were also exempted from capital gains tax under section 47(viiad). To give impetus to retail schemes and exchange-traded funds, relocation of existing funds to such retail schemes and exchange traded funds shall also be exempt from capital gain tax.

This amendment shall apply from AY 2026-27.

(G) *Extension in sunset dates for several IFSC tax concessions:* By the Finance Act, 2025, the Government has extended the sunset dates for commencement of operations of IFSC Units for availing tax concessions under the Act. The said amendments are summarised as under:

Section	Nature of Provision	Earlier Sunset Date	Extended Sunset Date
80LA(2)(d)	Tax deduction in respect of certain income of an IFSC	March 31, 2025	March 31, 2030
10(4D)	Exemption of any income of a specified fund on transfer of prescribed capital asset on a recognized stock exchange situated in IFSC		
10(4F)	Exemption of royalty or interest of a non-resident on lease of an aircraft or a ship,		

	which is paid by an IFSC unit		
47(viiad)	Extension in deadline for relocation i.e., transfer of capital assets of the original fund to resultant fund for the purpose of claiming exemption under Section 47(viiad)		
10(4H)	Capital gains exemption to a non-resident or IFSC Unit engaged primarily in business of leasing aircraft or ships, upon transfer of equity stake	March 31st, 2026	March 31st, 2030

Transfer Pricing

Option to apply the arm's length price determined by TPO for a financial year to a three-year block period

Under the provision of Sections 92CA of the Act, where any person, has entered into an international / specified domestic transaction in any previous year, and the Assessing Officer ("AO") considers it necessary or expedient so to do, he may, with the previous approval of the Principal Commissioner/ Commissioner, refer the computation of the arm's length price in relation to the said international / specified domestic transaction to the Transfer Pricing Officer ("TPO"). The reference to the TPO is made for one year only.

It was felt that in case of similar international / domestic transactions for various years, same arm's length analysis is repeated every year, which create compliance burden on the assessee as well as administrative burden on the TPOs. Therefore, the Finance Act, 2025 has introduced an amendment to provide that the Arm's Lenth Price ("ALP") determined in relation to an international transaction or a specified domestic transaction for any financial year shall apply to the similar transaction for the two consecutive financial years immediately following such financial year i.e. TP assessments shall be carried out in a block.

For the above purpose, the following procedure has been introduced:

- The assessee will be required to exercise one or more options for the two consecutive financial years in the form, manner, and within the time period to be prescribed.
- The TPO shall, by an order within one month from the end of the month in which such option is exercised, declare that the option is valid, subject to the prescribed conditions.
- This option is not available for search and seizure cases.
- If the TPO declares that the option exercised by the assessee is valid, he shall examine and determine the ALP for similar transactions for the two consecutive years, in his order as per section 92CA(3) .
- Upon receipt of such order of the TPO, the AO will recompute the assessee's total income for those two consecutive years, following the provisions of section 155(21) as under:

- the AO will recompute the assessee's total income for those two years by amending the assessment order/intimation/ deemed intimation under section 143(1), in line with the ALP determined by the TPO under section 92CA(4A) and considering any directions of DRP under section 144C(5), within 3 months from the end of the month in which the assessment is completed for such financial year.
- If the assessment order/intimation/ deemed intimation is not made within the three-month period, recomputation will be made within three months from the end of the month in which the assessment order or intimation is issued. The first and second proviso to section 92C(4) shall apply to such recomputation and accordingly no deduction under section 10A, 10AA, 10B or Chapter VI-A shall be allowed on any enhanced income upon such recomputation.

➢ No reference for computation of ALP in relation to such transaction in the next two financial year covered in the three-year block shall be made by the AO to the TPO.

This amendment will take effect from AY 2026-27.

Amendments in Safe Harbour rules

The Central Board of Direct Taxes has issued Notification no.21/2025 dated March 25, 2025 notifying the amendments in the Safe Harbour Rules for International Transactions.

As per the existing provisions of the Safe Harbour Rules, the international transactions pertaining to manufacture and export of Core Auto Components are accepted to be at arm's length, if the operating profit margin in relation to the operating expenses declared on such exports is not less than 12%. As per the amendment made by the Notification, Core Auto Components shall also include lithium ion batteries for use in electric or hybrid electric vehicles.

Further, in respect of provision of eligible services covered under the Safe Harbour Rules, the safe harbour is applicable if the value of international transactions does not exceed Rs.200 crore (2 billion). Such limit has been raised to Rs.300 crore (3 billion).

The amended Safe Harbour rules shall apply to AY 2025-26 and 2026-27.

Capital Gains

Clarity on income characterization of Alternate Investment Funds

Certain Category 1 and Category II Alternate investment funds are treated as pass through entities for tax purposes. As such, the incidence of tax lies upon the unit holders. This pass-through status does not apply for business income, which is taxed at the level of the investment fund.

An issue prevailed as to whether gains from transfer of securities should be characterised as business income or capital gains. To put such doubts to rest, an amendment has been introduced to provide that securities held by investment trusts in accordance with SEBI regulations shall be regarded as a capital asset under section 2(14) of the Act. Accordingly, the sale of such securities shall be dealt under the head 'Capital Gains' rather than business income.

Consequently, such income would be accorded pass through status and shall be taxable in the hands of the unit holder.

This amendment will be effective from AY 2026-27.

