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Chartered Accountants

Union Budget 2025–2026

An Analysis of Direct Tax & Indirect Tax
Proposals

Foreword

Dear Reader,

It gives us great pleasure to share with you a copy of PPCO's Analysis of the Direct & Indirect Tax Proposals in the Budget 2025-26

We have consciously chosen to focus on our domain expertise of Direct & Indirect Tax to bring you a definitive analysis of the Direct & Indirect Tax issues in the shortest timeframe.

It should be noted that the provisions which shall be applicable w.e.f. 01.04.2025 shall be in force for FY 2025-2026. Those provisions which shall be applicable from specific date shall be in force from the specific date notified and in respect of Central Excise and Customs the provisions shall be in force from immediate effect, however, the provisions related to GST shall be applicable only after the President's assent.

As always, please do revert with your thoughts and comments on this booklet and how we can continue to support you better.

Warm Regards,

CA Amit Palsule

Senior Partner

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Chapter 1 – Budget Highlights

MSMEs

- ❖ Focus on MSME's
- ❖ Increase loan guarantees to micro entrepreneurs.
- ❖ Loans to startups in 27 focus sectors at 1% guarantee fees.
- ❖ Term loans upto 20cr for export MSMEs
- ❖ Customized credit cards for Udyam registered MSMEs
- ❖ Fund of fund for startups, another 10,000 cr. to be setup.
- ❖ Credit guarantee cover will be enhanced from 2 cr to 5cr for MSME. Startups will have credit guarantee of 10cr to 20cr. Well run MSME: 20cr.
- ❖ Micro enterprise will have 5lk limit of credit card.

Chapter 2 – Income Tax

Direct Tax

Individual

Tax rates under section 115BAC - (New Tax Regime)

For Assessment year 2026-27, as per the provisions of sub-section (1A) of section 115BAC of the Act, an individual or Hindu undivided family or Association of Persons [other than a co-operative society], or Body of Individuals, whether incorporated or not, or an Artificial Juridical Person, has to pay tax in respect of the total income at following rates:

Sr No.	Total Income	Rate of Tax
1	Up to Rs. 4,00,000	Nil
2	From Rs. 4,00,001 to Rs. 8,00,000	5%
3	From Rs. 8,00,001 to Rs. 12,00,000	10%
4	From Rs. 12,00,001 to Rs. 16,00,000	15%
5	From Rs. 16,00,001 to Rs. 20,00,000	20%
6	From Rs. 20,00,001 to Rs. 24,00,000	25%
7	Above Rs. 24,00,000	30%

Rebate U/s. 87A shall be available upto the Income of Rs. 12.00 lacs. If an individual resident in India opts for a new tax regime u/s 115BAC, then only the limit of Rs.7 lakhs is increased to Rs.12 lakhs for AY 2026/27 onwards, which effectively means Rebate u/s 87A is increased from Rs.25,000/- to Rs.60,000/-.

The rebate shall not be available in respect of Income having Special Tax Rates like Income from Capital Gains.

Rebate is available only to an Individual Resident in India.

There is no change in rates of Surcharge and education cess.

Corporate

1. No change in Corporate tax rate.
2. No Changes in 'Tax Audit' limit under Section 44AB.

Section 17

Section 17 has been amended to provide an increased limit based on the gross total income of the employees so that the amenities and benefits received by such employees would be exempt from being treated as perquisites. Further, the expenditure incurred by the employer for travel outside India on the medical treatment of such employee or his family member would not be treated as a perquisite.

Section 23(2)

Section 23(2) proposed to be amended to provide that the annual value of the property consisting of a house or any part thereof shall be taken as nil if the owner occupies it for his own residence or cannot actually occupy it due to any reason. (applicable from AY 2025/26).

New Section 44BBD – Presumptive tax for electronic Manufacturing Facility

To promote India as a Global hub for Electronic Systems Design and Manufacturing and the development of semi-conductors and display manufacturing ecosystem in India by GOI, Ministry of Electronics and Information Technology.

Section 44BBD will apply only if the Non-Resident is engaged in the business of providing services or technology to a resident company establishing or operating an electronics manufacturing facility or a connected facility for manufacturing or producing electronic goods, articles, or things in India under a scheme notified by the Central Government.

Presumptive rate @ 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 as PGBP.

