

KEY DIRECT TAX HIGHLIGHTS

**UNION  
BUDGET**  
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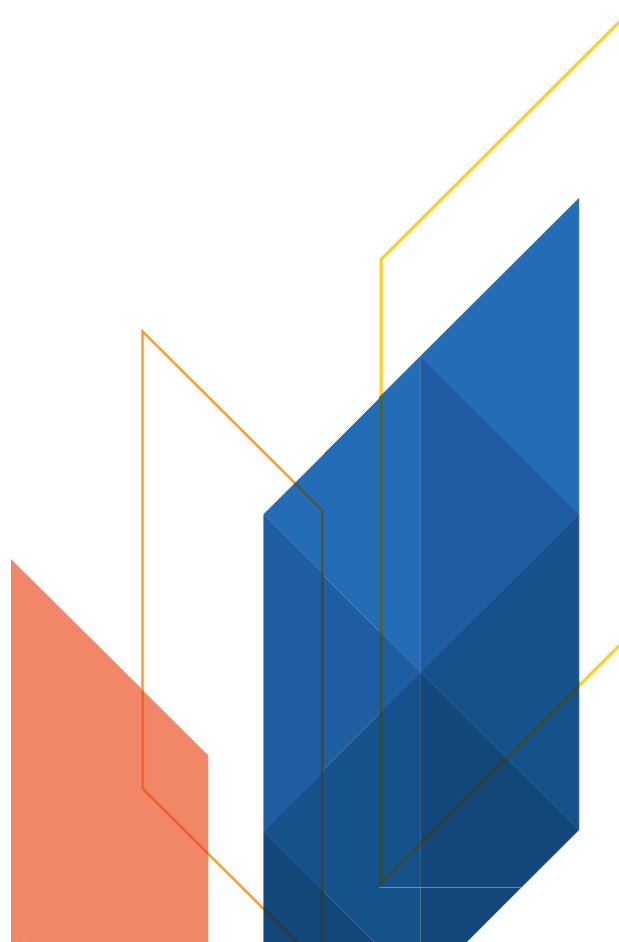


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# FOREWORD FOR DIRECT TAX PROPOSAL

“A Budget that set the tax world abuzz — delivering robust relief for individual taxpayers and paving the way for a brighter, simplified direct tax regime.” If this summary sparks curiosity, it is because the Union Budget 2025–26 has indeed made headlines primarily for its sweeping personal income tax measures. At the same time, it promises a more streamlined, future-oriented framework for businesses, start-ups, and the expanding digital economy. Here is an overview of the key direct tax proposals that have captured widespread attention and hold the potential to further shape India’s economic landscape.

## 1. Major Personal Tax Breakthrough

The single biggest draw for individual taxpayers is the enhanced tax slabs under the new personal tax regime (Section 115BAC), which raises the no-tax threshold to INR 1.2 million, the highest ever seen in India’s recent history. By extending the non-taxable limit from the earlier INR 0.7 million, the Finance Minister has provided a direct boost to the disposable income of the rising middle class. When factoring in the standard deduction of INR 75,000 for salaried individuals, incomes up to INR 1.275 million effectively become tax-free.

This change is undeniably monumental: it holds the promise to spark higher household consumption, saving, and investment. It also aligns with the Hon’ble Prime Minister’s prayer for **“Maa Lakshmi’s blessings upon the poor and middle class,”** demonstrating a clear public policy choice toward inclusive growth. Nevertheless, it comes with an implicit expectation that taxpayers will reciprocate with enhanced compliance, thus ensuring the revenue buoyancy that the government has forecasted.

## 2. New Income Tax Bill on the Horizon

A promise that could redefine India’s direct tax landscape is the announcement of a forthcoming new Income Tax Bill, to be tabled in Parliament in the near future. This legislation is expected to foster tax certainty, reduce litigation, and modernize the existing framework. By simplifying myriad provisions, the government aims to deliver a tax code that is both business-friendly and robust in enforcement — fulfilling a longstanding wish of various stakeholders for a transparent, predictable, and investor-friendly direct tax regime.

Such a structural overhaul, if executed diligently, can alleviate many complexities that have historically led to protracted litigation. With Indian taxpayers increasingly seeking clarity in compliance and the government showing a “trust first” mindset, there is guarded optimism that this Bill will promote stability, further enhance ease of doing business, and encourage global investors to commit long-term capital to India.

## 3. Fresh Impetus for Digital Economy and Start-Ups

Acknowledging the enormous potential of India’s digital and start-up ecosystem, Section 44BBD has been introduced to create a presumptive taxation scheme for digital economy businesses. This long-anticipated measure helps ensure fair taxation of cross-border technology transactions and online platforms operating in India. By standardizing compliance and clarifying thresholds for taxation, the provision aims to capture the value generated within India’s digital space without stifling innovative growth.

Moreover, start-ups and International Financial Services Centre (IFSC) entities can celebrate a five-year extension of key tax holidays and concessions under Sections 80-IAC and 80LA, respectively. This extension encourages entrepreneurial ventures and strengthens India’s claim as a global financial and tech hub. By mitigating the tax burden during crucial formative years, the government sets a supportive tone for start-ups looking to scale rapidly, including those focusing on cutting-edge technologies such as AI, fintech, and e-commerce.

## 4. Adjustments in TDS/TCS and Corporate Taxation

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Another significant highlight is the continuing rationalization of the TDS/TCS regime. The omission of Sections 206AB and 206CCA — which had mandated higher withholding tax rates for specified non-filers — signals an effort to ease administrative complexity for businesses. This approach complements the government's stance of facilitating simpler tax compliance, albeit with robust monitoring mechanisms to deter wilful evasion.

No major amendments have been proposed to the core corporate tax rates, reflecting a stable approach toward business taxation. This will offer a degree of certainty for companies already factoring in existing rates into their operational strategies. However, many in the manufacturing sector had hoped for an extension of the concessional 15% tax rate for new manufacturing units under Section 115BAA, which lapsed on 31 March 2024.

The absence of such an extension stands out as a missed opportunity, especially for those eyeing India as an alternative global production hub. Future Budgets or policy announcements might consider reinstituting or replacing this incentive, especially to sustain the momentum in advanced manufacturing and job creation.

## 5. Balancing Economic Growth with Fiscal Prudence

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Despite significant personal tax giveaways, the Budget retains a strong commitment to fiscal glide paths and prudential governance. The fiscal deficit target of 4.4% of GDP remains intact, reinforcing an expectation of disciplined expenditure control. With no additional levies introduced for corporations and high-net-worth individuals (HNWIs), the onus lies equally on efficient revenue collection and rational resource allocation.

While direct relief to middle-income households may seem like an all-out celebratory measure, it also suggests a longer-term view that a financially empowered middle class will contribute robustly to consumption-led growth. Sectors like real estate, consumer goods, and services could consequently experience upticks in demand, further aiding the nation's efforts to sustain high growth rates.

## 6. Scope for Further Refinement

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In evaluating the direct tax provisions, certain areas remain ripe for improvement or additional clarity:

Retrospective amendments have historically caused unease among taxpayers and investors. While the Budget steers clear of large-scale retrospective changes in direct taxes, industry dialogues often highlight the need for forward-looking legislation, minimal ambiguities, and stable policy environments.

The new Income Tax Bill's success will depend on how comprehensively it addresses longstanding pain points, such as repeated litigation in transfer pricing, complexities in cross-border taxation, and overlapping compliance obligations. A truly simplified regime would bolster investor confidence and potentially encourage higher foreign direct investment (FDI).