Clarity on Tax Implications on Redemption of Unit Linked Insurance Policy (ULIP)

Section 10(10D) of the Act provides an exemption for the sum received on the redemption of life insurance policies (including ULIPs), where the premium doesn't exceed 10% of the sum assured (including bonuses).

To ensure applicability only to genuine cases, this exemption was withdrawn in cases where the annual premium paid for any ULIP exceeded INR 250,000 in any year during the term of the policy. In such situations, the redemption proceeds of a ULIP were taxed under the head capital gains.

However, when the exemption was unavailable to a ULIP on account of non-fulfilment of other conditions (i.e. conditions other than that of the premium not exceeding INR 250,000) such as ULIP premium exceeding 10% of the sum assured in any year, the resultant proceeds would be taxable as Other Sources. In this scenario, upon redemption, the proceeds would be taxable at the applicable slab rate instead of the specific rates applicable for capital gains.

To ensure clarity and uniformity, the Finance Act, 2025 has provided that redemption of ULIPs which are not eligible for exemption under Section 10(10D) due to any reason shall be considered under the head Capital Gains.

Necessary corresponding amendments have been made in other provisions dealing with Capital Gains.

These amendments will be effective from AY 2026-27.

Rationalisation of taxation of Long -Term Capital Gains on transfer of securities held by specified fund or FPI

Section 115AD of the Act governs the taxability of capital gains arising from the transfer of securities (excluding units of a mutual fund specified under clause (23D) of Section 10 or units of the Unit Trust of India) held by a specified fund or a Foreign Portfolio Investor (FPI). The section stipulates a tax rate of 10% on long-term capital gains arising from the transfer of such securities other than referred to in section 112A (listed securities).

Earlier, the Finance Act, 2024, amended the tax rate for long-term capital gains across all cases to 12.5%. While the tax rate on long term capital gain referred to in section 112A was raised to 12.5% for specified fund or FPI, no change was made in the tax rate on the other long term capital gain arising to specified fund or FPI.

The Finance Act, 2025 has aligned the tax rate under Section 115AD for specified fund and FPI with the revised rate by increasing the tax rate for long-term capital gains from 10% to 12.5%.

The amendment will be effective from AY 2026-27.

Rationalisation of Capital Gain tax rates relating to Business Trusts

The scheme of taxation for Business Trusts, i.e. Real Estate Investment Trusts and Infrastructure Investment Trusts has been laid down in Section 115UA. Considering the peculiarities of these hybrid structures, pass through status has been accorded to interest, rent and dividend income earned by such business trusts. Thus, while interest, rent and dividend shall be taxable in the hands of unit holders, the remaining income shall be taxable at the level of the business trust.

Under this scheme, the income of the business trust, is taxable at the maximum marginal tax rate (i.e. the maximum slab rate applicable for each class of taxpayer). An exception has been carved out for certain capital gains referred to in Section 111A and Section 112, which prescribe specific tax rates.

However, the scheme of Section 115UA does not explicitly refer to the special provision of Section 112A, which provides for tax on long-term capital gains on transfer of equity share in a company or a unit of an equity-oriented fund or a unit of a business trust (where STT is paid). This has led to the interpretation that long term capital gains on sale of equity shares or units are taxable at the Maximum marginal rate, which is much higher than the tax rate of 12.5% applicable in Section 112A.

The Finance Act, 2025 has removed this lacuna by inserting a specific reference to Section 112A in the provisions dealing with business trust. Such long-term capital gains shall henceforth be taxable at 12.5% at the level of the business trust.

This amendment will be effective from AY 2026-27.

Charitable organisations

Exclusion of incomplete application from the list of 'specified violation' for cancellation of registration of trusts or institutions

As per the provisions of section 12AB(4), where registration or provisional registration of a trust or an institution has been granted and subsequently it comes to the notice of the Commissioner that one or more 'specified violations' has taken place during any year, the registration of such trust or institution shall be cancelled by an order in writing.

One of the 'specified violations' as provided in the earlier provisions is filing of application which is not complete or contains false or incorrect information. It was observed that even minor default, where the application is not complete, may lead to cancellation of registration of trust or institution.

It is now provided that the situations where the application for registration of trust or institution is not complete shall not be treated as 'specified violation'.

This amendment will be effective from April 1, 2025.

Increase in the validity period of registration of small trusts or institutions

In order to reduce the compliance burden for the smaller trusts or institutions, the period of validity of registration of trust or institution has been increased from 5 years to 10 years (except where the registration is sought for the first time), in cases where the total income of such trust or institution, without considering exemption under sections 11 and 12, does not exceed INR 50 Million during each of the two financial years, preceding to the financial year in which such application is made.

This amendment will take effect from April 1, 2025.

Rationalisation of persons specified under section 13(3) for trusts or institutions

Section 13 of the Act, *inter alia*, provides that exemption of income of the trust or institution from tax under section 11 or section 12 shall not apply where such income or any property of the trust or the institution is used or applied, directly or indirectly for the benefit of 'specified persons' referred to in sub-section (3). The 'specified persons' include any person who has made a substantial contribution of INR 50,000 up to the end of the relevant financial year or any relative of such person or any concern in which such person has substantial interest.