Section 80CCA

Section 80CCA is proposed to be amended to provide an exemption to the withdrawals made by individuals from these deposits for which deduction was allowed on or after the 29th day of August 2024. This exemption is provided to the deposits, with the interest accrued thereon, made before 01.04.1992 as these are the amounts in respect of which a deduction has been allowed.

TDS/ TCS

- 1) TDS provisions have various thresholds of amount of payment or amount of income, beyond which tax is required be deducted. It is proposed to rationalize these thresholds as below –

Sr No.	Section	Current threshold	Proposed threshold
1	193 - Interest on securities	Nil	Rs. 10,000
2	194A - Interest other than Interest on securities	(i) Rs. 50,000/- for senior citizen; (ii) Rs. 40,000/- in case of others when payer is Bank, Co-operative society and post offices (iii) Rs. 5,000/- in other cases	(i) Rs. 1,00,000/- for senior citizen. (ii) Rs. 50,000/- in case of others when payer is bank, co operative society and post office. (iii) Rs. 10,000/- in other cases
3	194 - Dividend for an individual shareholder	Rs. 5,000/-	Rs. 10,000/-
4	194K - Income in respect of units of a mutual fund or specified company or undertaking	Rs. 5,000/-	Rs. 10,000/-

5	194B - Winnings from lottery, crossword puzzle, etc.	Aggregate of amounts exceeding Rs. 10,000/- during the financial year	Rs. 10,000/- in respect of a single transaction.
6	194BB - Winnings from horse race		
7	194D – Insurance Commission	Rs. 15,000/-	Rs. 20,000/-
8	194G - Income by way of commission, prize etc. on lottery tickets	Rs. 15,000/-	Rs. 20,000/-
9	194H - Commission or brokerage	Rs. 15,000/-	Rs. 20,000/-
10	194-I Rent	Rs. 2,40,000/- during the financial year	Rs. 50,000/- per month or part of a month.
11	194J - Fee for professional or technical services	Rs. 30,000/-	Rs. 50,000/-
12	194LA - Income by way of enhanced compensation	Rs. 2,50,000/-	Rs. 5,00,000/-

2) **Foreign Remittances:** TCS threshold under Liberalized remittance Scheme (LRS) raised from ₹ 7 Lakh to ₹ 10 Lakh. Further, no TCS on funds remitted for purpose of payment of education fees, which are borrowed from specified Financial Institutes will be required to done.

3) **206(1H) TCS on sale of certain goods Section:**

Presently, section 206C(1H) of the Act, requires any person being a seller who receives consideration for sale of any goods of the value or aggregate of value exceeding Rs 50

lakhs in any previous year, to collect tax from the buyer at the rate of 0.1% of the sale consideration exceeding Rs 50 lakhs, subject to certain conditions.

Section 194Q of the Act, requires 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 fifty lakh rupees in any previous year.

Therefore, to facilitate ease of doing business and reduce compliance burden on the taxpayers, it is proposed that provisions of section 206C(1H) of the Act will not be applicable from the 1st day of April, 2025.

4) **Section 206(AB):**

Presently, TDS/TCS is required to be deducted at higher rate if the Returns for previous year has not been filed by the deductee. The said section has been omitted from AY 2026-27.

Internation Taxation

Transfer Pricing:

It has been to provide that the 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.

Reference to TPO - The assessee shall be required to exercise an option or options for the above effect in the form, manner and within such time period as may be prescribed [new sub-section (3B) in section 92CA];

- the TPO may 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 [new sub-section (3B) in section 92CA];
- if the TPO declares that the option exercised by the assessee is valid ▪ the ALP determined in relation to an international transaction or a specified domestic transaction for any previous year shall apply to the similar international transaction or the specified domestic transaction for the two consecutive previous years immediately following such previous year [new sub-section (3B) in section 92CA]

To provide more clarification, we are giving one example:

ABC Ltd. faced Transfer Pricing scrutiny for AY 2022-23 and got the Transfer Pricing order from TPO In January 2025.

Based on the proposed new provision, ABC Ltd. can approach TPO and request to apply the same order for the next 2 years i.e. AY 2023-24 and AY 2024-25 provided there are no major changes in the International transactions and also the overall business model followed by the group. Further, ABC Ltd. should comply with conditions proposed in section new sub-section (3B) in section 92CA.