The missed extension of Section 115BAA for new manufacturing could have further solidified India's standing in global supply chains. Policymakers may wish to revisit this aspect, considering how crucial the manufacturing sector is to job creation and export competitiveness.



## 7. Concluding Thoughts

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On balance, the Finance Act, 2025 represents an essential evolutionary step toward tax simplification, enhanced taxpayer confidence, and strategic economic development. From a personal taxation standpoint, it offers one of the largest expansions in the no-tax threshold in decades. From a business standpoint, it delivers stability, technology-driven reforms, and a strong impetus for digital and financial services.

A particularly exciting prospect is the forthcoming new Income Tax Bill, which, if designed with inclusive consultation and clarity, could serve as a watershed moment in India's direct tax administration. While certain avenues for further refinement remain — chief among them the reinstatement of incentives for new manufacturing — the broad direction underscores a willingness to refine tax laws in line with dynamic global and domestic realities.

We hope that this comprehensive analysis sheds light on the nuances and implications of the direct tax proposals. As India continues its pursuit of sustainable growth and macroeconomic stability, the interplay between visionary tax reforms, diligent compliance, and robust policy dialogue will remain crucial. Readers are encouraged to share their feedback, engage in healthy discussion, and stay attuned to legislative developments that will undoubtedly shape the future of taxation in the country.

### Team Kirtane & Pandit LLP

Disclaimer: This document has been prepared as a service to the clients. We recommend you to seek professional advice before taking any action on the specific issues.





# 1. RATES OF INCOME TAX

**EFFECTIVE  
TAX RATE**

## 1.1 Applicable Tax Slabs for Individual / HUF / AOP / BOI : Rates of income tax in respect of income liable to tax for the Assessment Year 2026-27

### New Regime (115BAC):

Rate of Tax	Existing Provision	New Provision
Nil	Upto 3,00,000	Upto 4,00,000
5%	From 3,00,001 to <b>7,00,000</b>	From 4,00,001 to 8,00,000
10%	From 7,00,001 to 10,00,000	From 8,00,001 to 12,00,000
15%	From <b>10,00,001</b> to 12,00,000	From 12,00,001 to 16,00,000
20%	From 12,00,001 to 15,00,000	From 16,00,001 to 20,00,000
25%	NA	From 20,00,001 to 24,00,000
30%	Above 15,00,000	Above 24,00,000

### Old Regime

**No changes** have been proposed in old regime and as such the following tax slab rates shall continue:

Rate of Tax	Income Slabs for HUFs and Individuals		
	Below 60 years of Age	Above 60 and below 80 years of Age	Above 80 years of Age
Nil	Upto 2,50,000	Upto 3,00,000	Upto 5,00,000
5%	From 2,50,001 to 5,00,000	From 3,00,001 to 5,00,000	NA
20%	From 5,00,001 to 10,00,000	From 5,00,001 to 10,00,000	From 5,00,001 to 10,00,000
30%	Above 10,00,000	Above 10,00,000	Above 10,00,000

## Our Comments

This is a very welcome and much-anticipated move from the Government. The relief of Rs. 1.10 lacs for the assessee's having an income more than 24 Lacs is very substantial and the highest relief in the near past. Slabs and rates are being changed across the board to benefit all taxpayers. The new structure will substantially reduce the taxes of the middle class and leave more money in their hands, boosting household consumption, savings and investment.

The old regime has gradually been phased out without an explicit declaration. Its relevance has diminished over time, making way for the compelled adoption of the new system.

## 1.2 Applicable Surcharge:

- Surcharge rates as applicable to Individuals, HUF, BOI & AOP **remains unchanged**:

Taxable Income range	Old Regime	New Regime (115BAC)
50 lakhs to 1 Crore	10%	10%
1 Crore to 2 Crore	15%	15%
2 Crore to 5 Crore	25%	25%
More than 5 Crore	37%	25%

- There has been **no change in surcharge** as applicable on STCG (111A), LTCG (112 & 112A), and Dividend (from Equity Shares and equity-oriented MF) under the old as well as new regimes. The same shall continue to remain capped at 15%, irrespective of the income range.
- Further, the surcharge as applicable to Domestic Companies, Foreign companies, and Partnership Firms also **remains unchanged**.

## 1.3 Tax Savings:

- Illustrative comparison of the potential tax savings from the current amendments in the Budget:

Taxable Income	AY 2026-27	AY 2025-26	Tax Saving AY 2025-26 vs. AY 2026-27	% Savings AY 2025-26 vs. AY 2026-27
	(A)	(B)	(C)	(D) = (C)/(B)
7,00,000	-	-	-	-
10,00,000	50,000	-	50,000	100.00%
12,00,000	80,000	-	80,000	100.00%
15,00,000	1,40,000	1,05,000	35,000	25.00%
16,00,000	1,70,000	1,20,000	50,000	29.41%
20,00,000	2,90,000	1,80,000	1,10,000	37.93%
24,00,000	4,10,000	2,40,000	1,70,000	41.46%
28,00,000	5,30,000	3,00,000	2,30,000	43.40%
30,00,000	5,90,000	3,30,000	2,60,000	44.07%

- Individuals earning between **Rs. 13 lakh** and **Rs. 17 lakh** will have **lower tax savings** compared to other income groups.



1.4 Benefits extended and Benefits Withdrawn Since the Year 2014:

- Summary of significant amendments from year 2014 to 2025:

Benefits extended	Benefits Withdrawn
1. Taxable limit increased from ₹2,50,000 to ₹12,00,000 (2014–2024).	1. Under the new tax regime, interest deduction on self-occupied house property has been withdrawn (still available for let-out properties).
2. Standard deduction for salaried employees increased from <b>NIL</b> to ₹75,000.	2. Interest on employee contributions above ₹2.5 lakh per year to EPF is now taxable.
3. Surcharge for High Net-worth Individuals earning above ₹5 crores reduced from 37% to 25%.	3. Tax-free maturity benefit for ULIPs with premiums exceeding ₹2.5 lakh per year has been removed.
4. Corporate tax rate for income upto 1 crore domestic companies reduced from 30% to 24.20%.	4. Investment incentives in PPF, NHB deposit saving schemes, ELSS, life insurance premiums, house property, and medical insurance were disincentivized due to the new tax regime.
5. For new manufacturing companies, the corporate tax rate was reduced to 15% to boost industrial growth.	5. 12.5% LTCG tax introduced on STT Paid equity investments over ₹1.25 lakh, which was previously 20%.
6. Corporate tax rate for foreign companies reduced from 40% to 35% (excluding surcharge & cess).	

1.5 Rebate under section 87A

- Comparative summary of rebate for an assessee, being an **individual resident** in India:

Rebate u/s 87A	Existing till AY 2025-26	Proposed AY 2026-27
Total Income	Rs. 7,00,000	Rs. 12,00,000
Maximum Rebate	Rs. 25,000	Rs. 60,000

- No rebate is available on income that is chargeable to tax under a special rate. It is available only on tax payable as per slabs under sec on 115BAC.

## Examples:

Total Income		Tax on such income			
Taxable income under head other than special rate	Taxable income under section 112A	Tax payable on income chargeable at normal rate (A)	Tax payable on income chargeable at special rate (B)	Rebate under section 87A (C)	Total Income tax payable (A+B-C)
7,00,000	-	15,000	-	15,000	-
-	7,00,000	-	21,875*	-	21,875
10,00,000	4,00,000	40,000	34,375**	-	74,375

\*After basic exemption limit of Rs 4 Lacs and 112A limit of Rs 1.25 Lacs

\*\*The basic exemption limit is applied to non-112A income, with the ₹1.25 lakh benefit under Section 112A duly considered.