Section 13(3) has now been amended to increase the above threshold for persons making 'substantial contributions' from INR 50,000 to INR 100,000 per financial year with a cumulative limit of INR 1 Million, for inclusion in the list of 'specified persons'. Further, relatives of such persons and concerns in which such persons have substantial interest have now been excluded from the meaning of 'specified persons'.

These amendments will take effect from April 1, 2025.

Return Filing, Assessment, Time limit for completion of assessment, Appeal

Streamlining the time limit for imposition of penalties

Section 275 of the Act provides multiple timelines for imposition of penalties, depending on the date of the order giving rise to the penalty proceeding or the appellate forum before which the appeal of the assessee is pending.

To ease the complexities in administration arising due to multiple limitation periods, a single timeline for imposition of penalties has been laid down by the Finance Act, 2025. Accordingly, Section 275 has now been replaced by a new Section 275 which provides that any order imposing penalty shall not be passed after the expiry of six months from the end of quarter in which –

- Assessment or other tax proceedings in the course of which penalty has been initiated are completed and no appeal is filed;
- Order for revision under Section 263 or Section 264 is passed, where the relevant order is subject matter of revision;
- Appellate order of Commissioner (Appeals) or Joint Commissioner (Appeals) under Section 246 or Section 246A is received by the jurisdictional Principal Commissioner or Commissioner, where no further appeal has been filed;
- Appellate order of the Tribunal under Section 253 is received by the jurisdictional Principal Commissioner or Commissioner.
- Notice for imposition of penalty is issued, where the case does not fall in the above categories.

Furthermore, the timeline has been extended for revision of penalty order based on the assessment as revised by giving effect to the order passed by various appellate authorities or Court. Such penalty order shall not be revised after the expiry of six months from the end of

quarter in which the order of revision is passed by the commissioner or order passed by various appellate authorities or Court is received by the jurisdictional Principal Commissioner or Commissioner.

The above amendments shall be effective from April 1, 2025.

Clarification regarding commencement date and the end date of the period stayed by the Court

As per the extant provisions of the Act, the period during which the proceedings under respective provisions are stayed by an order or injunction of any court is excluded in computing the time limit for conclusion of the proceedings.

However, there was an ambiguity regarding the commencement date and the end date of the period stayed by an order or injunction of any court which was required to be excluded.

With a view to removing any ambiguity, the relevant provisions as contained in Section 144BA, section 153, section 153B, section 158BE, section 158BFA, section 263, section 264 and Rule 68B of Schedule-II of the Act have been amended, so as to exclude the period commencing on the date on which stay was granted by an order or injunction of any court and ending on the date on which certified copy of the order vacating the stay was received by the jurisdictional Principal Commissioner or Commissioner (Approving panel in case of GAAR proceedings under section 144BA of the Act).

These amendments will take effect from April 1, 2025.

Extending the time-limit to file the updated return

The Finance Act, 2022 introduced the scheme of updated returns [Section 139(8A)] to encourage voluntary compliance by taxpayers for past years, subject to the payment of additional tax as prescribed, depending on the delay in filing of the return.

Under the erstwhile provisions, an updated return can be filed up to 24 months from the end of the relevant assessment year. However, taxpayers are required to pay additional tax under section 140B ranging from 25% to 50% of the tax determined under the updated return, based on the time period of delay.

The aforesaid time limit has now been extended to 48 months to promote compliance. The rates of additional income-tax payable have also been revised as under:

Time of Delay in filing of Return	Additional Income Tax Payable (Aggregate of Tax and Interest payable)
0 - 12 Months	25%
12 - 24 Months	50%
24 - 36 Months	60%
36 – 48 Months	70%

However, no updated return shall be furnished by any person where any notice to show-cause under section 148A (where income escaping assessment is initiated) of the Act has been issued in his case after thirty-six months from the end of the relevant assessment year. Where subsequently, an order is passed under sub-section (3) of section 148A of the Act determining that it is not a fit case to issue notice under section 148 of the Act, updated return may be filed up to 48 months from the end of the relevant assessment year.

These amendments will take effect from April 1, 2025.

Amendment in the manner of processing of return

Section 143(1) provides the manner of processing of return. Clause (a) of Section 143(1) specifies the permissible adjustments, like arithmetical error in the return or incorrect claim in the return apparent from any information in the return, for the purpose of processing of return by the relevant authority.

The Finance Act, 2025 has introduced an additional adjustment that can be considered by the authority while processing the return of income. As per the amendment, the total income or loss shall be computed after making the adjustment for any inconsistency in the return, with respect to the information in the return of any preceding financial year, as may be prescribed by the Central Government. An example of the inconsistency could be where taxpayer has made a claim of any credit in previous return but the corresponding figures are not the same in the current return.

This amendment will take effect from April 1, 2025.

Reassessment and Block Assessment

In 2024, the provisions relating to search related assessments proceedings were revamped by introduction of new provisions Section 158B to 158BI under Chapter XIV-B of the Act. Prior to this amendment, proceedings consequent to search were being conducted as income escaping proceedings (i.e. under Section 147 of the Act). The concept of block assessment has been

reintroduced and made applicable where a search is initiated or requisition is made, on or after September 1, 2024.