This will reduce a compliance burden on the assessee to a great extent. This is really a welcome move quite in line with the OECD (Organization for Economic Cooperation and Development) Guidelines and the practices followed globally.

Miscellaneous Amendments

1. **Section 139(8A) Updated Return:** Time-limit to file updated returns has been increased from the current limit of two years to four years.

Delayed period from AY	Additional Income Tax
Upto 12 months	25% of aggregate of tax and Interest payable
Upto 24 months	50% of aggregate of tax and Interest payable
Upto 36 months	60% of aggregate of tax and Interest payable
Upto 48 months	70% of aggregate of tax and Interest payable

2. **Charitable Trusts:** Reduced compliance for small charitable trusts/institutions by increasing their period of registration from 5 years to 10 years.

3. **Startups:** Extension for period of incorporation of Start up by 5 years upto 31/03/2030.

Tax Rates

**Tax Slabs (old tax regime schema)– Individuals – Taxable Income up to Rs.5 Lakhs
(Financial Year 2024-25 & 25-26)**

New Income Limits	Tax Rate	Tax	Old Income Limits	Tax Rate	Tax
Up to Rs. 250,000/-	NIL	NIL	Up to Rs. 250,000/-	NIL	NIL
Rs. 250,001/- to Rs.500,000/-	NIL	NIL	Rs. 250,001/- to Rs.500,000/-	5%	Rs.12,500/-
Rs.500,001/- to Rs.10,00,000/-	20%	20% in excess of Rs.5 Lakhs	Rs.500,001/- to Rs.10,00,000/-	20%	Rs.12,500/- plus 20% in excess of Rs.5 Lakhs
Above Rs.10,00,000/-	30%	Rs.100,000/- plus 30% in excess of Rs.10 Lakhs	Above Rs.10,00,000/-	30%	Rs.1,12,500/- plus 30% in excess of Rs.10 Lakhs

**Tax Slabs (old tax regime Schema) – Individuals – Taxable Income above Rs.5 Lakhs
(Financial Year 2024-25 & 25-26)**

New Income Limits	Tax Rate	Tax	Old Income Limits	Tax Rate	Tax
Up to Rs. 250,000/-	NIL	NIL	Up to Rs. 250,000/-	NIL	NIL
Rs. 250,001/- to Rs.500,000/-	5%	Rs.12,500/-	Rs. 250,001/- To Rs.500,000/-	5%	Rs.12,500/-

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Rs.500,001/- to Rs.10,00,000/-	20%	Rs.12,500/- plus 20% in excess of Rs.5 Lakhs	Rs.500,001/- To Rs.10,00,000/-	20%	Rs.12,500/- plus 20% in excess of Rs.5 Lakhs
Above Rs.10,00,000/-	30%	Rs.112,500/- plus 30% in excess of Rs.10 Lakhs	Above Rs.10,00,000/-	30%	Rs.112,500/- plus 30% in excess of Rs.10 Lakhs

Tax Slabs (old tax regime schema) – Women Assessee below 60 years (Financial Year 2024-25 & 25-26)

New Income Limits	Tax Rate	Tax	Old Income Limits	Tax Rate	Tax
Up to Rs. 250,000/-	NIL	NIL	Up to Rs. 250,000/-	NIL	NIL
Rs. 250,001/- to Rs.500,000/-	5%	Rs.12,500/-	Rs. 250,001/- to Rs.500,000/-	5%	Rs.12,500/-
Rs.500,001/- to Rs.10,00,000/-	20%	Rs.12,500/- plus 20% in excess of Rs.5 Lakhs	Rs.500,001/- to Rs.10,00,000/-	20%	Rs.12,500/- plus 20% in excess of Rs.5 Lakhs
Above Rs.10,00,000/-	30%	Rs.112,500/- plus 30% in excess of Rs.10 Lakhs	Above Rs.10,00,000/-	30%	Rs.112,500/- plus 30% in excess of Rs.10 Lakhs

Tax Slabs (old tax regime schema) – Senior Individual Citizens above 60 years (Financial Year 2024-25 & 25-26)

New Income Limits	Tax Rate	Tax	Old Income Limits	Tax Rate	Tax
Up to Rs. 300,000/-	NIL	NIL	Up to Rs.300,000/-	NIL	NIL
Rs. 300,001/- to Rs.500,000/-	5%	Rs.10,000/-	Rs.300,001/- to Rs.500,000/-	5%	Rs.10,000/-