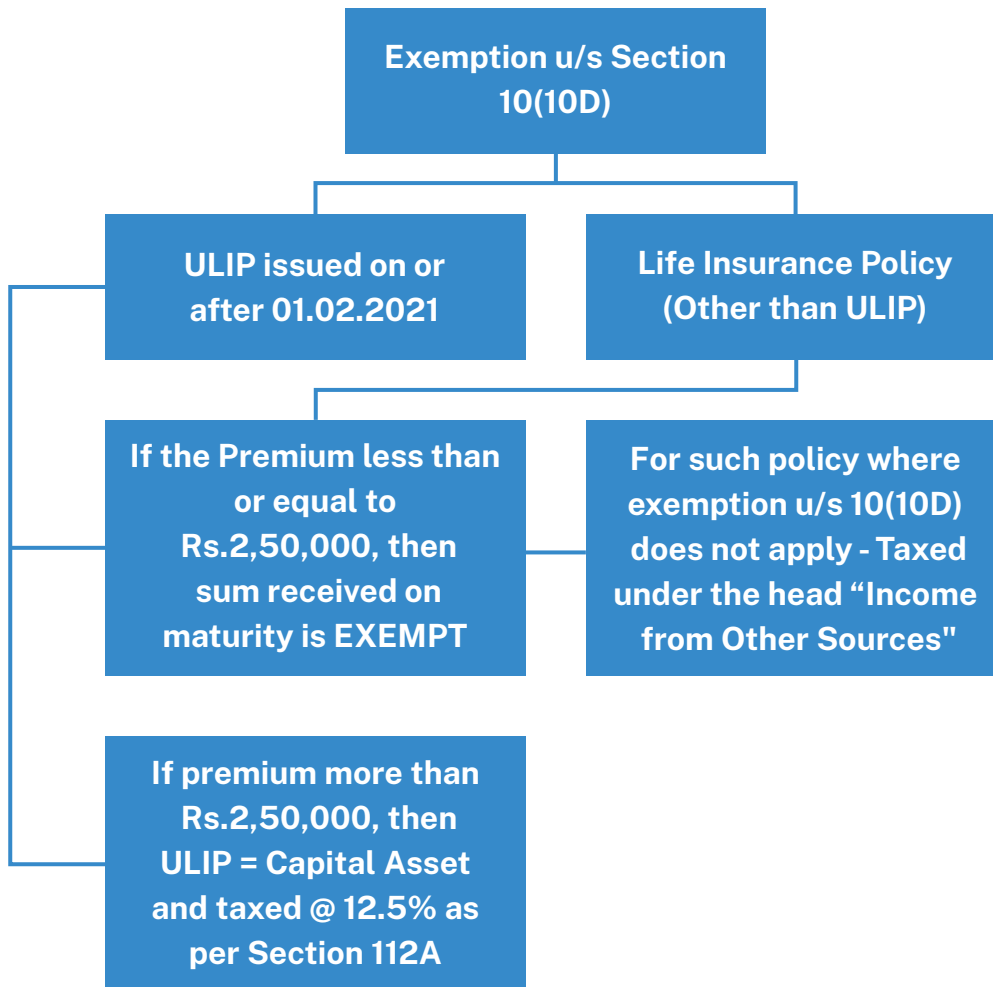


## 2. AMENDMENTS APPLICABLE TO INDIVIDUALS



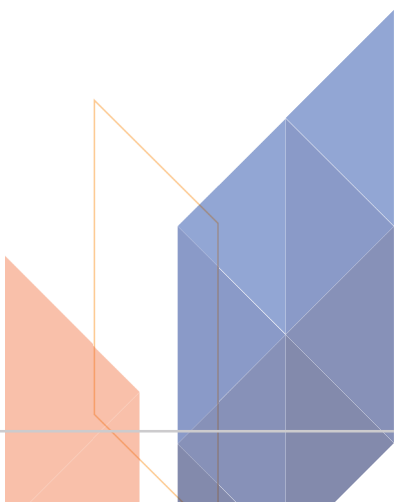
### 2.1 Bringing clarity in income on redemption of Unit Linked Insurance Policy

Section 10(10D) Income Tax Act 1961 deals with the **taxation of life insurance policies**.



#### Our Comments

The clarification regarding characterisation of ULIP as capital gains, provides much needed clarity and will reduce litigation.



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

NPS Vatsalya Scheme allows **parents/guardians** to open an NPS account for **minors**, managed by the guardian until the **child turns 18**, after which it transitions into an NPS-Tier 1 (All Citizen Model) or another non-NPS scheme.

### Tax Benefits (Section 80CCD)

- **Deduction:** Contributions by a parent/guardian up to ₹50,000 are deductible under Section 80CCD(1B).
- **Taxation on Withdrawal:** Amounts on which deductions were claimed, including accrued earnings, will be taxable on withdrawal, except in the event of the minor's death.
- **Partial Withdrawals:** Permitted for education, treatment of illnesses, or severe disability (above 75%). A new Section 10(12BA) exempts withdrawals up to 25% of contributions from the parent/guardian's taxable income.

*These provisions will apply from April 1, 2026 (Assessment Year 2026-27 onwards).*

### Our Comments

It should be noted that the said benefit is not available to those opting for new tax regime u/s 115BAC.

## 2.3 Exemption to withdrawals by Individuals from National Savings Scheme (NSS) from taxation

A proposed amendment to exempt individuals from paying tax on **withdrawals** made from **NSS deposits** (including interest accrued) for which deductions were previously allowed.

This applies only to deposits made before **01.04.1992** on which deductions were claimed.

If the withdrawal is after the demise of the depositor, there is no tax liability.

This exemption applies to withdrawals made on or after **29th August 2024**.

## 2.4 The annual value of the self-occupied property simplified

Existing Provision / Conditions	Proposed Amendment
Conditions for Claiming 2 House Properties as Self-Occupied:  a) is in the occupation of the owner for the purposes of his own residence; or b) Cannot actually be occupied by the owner due to his employment, business or profession carried on at any other place, he has to reside at that other place in a building not belonging to him	2 House Properties can be selected as Self Occupied for any reason - No conditions
<b>Annual Value of Property</b> Nil (Only in respect of two houses)	<b>Annual Value of Property</b> Nil (Only in respect of two houses)

## Our Comments

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The bonanza for taxpayers is that under new provision in Budget 2025, they can now claim Nil valuation for two self-occupied properties instead of just one need to satisfy without any condition. This eliminates the tax on notional rental income from a second home. People having second homes and houses in Tier 2 and 3 cities will benefit from the new provision. Middle-class homebuyers, landlords, and investors can now enjoy reduced tax liabilities.

In 2019, taxpayers were allowed to claim any two house properties as self-occupied. From FY2019-20 onwards a taxpayer was not required to pay tax on the notional rent of the second house property, if conditions specified in Section 23(2) were satisfied.

Since then, the conditions have stuck on, causing immense hardship which have been removed now by the budget.