By the Finance Act, 2025, many substantive and procedural amendments have been introduced in relation to block assessment procedures. Most of such amendments have been introduced retrospectively from September 1, 2024, aligning their date applicability with the introduction of the revised chapter. The more notable amendments have been highlighted hereunder:

Rationalisation of Time period for retaining seized books of account

Under the provisions of section 132(8) of the Act, the books of account seized during a search & seizure can be retained up to 30 days from the date of the order of assessment or reassessment or recomputation, unless the approval of the Commissioner or Chief Commissioner is obtained for the retention exceeding 30 days.

In the course of search assessment proceedings in group cases, seized books of account or other documents pertaining to the completed assessment cases may be required for assessment of ongoing/pending assessment cases. However, the assessment orders of one assessee may be passed earlier than the assessment orders of another assessee. Further, the segregation of seized books of account or other documents pertaining to various assesses may also pose difficulties. Due to this, different timelines for obtaining approval for retention of books of account shall apply.

Since, the time limit of taking approval for retention will be different for different cases, this creates administration challenge to keep constant vigil on the time-barring dates for taking the approval.

Therefore, sub-section (8) of section 132 of the Act has now been amended to provide that the time limit for taking approval for retention shall be one month from end of the quarter in which the assessment or reassessment or recomputation order has been made.

This amendment will take effect from April 1, 2025.

Inclusion of ‘Virtual Digital Asset’ in the definition undisclosed income

A key amendment relates to crypto currencies which has witnessed growing popularity in India in recent times. Certain unregulated crypto assets have also been used to hide unaccounted wealth, which led to the government to include such crypto assets under money laundering provisions. In order to tighten regulations surrounding unaccounted and crypto assets, the Finance Act, 2025 has provided that virtual digital assets (which include crypto currencies) shall be explicitly included in the definition of ‘undisclosed income’ (under Section 158B) for the purpose of block assessment.

This amendment will take effect retrospectively from September 1, 2024.

Amendments in Income Computation mechanism

A key element of the amendments introduced in block assessment procedures is the focus to assess only the 'undisclosed income' rather than the 'total income' of the taxpayer. Whilst tax (at 60% under Section 113) was always intended to be charged only on the undisclosed income, yet, under the earlier provisions, a rather oblique method of computation of tax had been provided. In terms of the earlier computation mechanism provided in section 158BB, the income previously disclosed or previously assessed by the assessee was also included in the total taxable income at the first instance. Thereafter, the aforesaid income earlier disclosed / assessed was reduced for computation of tax.

In order to simplify the computation mechanism, such circuitous manner of computation has been done away with. In terms of the amended Section 115BB, only undisclosed income shall form part of the income for the purpose of block assessment. Moreover, items that shall fall outside the ambit of 'undisclosed income' have been specifically excluded under section 158BB(1A).

Section 158BB(1A) now provides clarity over computation of the income pertaining to the year which has ended but the due date for furnishing the return for such year has not expired prior to the date of initiation of the search or requisition. Section 158BB(1A) provides for exclusion of such income from the ambit of 'undisclosed income' if the income is computed by the assessee on the basis of entries relating to such income or transactions as recorded in the books of account and other documents maintained in normal course before the date of initiation of search.

Further, such exclusionary list also covers income which was not disclosed on account of availability of statutory dispensation from filing a return (Section 115A, Section 115G and Section 115P). For instance, if a foreign taxpayer only has taxable royalty income on which tax was deducted as per the domestic tax rates, such foreign tax payer is not required to file a return and hence, such income remains unreported. Such unreported income will not be regarded as undisclosed income.

Consequential amendments have been made to replace the term 'total income' with 'total undisclosed income' wherever necessary.

Also, under the erstwhile provisions, while computing the taxable income under block assessment, loss in certain situations was to be ignored. These situations included loss declared in previous returns filed or filed under block assessment or loss determined in previous assessment proceedings. The said provision has now been omitted by the Finance Act, 2025.

This amendment will take effect retrospectively from September 1, 2024.

Amendments in block assessment procedure relating to other Person

The block assessment procedure also extends to 'other person' (other than the person in respect of whom search was initiated) if undisclosed income relates to or pertains to or belongs to such other person. The block assessment in respect of any other person is governed by the provisions of section 158BD. The block period in case of 'other person' is same as that of the person in whose case search has been initiated.
The provisions of Section 158BD have been amended to provide that where there are more than one person with respect to whom the search was initiated, the block period for the 'other person' shall be the same as that for the searched person in whose case the block period ends on a later date.

Further, the amendment has also been made to provide that undisclosed income shall include Virtual Digital Asset for the purpose of block assessment of the other person.

These amendments will take effect retrospectively from September 1, 2024.

Rationalisation of Return and Block Assessment timelines

Currently, as per section 158BC, a return requisitioned under block assessment procedure is to be filed for the block period within the time frame mentioned in the notice, which cannot exceed 60 days. The Block period may include the year for which the time period to file the return has not elapsed. Further, the assessee for such period may be required to get its accounts audited and also file tax audit report for the purpose of filing the tax return. In such a case, the time period of 60 days for filing the return for the block period after undertaking the above compliances was not felt adequate.

Section 158BC has been amended to provide that if the following conditions are satisfied, the time period to file the return may be extended by a further period of 30 days:

(i) in respect of a year immediately preceding the financial year in which the search is initiated or requisition is made, the due date for furnishing the return has not expired prior to the date of initiation of such search or requisition;

(ii) the assessee is liable for tax audit under section 44AB for such year;

(iii) the accounts (maintained in normal course) of such year have not been audited on the date of issuance of the notice for filing the return;

(iv) the assessee requests in writing for extension of time for furnishing such return to get such accounts audited.

