

Ministry of Finance



SLEW OF DIRECT TAX REFORMS PROPOSED IN UNION BUDGET 2025-26 TO ACHIEVE GOOD GOVERNANCE

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Union Minister for Finance and Corporate Affairs, Smt. Nirmala Sitharaman presented the Union Budget 2025-26, in the Parliament today. A slew of Direct Tax reforms were proposed in the document with the aim to achieve good governance for the people and economy.

The objectives of the Direct Tax proposals are as follows:

- **Personal Income Tax reforms with special focus on Middle Class:** No income tax payable upto total income of Rs. 12 lakh (*i.e. average income of Rs.1 lakh per month other than special rate income such as capital gains*) under the new regime. This limit will be Rs.12.75 lakh for salaried tax payers, due to standard deduction of Rs. 75,000.
- **Rationalization of TDS/TCS for easing difficulties:** The limit for tax deduction on interest for senior citizens is proposed to be doubled from the present Rs. 50,000 to Rs. 1 lakh. Similarly, the proposals include annual limit of Rs. 2.40 lakh for TDS on rent to be increased to Rs.6 lakh. This will reduce the number of transactions liable to TDS, thus benefitting small tax payers receiving small payments. The provisions of the higher TDS deduction will now apply only in non-PAN cases. Further, the threshold to collect tax at source (TCS) on remittances under RBI's Liberalized Remittance Scheme (LRS) is proposed to be increased from Rs.7 lakh to Rs.10 lakh. Also, the delay for payment of TCS up to the due date of filing statement is proposed to be decriminalized.



- **Encouraging Voluntary Compliance:** Proposal to extend the time-limit to file updated income tax returns for any assessment year, from the current limit of two years, to four years. It is further proposed to bring amendment in the Act to obligate furnishing of information in respect of crypto-asset transaction, in a statement as prescribed. It has also been proposed to align the definition of virtual digital asset accordingly.
- **Reducing Compliance Burden:** Proposal to reduce the compliance burden for small charitable trusts/institutions by increasing their period of registration from 5 years to 10 years. Further, proposal to allow the benefit of claiming the annual value of two self-occupied properties as Nil, without any condition. The Budget also proposes that no tax will be collected at source on sale of specified goods of value of more than fifty lakhs.
- **Ease of Doing Business:** Scheme proposed for determining arm's length price of international transaction for a block period of three years, to streamline the process of transfer pricing and to provide an alternative to yearly examination, in line with global best practices. With a view to reduce litigation and provide certainty in international taxation, the scope of safe harbour rules is being expanded. Parity has been proposed in rates of long term capital gain tax on transfer of securities by non-resident. Further, a proposal has been made to exempt withdrawals made from National Savings Scheme accounts by individuals on or after the 29th August, 2024, while also proposing to allow similar treatment to NPS Vatsalya accounts, subject to overall limits.



• Employment and Investment:

- a. **Tax certainty for Electronics Manufacturing Schemes:** Proposal to provide a presumptive taxation regime for non-residents who provide services to a resident company that is establishing or operating an electronics manufacturing facility. Further, a proposal to introduce a safe harbour for tax certainty for non-residents who store components for supply to specified electronics manufacturing units.
- b. **Tonnage Tax Scheme for Inland Vessels:** The benefits of existing tonnage tax scheme proposed to be extended to inland vessels registered under the Indian Vessels Act, 2021, to promote inland water transport in the country.
- c. **Extension for incorporation of Start-Ups:** To support the Indian start-up eco-system, proposal to extend the period of incorporation by 5 years, to allow the benefit available to start-ups that are incorporated before 01.04.2030.
- d. **International Financial Services Centre (IFSC):** In order to attract and promote additional activities in the IFSC, the Budget proposed specific benefits to ship-leasing units, insurance offices and treasury centers of global companies that are set up in IFSC. Further, to claim benefits, the cut-off date for commencement in IFSC has also been extended by five years to 31.03.2030.
- e. **Alternate Investment Funds (AIFs):** Proposal to provide certainty of taxation to Category I and category II AIFs, which are undertaking investments in infrastructure and other such sectors, on the gains from securities.

f. Extension of investment date for Sovereign and Pension Funds: Proposal to extend the date of making an investment by five more years, to 31.03.2030, to promote funding from Sovereign Wealth Funds and Pension Funds to the infrastructure sector.

As a result of these proposals, revenue of about Rs.1 lakh crore in direct taxes will be forgone, the Finance Minister informed concluding her Budget speech.

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