# 3. AMENDMENTS APPLICABLE TO CORPORATES



## 3.1 Rationalization of Carry Forward of Losses:

It has been proposed that the carry forward of losses even in cases of amalgamation/ demerger/ reorganization to be restricted to a maximum of 8 years w.e.f. 1st April 2025. The accumulated loss of the amalgamating entity, which is deemed to be the loss of the successor entity, can now be carried forward only for the **remaining period** of the original 8-year limit. This means that the successor entity cannot restart the 8-year carry-forward period upon each amalgamation/business reorganisation.

*The proposed amendment will be applicable to any amalgamation or business reorganization effected on or after April 1, 2025.*

### Our Comments

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This amendment aims to align these provisions with Section 72, ensuring that losses can be carried forward for the unexpired period of the amalgamating company instead of treating the same for the current year through successive amalgamations.

The amendment is intended to curb the evergreening of losses by successive amalgamations, ensuring that tax benefits are not extended indefinitely beyond the prescribed 8-year period.

The proposed amendment to Sections 72A and 72AA represents a significant shift in tax policy aimed at preventing the indefinite rollover of losses through amalgamation. By capping the carry forward period at the original 8-year limit, the amendment ensures tax fairness and prevents misuse of amalgamation provisions. Companies planning business reorganizations post-April 2025 must carefully evaluate their tax positions in light of these changes.



# 4. INTERNATIONAL TAXATION/ TRANSFER PRICING



## 4.1 Presumptive taxation for non-residents providing services for an electronics manufacturing facility.

New section 44BBD is introduced for a non-resident or a foreign company involved in the business providing support in setting up such electronics manufacturing facilities by deploying the technology and providing support services in India. Such services/ Technology are provided to resident companies engaged in the manufacturing of electronic goods, articles, or things in India. Manufacturing entities or facilities of Indian Companies should be as per the scheme notified by the Central Government in the **Ministry of Electronics and Information Technology (MEIT)** and satisfy such conditions as prescribed in the rules.

Prior to the proposed amendment, a non-resident or a foreign company was liable to tax as business income on the profits from this activity at the applicable rates.

As per the new section 44BBD, **25% of the aggregate amount received/ receivable** by, or paid/ payable to, the non-resident, on account of providing services or technology, as profits and gains of such non-resident from this business shall be deemed income. This will result in an **effective tax payable of around 10% on gross receipts**, by a non-resident company.

*This amendment will take effect from 01.04.2026 and will, accordingly, apply to the assessment year 2026-27 onwards. The amendment therefore applies to transactions undertaken in the financial year 2025-26.*

### Our Comments

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- Presumptive taxation of non-residents providing services to domestic companies engaged in electronics manufacturing facilities will provide clarity and is a well-thought-out provision and should provide a timely fillip to establishing a robust electronic manufacturing base in India.
- This scheme is applicable only for the Income from Business i.e. the Non-resident has a Permanent establishment in India and not for the Income that is getting taxed as Fees for Technical services u/s 9(1)(vii) r.w.s u/s 115A of ITA 1961.
- A separate provision for Withholding tax rate is not defined as of now and hence there could be ambiguity as to the application of the WHT rate.

## 4.2 Harmonization of Significant Economic Presence Applicability with Business Connection

Section 9 specifically applies to incomes that are deemed to accrue or arise to foreign entities or non-residents in India. Finance Act, 2018, inserted Explanation 2A to Sec. 9(1)(i) to clarify that the “significant economic presence” (SEP) of a non-resident in India shall constitute a “business connection” in India and SEP for this purpose.

Existing Provision	New Provision
<p>Under the current provisions, income through or from operations that are confined to the purchase of goods in India for the purpose of export was not considered as accrued or arising in India as it does not constitute a ‘business connection’ in India.</p> <p>However, due to the operation of current provisions relating to ‘significant economic presence’ such transactions or activities could have been deemed to accrue or arise in India. This has now been corrected.</p>	<p>An amendment has been carried out to provide that the transactions or activities of a non-resident in India which are confined to the purchase of goods in India for the purpose of export shall not constitute a significant economic presence of such non-resident in India.</p>

### Our Comments

The budget clarifies that procurement activities by non-resident taxpayers in India for exports will not be considered a “significant economic presence” in India. This provides much-needed clarity on tax obligations for non-resident taxpayers.

## 4.3 Amendment in Definition of 'Capital Asset'

Investment Funds as defined in section 115UB of the Income-tax Act, 1961 are the ones which are regulated under the SEBI (AIF) Regulations, 2012, or under the IFSCA (Fund Management) Regulations, 2022. These are mainly Category I or Category II Alternative Investment Funds.

Thus section 2(14) and section 115UB of the Act is amended to give certainty in the treatment of gains arising on Transfer of securities.

Investors in AIF I and II are taxed directly on income earned by the Fund as capital gains, dividends or interest. CBDT has earlier issued a clarification on the treatment of income sale of securities as capital gains. This is now proposed to be codified to treat securities held by CAT I & II AIFs classified as a capital asset. This means that all gains emanating from the sale of securities will be treated as “Capital gains” & not “Business Income”. This brings AIFs to par with FPIs.

#### 4.4 Rationalization of taxation of capital gains on transfer of capital assets by non-residents '1

Under the existing provision, the tax rate for income by way of long-term capital gains on transfer of securities (other than units referred to in section 115AB) by the FIIs that are not covered u/s 112A is 10%.

The now amended tax rate for income by way of long-term capital gains arising from the transfer of the aforementioned securities by FIIs is now proposed to be 12.5%.

#### 4.5 Transfer pricing provisions for carrying out multi-year ALP determination.

In order to provide relief in the much-litigated area of transfer pricing (TP), as per best international practices, a new scheme of TP for a block of three years has been introduced, wherein, the arm's length price (ALP) determined in relation to an international transaction or a specified domestic transaction for any previous year shall apply to the similar transaction for the two consecutive previous years immediately following such previous year.

The finance bill proposes to carry out block transfer pricing assessments and the arm-length price determined for year 1 shall apply to subsequent two years in respect of the same transaction. Taxpayers can opt to roll forward their transfer pricing assessments for up to two years. This is at the option of the taxpayer. The detailed provisions will be notified through rules at a later date.

#### Our Comments

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- The proposal to apply the block assessment concept to transfer pricing matters is likely to reduce the time and effort of taxpayers as well as tax administration.



# 5. TRUSTS

## 5.1 Rationalization of 'specified violation' for cancellation of registration of trusts or institutions

Section 12AB deals with the registration of trusts.

Under Section 12AB(4), the Principal Commissioner or Commissioner of Income Tax has the authority to initiate proceedings and revoke the registration of a trust or institution, even for minor non-compliance, such as missing or incomplete information in the application form. These extensive powers, applied to minor errors, have often been viewed as excessive and unwarranted.

The Finance Bill 2025 proposes to remove this provision, ensuring that minor errors or omissions in application forms no longer lead to cancellation proceedings. This amendment aims to prevent disproportionate cancellation for minor non-compliance and provide relief to charitable organizations, promoting a more balanced and fair regulatory framework.

Explanation 1 to Section 12AB(4) has been amended to make the meaning of 'Specified Violation' less harsh as follows:

Existing Provision	New Provision
Incomplete applications or applications containing false or incorrect information were treated as a 'specified violation'	Cases with 'Incomplete' applications have been removed from the ambit of 'specified violation'

### Our Comments

- Harsh consequences for defaulting or filing an incomplete application have been removed.
- While this amendment may appear to be a minor technical change, it carries significant implications, as the cancellation of registration under Section 115TD of the Income-tax Act can have severe consequences.
- If a charity's registration is revoked, Section 115TD imposes an accreted tax on its entire net worth, calculated based on the market value of its assets. This provision is especially stringent for charitable organizations, potentially leading to significant tax burdens.
- Given the implications of Section 115TD, the proposed amendment preventing cancellation proceedings for minor errors in registration applications offers much-needed relief. This change ensures that NPOs and charitable institutions are not unfairly penalized for inadvertent mistakes in the registration process.