Section 158BE of the Act provides the time-limit for completion of block assessment as 12 months from end of the month in which the last of the authorisations for search has been executed.

Search operations usually extend to a group of cases and require a coordinated effort. In order to avoid multiplicity of timelines, it has been provided that the 12 month period shall commence from the end of the quarter in which the last of the authorisations for search or requisition has been executed.

Further, in case the time limit of filing of return is extended by a further period of 30 days, the above time limit for completion of block assessment shall stand increased to 13 months.

These amendments have been made effective retrospectively from September 1, 2024.

TDS and TCS (withholding tax)

The Government has rationalised various provisions relating to the withholding tax regime, with a view to promote compliance and ease of doing business. The amendments primarily relate to enhancement of minimum monetary thresholds, removal of overlapping of TDS/ TCS provisions on the same transaction, reduction of tax rates in some cases etc.

Rationalisation of monetary threshold for TDS and TCS

The amendments relating to variation in monetary threshold for TDS and TCS are summarised hereunder:

Section		Earlier Threshold	Revised Threshold
193	Interest on securities	No lower threshold prescribed	**Minimum threshold set at INR 10,000/-**
194A	Interest other than interest on securities	INR 50,000/- for Senior Citizens	**INR 100,000**
		INR 40,000/- for persons other than Senior Citizens (if payer is a bank, cooperative society or post office)	**INR 50,000/-**
		INR 5,000/- in other cases	**INR 10,000/-**
194	Dividend for an individual shareholder	INR. 5,000/-	**INR 10,000/-**
	Income in respect of		

194K	units of a mutual fund or Specified Company/ undertaking		
194B	Winnings from lottery, crossword puzzle, etc.	Amount aggregating to INR 10,000/- during the financial year	**Single transaction of INR 10,000/-**
194BB	Winnings from horse race		
194D	Insurance commission	INR 15,000/-	**INR 20,000/-**
194G	Income by way of commission, prize etc. on lottery tickets		
194H	Commission or brokerage		
194-I	Rent	INR 240,000/- during the financial year.	**INR 50,000/- per month or part of a month.**
194J	Fee for professional or technical services or royalty	INR 30,000/-	**INR 50,000/-**
194LA	Income by way of enhanced compensation	INR 250,000/-	**INR 500,000/-**
206C(1G)	TCS on remittances under the Liberalized Remittance Scheme (LRS)	INR 700,000/-	**INR 1,000,000/-**
206C(1G)	**TCS on sale of overseas tour program package**	**INR 700,000/-**	**INR 1,000,000/-**

The above changes would be applicable with effect from April 1, 2025.

Reduction in rates of TDS and TCS

In addition, certain other amendments have been introduced in the field of withholding taxes which are applicable from April 1, 2025. The same are summarised as under:

- Reduction in TDS rate for income payable by a securitization trust to an investor reduced from 25% / 30% (depending on class of taxpayer) to a flat 10% for all taxpayers. (**Section 194LBC)**

- Rate of TCS on timber has been reduced from 2.5% to 2%. Moreover, to address the applicability of TCS on traders of forest produce, it has been provided that only such other forest produce (not being timber or tendu leaves) which is obtained under forest lease will be covered under TCS [**Section 206C(1)]**.
- TCS provision on authorised dealer on remittance out of prescribed educational loan has been abolished. Further, the threshold of amount or aggregate of amounts for TCS by an authorised dealer under the Liberalised Remittance Scheme of the Reserve Bank of India, has been increased to INR 1 Million from the existing limit of INR 700,000. Further, the threshold of INR 700,000 (applicable for attracting higher TCS rate of 20%) on a seller of an overseas tour program package, who receives any amount from a buyer, has been enhanced to INR 1 Million [**Section 206C(1G)]**.

- Earlier**,** Section 194Q of the Act, required any person being a buyer, to deduct tax at the rate of 0.1%, on payment made to a resident seller, for the purchase of any goods of the value or aggregate of value exceeding INR 5 Million in any financial year. On the same transaction, a seller is required to collect tax (TCS) under Section 206C(1H) at 0.1 % on sale of goods where aggregate value exceeds INR 5 Million and TDS is not applied on such transaction. To avoid duplicity in tax collection and to facilitate ease of doing business, TCS on such sale of goods has now been done away with. Thus, such transaction shall now be subject only to TDS under Section 194Q and as such, the buyer shall be liable to deduct tax thereon.

Removal of higher TDS/TCS for non-filers of return of income

Section 206AB and Section 206CCA prescribed higher tax deduction and collection rates for non-filers of income tax returns. Under such provisions, the deductors /collectors ought to verify the return filing status of the deductee/collectee, which was a burdensome requirement. To address this issue, these sections have now been omitted and as such, the higher rate of tax deduction / collection has been done away with effect from April 1, 2025.

Personal Taxation

Revision in the monetary limit of rebate under Section 87A

The highlight of the Union Budget of 2025 was the big relief in tax rates to the middle-class taxpayers. The Finance Act, 2025 has reduced the slab rates under the new scheme under Section 115BAC (which is the default scheme), which shall be applicable from Assessment year 2026-27.

In addition, the monetary thresholds relating to tax rebate under Section 87A, for the taxpayers falling under the new taxation scheme under section 115BAC, have been increased. Earlier, a maximum tax rebate of INR 25,000 was available if the total income was up to INR 700,000. Such limit has now been increased to INR 1,200,000. Further, the amount of tax rebate has been raised to INR 60,000.

However, this enhanced rebate is applicable only to individual residents who have opted to be taxed under the new scheme, i.e. Section 115BAC. Also, it has been provided that such rebate shall not be available against tax on income which are taxable at special rates such as capital gains under Section 111A, Section 112 and 112A).

The above amendments shall be applicable from AY 2026-27.

Annual value of the self-occupied property simplified

Under the provisions relating to house property income, a notional annual value of a house property is required to be considered for tax purposes even if the house property is unoccupied. For self-occupied house properties, the annual value is considered as nil.

Under the earlier provisions, an exception to this general rule existed that if a house property cannot be occupied due to employment, business, or profession at another location, the annual value shall be considered as nil. This benefit was limited to two house properties.

In order to simplify the provision, Section 23(2) has been amended to remove the requirement to have specific reasons (place of work at some other location) for non-occupation of the house property. As such, if the owner does not reside in such house property, for *any reason*, the annual value shall be regarded as nil. However, this benefit shall remain available for a maximum of two-house properties under Section 23(4).

This amendment will be applicable **retrospectively** from assessment year 2025-26.

Increase in Income limits for calculating perquisites

Under Indian tax law, taxable income from salaries also includes defined perquisites provided by an employer. The list of taxable perquisites and exemptions therefrom are laid down in Section 17(2) of the Act read with Rule 3 of the Income-tax Rules, 1962.

Amongst other classes of taxable perquisites, any benefit or amenity granted free of cost by an employer to an employee is also included. However, under the erstwhile provisions, such perquisites were not included in the salary if the annual income of the employee didn't exceed INR 50,000.

Similarly, expenditure by an employer for the medical treatment and related travel expenses of an employee (or member of family including attendant) is exempt from the scope of perquisites. However, for travel expenses, this exemption earlier applied only when the annual gross total income of the employee didn't exceed INR 200,000.

The earlier limits were considered archaic in light of the present levels of employment income and standards of living. Therefore, an amendment has been made to update these limits by way of a special notification as and when required.

These amendments will apply from assessment year 2026-27.

Deduction to promote Vatsalya Scheme under Section 80CCD

The NPS Vatsalya Scheme was launched in September 2024 as a saving cum pension scheme for the exclusive benefit of minors. In order to promote this new NPS scheme, it has been provided that the contributions to this scheme by guardians up to INR 50,000 shall be eligible for deduction under Section 80CCD(1B).

It may be noted that the aforesaid contribution shall be within the overall limit of 80CCD(1B). In other words, the aggregate deduction under Section 80CCD(1B) either by way contribution in the taxpayer's own account or the account of the minor shall be restricted to INR 50,000.

Further, partial withdrawal up to 25% of the amount of contributions made (subject to certain conditions as specified) shall be exempt in the hands of the parent/ guardian under the newly inserted clause (12BA) of section 10 of the Act.

These amendments will be effective from Assessment year 2026-27.

Miscellaneous Amendments

Restriction on the period of Carry forward of losses of amalgamating company in the hands of amalgamated company

In the case of amalgamation, the losses carried forward or unabsorbed depreciation of the amalgamating company or predecessor entity are allowed to be carried forward by the amalgamated company or the successor entity in terms of the provisions of Section 72A of the Act.

Prior to the amendment by the Finance Act, 2025, the losses of an amalgamating company were allowed to be carried forward to the amalgamated company for a fresh term of eight years i.e. the eight years were counted from the date of amalgamation. This allowed evergreening of the losses of the predecessor entity resulting from successive amalgamations.

Pursuant to an amendment made in Section 72A, any loss forming part of the accumulated loss of the predecessor entity, which is deemed to be the loss of the successor entity, shall be eligible to be carried forward for not more than eight assessment years immediately succeeding the assessment year for which such loss was first computed for original predecessor entity. In other words, the period for which the loss was carried forward by the predecessor entity shall be counted within the eight year term. As such, the successor company shall no longer be entitled to a fresh eight year term.

This amendment shall apply to any amalgamation or business re-organisation effected on or after April 1, 2025.

Similar amendment has been made in section 72AA in respect of carry forward of losses of amalgamating banking/government company in the hands of amalgamated banking/ government company.

Extension of timeline for tax benefits to start-ups under Section 80-IAC

Start-ups enjoy a tax holiday for three consecutive years out of a block of ten years under the provisions of Section 80-IAC of the Act. One of the many conditions prescribed for the deduction eligibility is that the start-up is incorporated on or after April 1, 2016 but before the April 1, 2025. To give the much-needed push to the start-up industry, this sunset clause has been extended to start ups incorporated before April 1, 2030.

This amendment will be applicable from April 1, 2025.

Obligation to furnish information in respect of crypto-asset

The Finance Act, 2022 introduced section 115BBH to tax transfer of Virtual Digital Asset (VDA) at 30% without any deduction for the expenditure incurred. VDA was defined under section 2(47A) of the Act.