5.2 Period of registration of smaller trusts or institutions

The current system requires trusts and institutions to renew their registration every 5 years (or 3 years for provisional registration if activities have not commenced). Organizations must apply for renewal or conversion from provisional to regular registration at least 6 months before the expiry of their registration. The process under Section 12AB involves extensive compliance, documentation, and due diligence, including field inquiries by tax authorities.

Currently, all organizations, regardless of size or income, face the same compliance requirements. For example, a small charity with ₹50 lakh income has the same burden as a larger charity earning ₹500 crores. To address this, the Finance Bill 2025 proposes extending the registration period to 10 years for smaller charities, exempting them from the 5-year renewal requirement. This change aims to reduce compliance burdens for smaller charities and the tax department.

Amendment to section 12AB dealing with registration of trust is summarised as follows:

Particular	Existing Provision	New Provision
Meaning of Small Trust	Not Defined	Trust or institution with <b>income &lt;Rs 5 Cr</b> in the current year and also in each of <b>past 2 PY</b> preceding to PY.
Validity of registration of Small trust	5 years if there is regular registration  (3 years in case activities not commenced / Provisional Registration )	In the case of ‘Small Trust’ If regular registration is availed then 10 years  For provisional registration of small Trust, there is no change in a period of 3 years u/s 12A(1)(ac)(vi)
Validity of registration of other than Small Trust	5 years if there is regular registration  (3 years in case activities not commenced / Provisional Registration )	5 years for regular Registration and 3 years for provisional registration.

Our Comments

- a) This is a welcome move since small trust would be released from the rigors of repeated compliance burden of re-registration.
- b) There is no corresponding amendment to Section 80G, meaning smaller charities will not experience significant relief. The compliance burden for renewing 80G approval remains equally cumbersome. It does not make sense to require charities to apply for 80G approval every five years while allowing Section 12AB registration to last ten years. A corresponding amendment to Section 80G would make this change more meaningful.
- c) Amendments do not provide any relief to currently registered small charities. Therefore, they do not fully achieve their intended purpose. The changes will only benefit existing charities when they apply for renewal after completing their five-year period. It would have been more effective if all existing charities with incomes below Rs. 5 crores were automatically granted a ten-year extension.



d) The real challenge for small charities remains the extensive requirements related to maintaining books of accounts, audits, and filing ITR-7. Since no relief has been granted for these compliance obligations, this amendment is largely symbolic and may not provide substantial material benefits to smaller charities.

e) **Applicability of the new amendment**

- The amendments will take effect from 01-04-2025. However, it is unclear whether they apply only to registration certificates granted after 01-04-2025, or to applications made after this date.
- Section 12AB(1) outlines the procedure for registration or cancellation of registration by the Principal Commissioner or Commissioner upon receiving an application under Section 12A(1)(ac). Since certificates are granted under Section 12AB, but applications are made under Section 12A, and there is no amendment to Section 12A, we believe that all registration certificates issued on or after 01-04-2025 will be valid for 10 years for organizations meeting the criteria. -  
Consequently, all pending applications for 5-year registration, including applications for regularising provisional registration, should be issued 10-year certificates if granted after 01-04-2025.

5.3 **Rationalization of persons specified under Section 13(3) for trusts or institutions**

The Finance Bill 2025 has amended the definition of specified persons or his relatives under Section 13(3) concerning individuals who have made substantial contributions to an organization in the preceding year or earlier. Currently, any donor who has contributed a total of Rs. 50,000 or more across all preceding years is considered a specified person. This provision had become outdated, as Rs. 50,000 is a relatively small amount in today's context to classify a donor as an interested person.

The Finance Bill 2025 proposes to increase this limit. A comparative chart is as follows.

Meaning of Substantial Contribution	
Existing Provision	New Provision
Contributed > Rs 50,000 in <u>aggregate up to</u> end of PY	Contributed: > Rs 1 Lacs <u>during</u> relevant PY  OR > Rs 10 Lacs in <u>aggregate up to</u> the end relevant PY

Section 13(3)(d) is amended to remove the reference to "person," thereby excluding the relatives of donors from the definition of specified persons.

Section 13(3)(e) is modified to exclude any concern in which such a donor has a substantial interest from being classified as a specified person under Section 13(3).

Our Comments

- The amendment of the Rs. 50,000 limit was long overdue, as it had become impractical to report and disclose such information effectively.
- These amendments provide much-needed relief, as the previous definition was arbitrary and impractical. For instance, disclosing information about the relatives of donors who contributed Rs. 50,000 decades ago is nearly impossible to fulfill. This change eliminates a cumbersome and largely ineffective provision, streamlining compliance and making it more feasible for organizations.



## 6. ASSESSMENT PROCEDURE, SEARCH / SEIZURE & PENALTIES

### 6.1 Block assessment for search and requisition cases under Chapter XIV-B

- “Virtual digital asset” is included in the definition of undisclosed income
- The amendments proposed in the Finance Bill, 2025 are welcome and satisfying to clarify that the undisclosed income declared in the return furnished under section 158BC would be adopted in the computation of total income of the block period. **The Finance (No.2) Act, 2024 contained the expression "total income disclosed in the return furnished under section 158BC" and whereas the Finance Bill, 2025 substitutes the expression by using the words "undisclosed income declared in the return furnished under section 158BC".**

This amendment so proposed now would mean that the undisclosed income declared by the assessee and the income assessed previously and the income declared but assessment not yet be made would be considered for the purpose of computing the undisclosed income of the block period under section 158BB(2) by the Assessing Officer. The incomes assessed previously and incomes admitted in ITRs prior to the search would get excluded under section 158BB(5). Now this computation methodology is proper and the apprehension is justified. The amendment proposed sets at rest the controversy/ambiguity.

Another apprehension previously expressed was that (i) the incomes recorded in the books of account; and (ii) the "due date" for furnishing the return when has not expired such of those incomes so recorded have to be excluded from block assessment so that they would be taxed as per normal provisions. These aspects have also been considered favorably in the Finance Bill, 2025 by stating that the incomes that have been recorded in the books of account and the incomes recorded in the books of account for the previous year for which the "due date" has not expired prior to the date of initiation of search or requisition, would be taxed under the normal provisions and not under block assessment.

### Our Comments

- The undisclosed income would only be declared in the return furnished under section 158BC and not the total income (which was so earlier) and
- The entries in the books of account maintained prior to the date of search and for the previous year prior to the date of the search for which the "due date" for filing the return has not expired, would not be subjected to rate of tax meant for block assessment.

### 6.2 Restriction in scope of penalty u/s 271AAB

The levy of penalty u/s 271AAB has been restricted only to such search cases which have been initiated u/s 132 on or after 15/12/2016 and on or before 01/09/2024.

The amendment aims to provide clarification on ambiguity pertaining to levy of penalty on search initiated on or after September 1, 2024, i.e. under Section 271AAB (1A) or Section 158BFA of the IT Act.