India has been included in the list of 52 "Relevant" jurisdictions for the purpose of Crypto- Asset Reporting Framework (CARF). CARF provides for the automatic exchange of tax-relevant

information (AEOI) on ‘Crypto-Assets’. The G20 Leaders’ New Delhi Declaration called for the swift implementation of the CARF. To provide for the framework to enable AEOI, section 285BAA has been inserted to provide for Obligation to furnish information of ‘crypto-asset’.

Further, the definition of VDA has been amended 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, whether or not already included in the definition of VDA.

As per the new section 285BAA, the prescribed Reporting Entity will have to provide information in respect of transaction in ‘crypto-asset’ after the prescribed date in a statement, for such period, within such time, in such form and manner and to such income-tax authority, as may be prescribed.

In case of any defect found in the statement, the prescribed Income Tax Authority may intimate the defect to the person who has furnished such statement and give him an opportunity of rectifying the defect within a period of thirty days. In case, the defect is not rectified within the aforesaid period allowed, the provisions of this Act shall apply as if such person had furnished inaccurate information in the statement.

In case the statement is not filed, the prescribed Income Tax authority may serve a notice to file such statement within a given time.

If the person filing statement comes to know of any inaccuracy in the statement, he shall within a given period furnish correct information in such manner as prescribed.

The Central Government may, by rules specify the persons to be registered with the prescribed income-tax authority, the nature of information and the manner in which such information shall be maintained by the persons and the due diligence to be carried out by such persons for the purpose of identification of any crypto-asset user or owner.

These amendments will take effect from April 1, 2026.

Penalties and Prosecution

Extension of processing period for applications seeking immunity from penalty and prosecution under Section 270AA

To mitigate litigation and enable fast track resolution of the disputes, the Act provides an option under Section 270AA to the taxpayer to seek immunity from penalty and prosecution proceedings. Section 270AA of the Act allows a person to seek immunity from certain penalty and prosecution proceedings provided such person pays the tax and interest determined in the

assessment order and no further appeal is filed by such person against the above assessment order.

Where an application seeking immunity is filed by a taxpayer, sub-section (4) of Section 270AA of the Act provides a restricted timeline of one month to the Assessing Officers for processing such requests of the taxpayers.

The period of processing of such applications by the Assessing Officer has now been increased from one month to three months from the end of month in which such application is received by the Assessing Officer.

This amendment shall be effective from April 1, 2025.

Rationalisation of power to impose penalties under various provisions of the Act

Penalty for contraventions of certain provisions of the Act is required to be imposed by the Joint Commissioner of Income-tax, though the assessment in such cases is undertaken by the Assessing Officer.

In order to rationalise the process, the Assessing Officer has now been empowered to levy penalties on or after April 1, 2025 in the cases provided under sections 271C, 271CA, 271D, 271DA, 271DB and 271E. However, the Assessing Officer shall be required to obtain prior approval of Joint Commissioner, where the penalty amount exceeds the limit specified in Section 274(2) of the Act.

These amendments shall be effective from April 1, 2025.

Clarification on the applicability of penalty provision under Section 271AAB on block assessment in search cases

Sub-section (1A) of the Section 271AAB of the Act empowers the Assessing Officer and Commissioner (Appeals) to levy the penalty in case of search cases initiated under Section 132 of the Act on or after December 15, 2016. Such penalty is imposed in respect of undisclosed income of a specified year (which has ended before the date of search) found in the course of a search under section 132. However, there was an ambiguity on the applicability of Section 271AAB of the Act in the case of block assessment under section 158BC of search cases (covered under Chapter XIV-B of the Act) initiated on or after September 1, 2024, wherein, undisclosed income is computed for a block period rather than a particular year.

In order to provide a clarity on the interpretation of Section 271AAB(1A) of the Act, it has been provided that this Section shall not be applicable to the assessee in whose case search has been initiated under Section 132 on or after September 1, 2024.

This amendment shall be effective **retrospectively** from September 1, 2024.

Rationalisation of prosecution provision for delayed payment of Tax Collected at Source

Where a person fails to deposit Tax Collected at Source ("TCS") to the credit of Central Government, Section 276BB of the Act provides for a rigorous imprisonment of three months to seven years along with fine.

In order to provide a relief to the tax collectors, tax collectors have been exempted from prosecution proceedings provided they deposit the TCS on or before the due date of filing the quarterly statement of TCS as in the case of TDS provisions.

This amendment shall be effective from April 1, 2025.

Goods and Service Tax

Distribution of IGST paid under Reverse Charge Mechanism via Input Service distributor (ISD) mechanism

IGST payable on inter-state inward supplies under Reverse Charge Mechanism ("RCM") has been included under the ambit of Input Tax Credit ("ITC") distribution by Input Service distributor ("ISD") mechanism. The Finance Act, 2025 has amended the definition of Input service distributor under Section 2(61) and the mechanism of ITC distribution by ISD prescribed under Section 20.

It may be mentioned that CGST and SGST payable on intra-state inward supplies under RCM was already included by the Finance Act 2024 for ITC distribution by ISD.

Accordingly, going forward, a registered person (having the same PAN and State code as that of ISD) may issue an invoice or a credit/debit note to transfer ITC of IGST, CGST and SGST paid under RCM on common input services to the ISD registration. The ISD registration will then distribute this ITC to its other branches by issuing an ISD invoice to the respective branches. **(effective from 1st April 2025)**

Time of Supply provision omitted with respect to vouchers

The Central Government vide circular No. 243/37/2024-GST, dated 31st December 2024 has clarified that vouchers are not taxable per se, as vouchers are actionable claims which do not qualify as supply of goods or services. However, supply of underlying goods or services purchased using the voucher may be subject to GST as per the applicable provisions.

In line with the aforesaid clarification, Sections 12(4) and 13(4) have been omitted from the CGST Act, 2017 which pertain to the time of supply in respect of supply of vouchers. This is welcome amendment for taxpayers issuing gift vouchers and other payment instruments since, going forward, it would eliminate ambiguities regarding GST on sale of such vouchers.

Amendment to Section 17(5)(d) to negate the effect of Supreme Court Judgment in the case of Safari Retreats

Section 17(5) of the CGST Act deals with blocked credits. Clause (d) of Section 17(5) provides restriction on the input credit for the goods/ services consumed and used during the construction of immovable property other than “plant or machinery”. Similarly, clause (c) of Section 17(5) denies input credit for works contract services consumed and used during the construction of immovable property other than “plant and machinery”.

Recently, the Supreme Court in the case of *Chief Commissioner of CGST & Ors vs M/s Safari Retreats Pvt Ltd & Ors., 2024 (10) TMI 286 SC* held that words “Plant and Machinery” used in Section 17(5)(c) are distinct from “Plant or Machinery” used in Section 17(5)(d). While the Explanation to Section 17 defines “Plant and Machinery”, which specifically excludes land and building, the words “Plant or Machinery” have not been defined in the Act. Thus, it was held that there could be a ‘Plant’ that is an ‘Immovable property’, which is not defined in the Act and hence, its ordinary meaning in commercial terms will have to be attached to it. Therefore, for the purpose of Clause (d) if a building in which the premises are situated qualifies for the definition of “Plant”, ITC would be allowed on goods and services used in setting up such immovable property.

The Finance Act, 2025 has amended Section 17(5)(d) by replacing the words “plant or machinery” with “plant and machinery.” Further, Explanation 2 has been inserted after Section 17(5)(d) which provides that the words “plant or machinery” shall be construed and shall always deemed to have been construed as "plant and machinery", notwithstanding anything to the contrary contained in any judgment, decree, or order issued by any court or authority. This amendment shall apply with retrospective effect from 1st July 2017.

Pursuant to the above amendment to Section 17(5)(d) and insertion of Explanation 2 to the said section, the above-mentioned Supreme Court judgement shall become redundant. Therefore, all the assessees who were planning to approach their respective High Courts (as per the directions of Hon’ble Supreme Court in the judgement for availing ITC), may need to revisit their strategy towards availing ITC.

Modification of Pre-deposit requirement, where only penalty amount is demanded

Pre-deposit requirements for filing GST Appeals have been amended in cases where only penalty amount is demanded, and where no tax amount is involved. Earlier, pre-deposit requirements were prescribed in cases of demand of penalty only on account of detention and seizure of goods and conveyance in transit.

Going forward, mandatory pre-deposit would be required to be paid before filing appeals in other cases also, where demand comprises only of penalty amount. This would result in blockage of working capital requirements for the taxpayers.

A bird's eye view of the earlier provisions and amended provisions under Section 107(6) and Section 112(8) are given hereunder for your ready reference:

Forum	Earlier limits of pre-deposit	Revised limits of pre-deposit
First appellate authority, i.e., Commissioner (Appeals)	25% of penalty demanded (applicable only in case of detention and seizure of goods and conveyance in transit)	10% of penalty demanded (applicable in all cases, where demand comprises only of penalty)
Second appellate authority i.e., GST Appellate Tribunal	No earlier provision	Additional 10% of penalty demanded (applicable in all cases, where demand comprises only of penalty)

Track and Trace Mechanism for certain goods

Section 148A has been introduced in the CGST Act, 2017 to enable the government to implement a Track and Trace system for specified goods that are prone to tax evasion, e.g., tobacco products, sin products etc.

The new system will involve affixing a Unique Identification Mark (UIM) on the specified goods or their packaging. "Unique Identification Marking", as per the newly inserted Section 2(116A), refers to a digital stamp, digital mark, or any other similar marking that is unique, secure and cannot be removed. The notified persons would also be required to comply with other provisions with respect to furnishing information, maintaining records and making payments of prescribed amounts.

Correspondingly, penalty provision under Section 122B has been inserted in case of contravention of UIM provisions. It provides for penalty of INR. 100,000 or 10% of the tax payable on such goods, whichever is higher.

Please note that the above changes would be effective vide Notifications to be issued in future.

No GST on supply of goods warehoused in SEZ/FTWZ

A new Clause 8(aa) has been inserted in paragraph 8 of Schedule III with retrospective effect **from 01st July 2017** to provide that the 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. However, no refund of tax shall be made of the tax which has been collected.

About Us

Mohinder Puri & Co. is a firm of Chartered Accountants established in 1954. Led by eminent and highly experienced partners and complemented by a team of multi-disciplinary professionals, we offer a diverse range of professional services to our clients, besides our core competencies of audit and taxation. With over 65 years of experience, we have been providing advice and support to domestic and international clients in diverse sectors on audit, accounting, taxation and regulatory matters. Built on a strong commitment to client service, the Firm acts as a One-Stop Advisor offering expertise and hands-on support. We pride ourselves on our quality and integrity to drive the growth of our clients.

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