### 6.3 Rationalization in various time limits

A summary of the various instances wherein the due dates/time limits have been rationalized is as follows:

Particular	Existing Time Limits	Proposed Time Limits
For completion of block assessment (Section 158BE)	<b>Twelve months from</b> last date of authorizations for search or requisition has been executed	<b>Twelve months from end of the quarter</b> in which the last of the authorizations for search or requisition has been executed
For taking approval for retention of seized books of account or other documents (Section 132 and 132B)	<b>30 days</b> from the date of the assessment/ reassessment/ recomputation order	<b>1 month from the end of the quarter</b> in which the order of assessment/reassessment / recomputation is made.
For passing of order for granting immunity from penalty as per Section 270AA	<b>1 Month</b> from the end of the month in which application for immunity is received by the AO	<b>3 Months</b> from the end of the month in which application for immunity is received by the AO
Due date for passing penalty orders u/s 275	<b>Multiple for different orders</b>	<b>6 months from the end of the quarter</b> in which the connected proceedings are completed / order is received / notice is issued

## Our Comments

The amendment relating to penalty orders appears to be simple; but the same should help to reduce some litigation, till the matter is not decided by ITAT.

The substituted provision provides for a rationalized timeline to issue penalty orders in various cases and mitigates challenges faced to keep track of multiple time barring dates for effective and efficient tax administration.

**General Time Limits:** Uniformity brought in time-limit for passing penalty order. It now has to be passed within six months from the end of the quarter, in which, the order for the relevant proceedings is passed/ received by the specified tax authority.

**Section 270AA immunity:** It is pertinent to note that the proposed amendment is to extend Assessing Officer's time limit to process the application, however, does not extend/amend taxpayers time limit to file the application before Assessing Officer.

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

**Commencement date:** The date on which the stay was granted by an order or injunction of any court

**End Date:** The date on which a certified copy of the order vacating the stay was received by the jurisdictional Principal Commissioner or Commissioner (Approving panel in case of section 144BA of the Act)

## 6.5 Excluding the period such as court stay etc. for calculating the time limit to pass an order

Relevant provisions of section 153 that is Periods such as court stay etc will be excluded for calculating the time limit to pass order u/s 206C(7A).

## 6.6 Removing date restrictions on framing the schemes in certain cases

Date restrictions till March 2025 is omitted on framing the FACELESS schemes in section 92CA, 144C, 253 and 255 of the Act.



# 7. TDS & TCS RELATED AMENDMENTS



## 7.1 Rationalization of tax deducted at source (TDS) rates:

TDS rules have different rates and thresholds. To make compliance easier and improve business convenience, it is proposed in the budget to simplify some TDS rates and raise the threshold for applicability.

### a) Increase in the threshold limit of the TDS / TCS:

A summary of the various sections where TDS threshold limits have been proposed to be increased is as follows:

Sr. No	Section	Current threshold (Rs.)	Proposed threshold (Rs.)
1	193 - Interest on securities & Debentures securities	Nil	10,000
2	194A - Interest on deposits with banking company, cooperative society or post office (for <b>Senior Citizens</b> )	50,000	1,00,000
3	194A - Interest on deposits with banking company, co-operative society or post office (Others)	40,000	50,000
4	194A - Interest on deposits with any other person	5,000	10,000
5	194 - Dividend for an individual shareholder	5,000	10,000
6	194K - Income in respect of units of a mutual fund or specified company or undertaking	5,000	10,000
7	194B - Winnings from lottery, crossword puzzle, etc	10,000 (aggregate during the financial year)	10,000 (in respect of a single transaction)
8	194BB - Winnings from horse race		
9	194D - Insurance commission	15,000	20,000
10	194G - Other Income by way of commission, prize etc. on lottery tickets		
11	194H - Commission or brokerage		
12	194-I Rent	2,40,000 (aggregate for financial year)	50,000 (per month or part of a month)
13	194J - Fee for professional or technical services or royalty	30,000	50,000
14	194K - Income in respect of units	5,000	10,000
15	194LA - Income by way of enhanced compensation	2,50,000	5,00,000
16	<b>206(1G)</b> - TCS on remittance under LRS & overseas tour package	7 lakhs	<b>10 lakhs</b>

(The above changes are effective from 1st April 2025)

b) Changes in rates of TDS / TCS:

Section	Current Rates	Proposed Rates
<b>194LBC</b> - TDS on income paid by a securitization trust to investors.	Individuals/HUFs - <b>25%</b> Other Entities - <b>30%</b>	<b>10%</b> flat rate for all assessees
<b>206C(1)</b> - TCS on Timber or other forest produce	2.5%	2%
<b>206(1G)</b> - TCS on remittance under LRS for education financed by loan from a financial institution	0.5% after Rs. 7 lakhs	<b>NIL</b>
<b>206C(1H)</b> - TCS on sale of goods exceeding 50 lakhs	0.1%	<b>NIL</b>

(The above changes are effective from 1st April 2025)

7.2 Other Miscellaneous TDS/ TCS amendments

- An exemption from prosecution has now been proposed to be extended also in cases where the TCS liability has been fully deposited prior to the due date of filing of the respective quarterly TCS returns. Earlier this exemption was only granted to TDS defaults.
- Applicability of TDS at a higher rate in case of non-filers of return of income has been proposed to be omitted taking into consideration the hardships faced.

Our Comments

The proposed changes aim to adjust the income levels at which taxes are automatically deducted (TDS) to make the rules more consistent and easier to follow. This will help reduce confusion and paperwork for taxpayers. These updates align with what the Finance Minister promised in the 2024 budget. Soon, a new tax bill is also expected to organize TDS rates into clearer categories, which should help avoid unnecessary disputes and legal issues in the future.



## 8. IFSC

### 8.1 Extension of sunset dates for commencement of operations

The time limit has been extended to 31st March 2030 for commencement of operations of IFSC units or relocation of funds to IFSC, to take benefit of several tax concessions.

Section	Brief Description	Existing time limit	New time limit
80LA(2)(d)	Deductions in respect of certain Incomes of Offshore Banking Units and IFSC	31.03.2025	31.03.2030
10(4D)	Exemption to certain incomes including income on transfer of assets as per	31.03.2025	31.03.2030
10(4F)	Exemption to income of a non-resident by way of royalty or interest, on account of lease of an aircraft or a ship, paid by a unit of IFSC	31.03.2025	31.03.2030
10(4H)	Exemption to income of a non-resident or a unit of IFSC, engaged primarily in the business of leasing, by way of capital gains arising from the transfer of equity shares of domestic company, being a unit of IFSC	31.03.2026	31.03.2030
47(viia)	Transactions which are not regarded as transfers for the purposes of capital gains as provided in section 45	31.03.2025	31.03.2030

*This amendment will take effect from the 1st day of April, 2025.*

### Our Comments

The government's new budget introduces incentives and rule changes to boost India's IFSC (like Gift City) as a top global financial hub. The goal is to attract more foreign investment, especially in finance and ship-leasing, and to compete with hubs like Singapore, Dubai, and London.

- 1. Stable Tax Rules:** Extending end dates for tax benefits gives businesses confidence to plan long-term, encouraging more foreign money to flow in.
- 2. Life Insurance Boost:** Non-residents won't pay taxes on life insurance premiums here (unlike outside IFSC zones), making it easier for global insurance companies to operate.



- 3. Ship Leasing Support:** Tax exemptions on profits (capital gains) and dividends for ship leasing (like those already in place for aircraft leasing) will help IFSC become a one-stop hub for all leasing activities.
- 4. Easier Fund Management:** Simpler rules for global fund managers (like handling cross-border funds) reduce paperwork and make IFSC more attractive.
- 5. More Investment Options:** Retail investment plans and ETFs (like tax-friendly mutual funds) can now operate tax-free in IFSC, attracting a wider range of investors.

These changes aim to make India's IFSC a stronger, more versatile financial hub, capable of rivaling global giants like London or Singapore. Businesses get clearer rules, tax breaks, and simpler processes, which should draw more international companies and investments to India.

### 8.2 Exemption on the sum received towards life insurance policy from IFSC Insurance offices

Section 10(10D) has been amended to provide an exemption on the sum received towards the life insurance policy, issued by the insurance intermediary office located at IFSC without any condition on premium amount; i.e., Rs. 2.5 lakhs for ULIPs and Rs. 5 lakhs for other policies. However, the premium payable should not be more than 10% of the actual capital sum assured.

*This amendment will take effect from the 1st day of April, 2025.*

### 8.3 Exemption to capital gains and dividends for ship leasing units in IFSC

Existing Provision	New Provision
Section 10(4H) provides an exemption to non-residents or IFSC units engaged in aircraft leasing on capital gains tax on the transfer of equity shares of domestic companies being IFSC units, engaged in aircraft leasing. Similarly, Section 10(34B) provides an exemption to dividends paid by a company being an IFSC unit engaged in aircraft leasing, to a unit of IFSC engaged in aircraft leasing.	<p>The exemption provided to aircraft leasing units under section 10(4H) and section 10(34B) now have been extended to ship leasing units in IFSC.</p> <p>The word ship has been defined as follows:(b) “ship” means a ship or an ocean vessel, engine of a ship or ocean vessel, or any part thereof;’;</p>

*This amendment will take effect from the 1st day of April, 2025*

### 8.4 Rationalization of the definition of 'dividend' for Treasury Centres in IFSC

Section 2(22) has been amended to exclude the provisions of deemed dividends to Treasury Centres in IFSC on any advance or loan between two group entities, namely a Finance company or a unit set up in IFSC undertaking treasury activities and a parent entity that is listed on the stock exchange of any country other than India.

*This amendment will take effect from the 1st day of April, 2025.*

## 8.5 Incentives to IFSC operations - Exempt income of Non-Residents

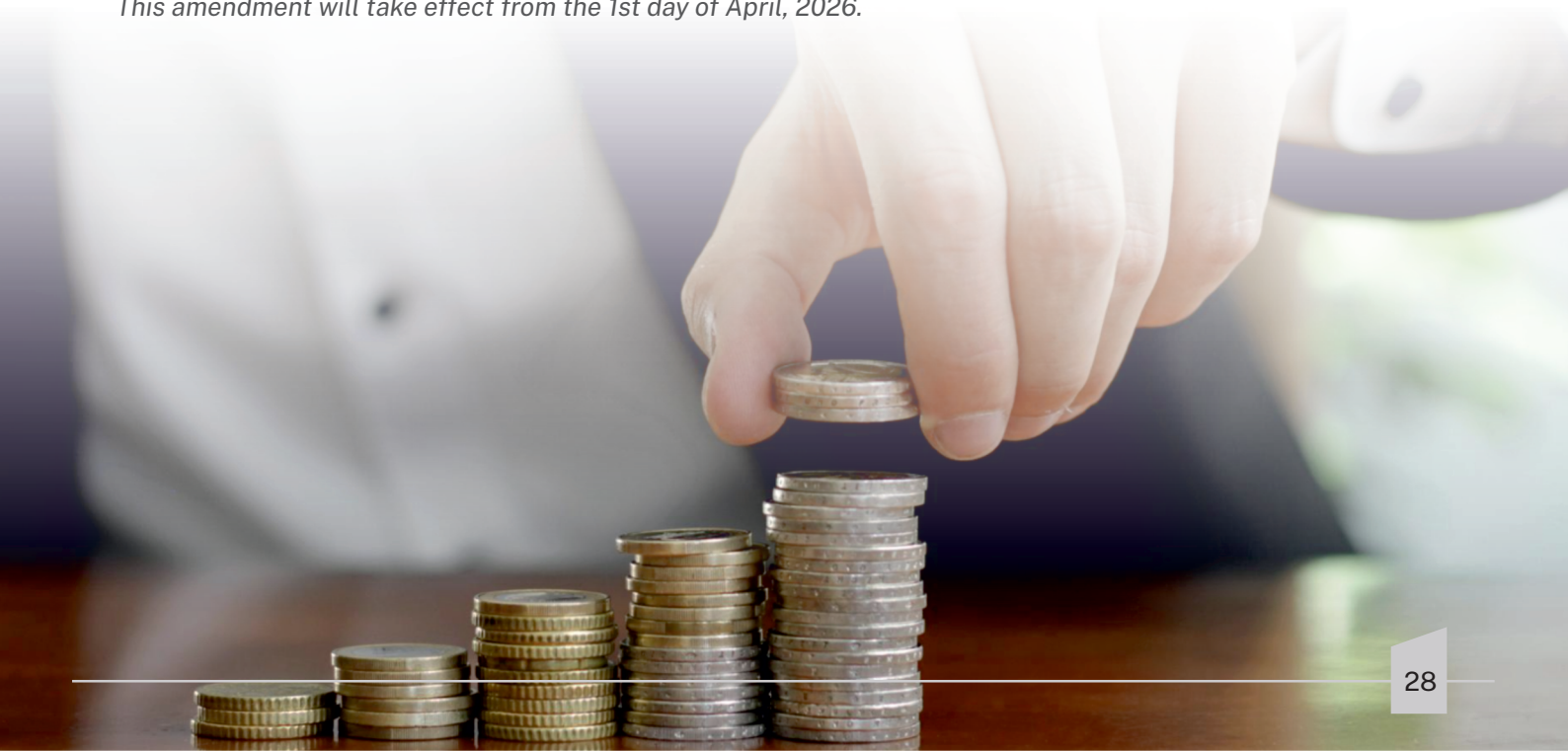
Existing Provision	New Provision
<p>Section 10(4E) deals with the exemption of any income accrued, arising to or received by a non-resident on account of:</p> <p><b>a)</b> transfer of-</p> <ul style="list-style-type: none"><li>• Non-deliverable forward contracts or;</li><li>• Offshore derivative instruments or;</li><li>• Over-the-counter derivatives</li></ul> <p><b>b)</b> distribution of income on offshore derivative instruments entered into an offshore banking unit based in IFSC.</p>	<p>Section 10(4E) has been amended to include said transactions made with Foreign Portfolio Investor being a unit based in IFSC, by non-residents.</p>

*This amendment will take effect from the 1st day of April, 2026.*

## 8.6 Inclusion of retail schemes and Exchange Traded Funds in the existing relocation regime of funds of IFSCA

Existing Provision	New Provision
<p>Section 47(viiad) provides the relocation of original funds to the resultant fund based in IFSC shall not be regarded as a transfer and thus, no capital gain arises.</p>	<p>The definition of resultant fund for the purpose of section 47(viiad) has been amended to include Retail schemes and Exchange Traded Funds located in IFSC so as to make relocation from the original fund to such funds a tax-neutral transaction.</p>

*This amendment will take effect from the 1st day of April, 2026.*



# 9. OTHER MISCELLANEOUS AMENDMENTS

## 9.1 Extension of Tonnage Tax Scheme to Inland Vessels

Chapter XII-G of the Income Tax Act, 1961 provides special provisions relating to the income of the shipping companies. The said Chapter is applicable to the Indian Company only. The government is extending the benefits of the tonnage tax scheme – originally introduced in the Finance Act, 2004 for the shipping industry – to include inland vessels. At present, shipping companies that operate 'qualifying sea-going ships' registered under the Merchant Shipping Act, 1958, are eligible to avail tonnage tax scheme.

This move aims to promote investment and growth in the inland water transportation sector, which currently suffers from a shortage of vessels and high capital investment requirements.

Below is a summary table highlighting the key features of this amendment:

Feature	Description
Objective	To boost the inland water transportation industry by making it attractive for investment.
Eligible Vessels	Inland vessels registered under the Inland Vessels Act, 2021, now qualifying as “ships” under Section 115VD of the Act.
Definition Reference	Inland vessels are defined in Section 115V, mirroring the Inland Vessels Act, 2021.

*The amendment takes effect on April 1, 2026, applying from the assessment year 2026-27 onwards.*

### Our Comments

The Maritime India Vision 2030 (MIV 2030) report (Feb 2021) recommended extending the tonnage tax scheme to inland vessels to boost investment, increase vessel availability, and promote Inland Waterways Transportation (IWT). Industry stakeholders also supported this move. Therefore, the proposal is a positive step forward.

## 9.2 Increasing the time limit available to pass orders under section 115VP

Section 115VP currently mandates that a tonnage tax scheme application be approved or rejected within **one month from the end of the month** it is received by the Joint Commissioner having jurisdiction over the company.

The **proposed amendment** extends this period to **three months from the end of the quarter** for applications received on or after April 1, 2025.

9.3 Rationalization in Taxation of Business Trusts: Comparative Overview

Under the Finance (No.2) Act, 2014, business trusts (REITs and InvITs) were taxed on income from interest, dividends, and (for REITs) rental income through a pass-through mechanism. The income under the head Capital Gain is therefore **not** a pass-through income but is chargeable in the hands of the business trust itself. Such income is however presently charged to tax at rate under sections 111A and 112 of the Income Tax Act, 1961.

Thus the capital gains were taxed at the maximum marginal rate under sections 111A and 112.

The proposed amendment to section 115UA will now incorporate section 112A which will enable taxation at the rate provided under said section and not at maximum marginal rate.

*The amendment takes effect on April 1, 2026, applying from the assessment year 2026-27 onwards.*

Our Comments

Since Section 112A was not considered when determining the taxability of Business Trusts at the Maximum Marginal Rate, Business Trusts will now benefit from the concessional capital gains tax rate in these instances.

9.4 Extension of Timeline for Tax Benefits to Start-Ups

The proposed amendment to Section 80-IAC extends the timeline for tax benefits available to eligible start-ups, allowing those incorporated before April 1, 2030, to claim a deduction equal to 100% of their profits and gains for three consecutive assessment years within a ten-year period.

This change builds on the existing framework, which applied to start-ups incorporated before April 1, 2025, and is aimed at fostering greater investment and growth in the start-up ecosystem.

Aspect	Old Scenario	New Scenario
Incorporation Window	On or after April 1, 2016, and before April 1, 2025	On or after April 1, 2016, and before April 1, 2030
Benefit Duration	3 consecutive assessment years within a 10-year period	3 consecutive assessment years within a 10-year period

*The amendment takes effect on April 1, 2025, applying from the assessment year 2026-27 onwards.*

Our Comments

The extension of tax holidays for startups, MSME-friendly tax policies, and a ₹10,000 crore Fund of Funds reflect the government's focus on entrepreneurship and job creation.

## 9.5 Obligation to furnish information in respect of crypto asset

Under the Finance Act 2022, taxation provisions for virtual digital assets (VDAs) were introduced, including a 30% tax on transfers under Section 115BBH and a 1% TDS on VDA transactions under Section 194S.

To further enhance compliance and transparency in the crypto-asset space, new amendments were proposed inserting Section 285BAA. For the purpose of the Crypto-Asset Reporting Framework (CARF) that provides for automatic exchange of tax-relevant information (AEOI) on Crypto-Assets, a Reporting Framework for crypto exchanges (Reporting Entities) has been introduced.

Rules and forms will be prescribed in due course to enable the furnishing of prescribed information by the Reporting Entities. Additionally, the definition of VDA in clause (47A) of Section 2 will be expanded to explicitly include crypto assets secured by distributed ledger technology.

*The amendment takes effect on April 1, 2026, applying from the assessment year 2026-27 onwards.*

## 9.6 Extending the time limit to file the updated return

To encourage voluntary compliance, the time limit for furnishing Updated returns is also extended from 2 years to 4 years.

Under Section 139(8A), an updated return could be filed up to 24 months from the end of the relevant assessment year, attracting an additional tax of 25% if filed within 12 months, and 50% if filed after 12 months but within 24 months.

The proposed amendment extends the time limit to file an updated return to 48 months from the end of the relevant assessment year. Updated returns filed after 24 months but before 36 months will incur a 60% additional tax, and those filed after 36 months but before 48 months will incur a 70% additional tax.

Furthermore, no updated return may be filed if a show-cause notice under Section 148A has been issued after 36 months unless the subsequent order under Section 148A(3) determines that it is not a fit case for reassessment.

### Comparative Analysis:

Delay (Months)	Basic Tax Rate* (%)	Interest u/s 234B** (%)	Additional Tax Rate (%)	Effective Tax Rate (%)
12	30.00	24.00	25.00	46.50
24	30.00	36.00	50.00	61.20
36	30.00	48.00	60.00	71.04
48	30.00	60.00	70.00	81.60

*\*A tax rate of 30% has been assumed.*

*\*\* It is assessed that in this case, the taxpayer will pay the resultant tax on the date of filing of return of income. Interest is calculated at 1% per month from 1st April after the end of the relevant assessment year.*

*This amendment will take effect from 1st April, 2025.*



Extension of the time limit for filing updated returns too, would put more onus on taxpayers to ensure self-compliance – being in line with the Finance Minister's motto of “trust first, scrutinize later”.

## Our Comments

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The amendment offers relief to taxpayers who have unintentionally missed filing their tax returns in the past four years. They now have an opportunity to disclose their taxable income as part of the 'updated return'. This provision was introduced in the Finance Act, 2022, which initially had a look-back period of two years, but it has now been extended to four years.

### 9.7 Extension of date of making investments by Sovereign Wealth Funds, Pension Funds & others and rationalization of tax exemptions

Section 10(23FE) provides for the exemption of Sovereign Wealth Fund (SWF) and pension Fund (PF) which fulfil conditions prescribed, from the income in the nature of

- Dividend;
- Interest;
- long-term capital gains; or
- certain other incomes

arising from an investment made by them in India.

5-year extension of tax exemption on income of Sovereign wealth funds and Pension funds from investments up to 31 March 2030 should significantly spur investment interest in India. It is heartening to see that the extension is for a significantly longer period than what one is generally used to seeing in the tax law.

Further, the amendments to section 50AA by Finance (No.2) Act, 2024 re-classified all the capital gains from unlisted debt securities as short-term capital gains, irrespective of the holding period. As a consequence, the notified SWFs and PFs which were eligible for exemption on long-term capital gains from unlisted debt securities under section 10(23FE), have become taxable.

Now, after amendment, if there is a long-term capital gain, arising from the transfer of the unlisted specified debt securities covered in section 50AA, the same will be exempt under section 10(23FE).

*This amendment will take effect from the 1st day of April 2025.*



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