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Rs. 500,001/- to Rs.10,00,000/-	20%	Rs.10,000/- plus 20% in excess of Rs.5 Lakhs	Rs.500,001/- to Rs.10,00,000/-	20%	Rs.10,000/- plus 20% in excess of Rs.5 Lakhs
Above Rs.10,00,000/-	30%	Rs.110,000/- plus 30% in excess of Rs.10Lakhs	Above Rs.10,00,000/-	30%	Rs.110,000/- plus 30% in excess of Rs.10Lakhs

Tax Slabs (old tax regime schema) – Senior Individual Citizens above 80 years (Financial Year 2024-25 & 25-26)

New Income Limits	Tax Rate	Tax	Old Income Limits	Tax Rate	Tax
Up to Rs.500,000/-	NIL	NIL	Up to Rs.500,000/-	NIL	NIL
Rs. 500,001/- to Rs. 10,00,000/-	20%	20% in excess of Rs.5 Lakhs	Rs.500,001/- to Rs. 10,00,000/-	20%	20% in excess of Rs.5 Lakhs
Above Rs.10,00,000/-	30%	Rs.100,000/- plus 30% in excess of Rs.10 Lakhs	Above Rs.10,00,000/-	30%	Rs.100,000/- plus 30% in excess of Rs.10 Lakhs

Note:

When Total Income exceeds Rs. 50 Lakhs but less than One Crore additional surcharge @ 10% is payable on Total Tax Payable by all the category of the Assessee

When Total Income exceeds Rs. 1 (One) Crore but less than Rs.2 crores, then an additional surcharge @ 15% of such tax payable by all the categories of the Assessee

When Total Income exceeds Rs. 2 Crores but less than Rs.5 Crores, then an additional surcharge @ 25% of such tax is payable by all the categories of the Assessee.

When Total Income exceeds Rs. 5 Crores, **then** an additional surcharge @ 37% of such tax is payable by all the categories of the Assessee.

Surcharges arising from dividend income tax and capital gains tax u/s 111A,112 or 112A are capped at 15%.) **(No change)**

Note: An additional 4% of the cess is payable concerning all categories.

New Tax Slabs (New tax regime schema by default if not opted out on or before the time limits specified u/s 139(1) of the Income Tax Act 1961) – Individuals – Taxable Income above Rs.7 Lakhs up from AY 25/26 viz. (Financial Year 2024-25)

New Tax Regime Income Limits	Tax Rate	Tax
Up to Rs.300,000/-	NIL	NIL
Rs.300,001/- to Rs.600,000/-	5%	Rs.15,000/-
Rs.600,001/- to Rs.900,000/-	10%	Rs.15,000 plus 10% in excess of Rs.6 Lakhs
Rs.900,001/- to Rs.12,00,000/-	15%	Rs.45,000 plus 15% in excess of Rs.9 Lakhs
Rs.12,00,001/- to Rs.15,00,000/-	20%	Rs.90,000 plus 20% in excess of Rs.12 Lakhs
Above Rs.15 Lakhs	30%	Rs.150,000 plus 30% in excess of Rs.15 Lakhs

Note:

When Total Income exceeds Rs. 50 Lakhs but less than One Crore additional surcharge @ 10% is payable on Total Tax Payable by all the category of the Assessee

When Total Income exceeds Rs. 1 (One) Crore but less than Rs.2 crores, then an additional surcharge @ 15% of such tax payable by all the categories of the Assessee

When Total Income exceeds Rs. 2 Crores but less than Rs. 5 Crores, an additional surcharge of 25% of such tax is payable by all the categories of the Assessee.

Under the new tax regime, when total income exceeds Rs. 5 Crores, all the categories of the specified assessee pay an additional surcharge of 25% of such tax.

Surcharges arising from dividend income tax and capital gains tax u/s 111A, 112 or 112A are capped at 15%. (No Change)

Note: An additional 4% of the cess is payable concerning all categories.

New Tax Slabs (New tax regime schema by default if not opted out on or before the time limits specified u/s 139(1) of the Income Tax Act 1961) – Individuals – Taxable Income from AY 26/27 viz. (Financial Year 2025-26 – slab rates changed significantly- welcome and positive change- will promote savings, GDP and disposable income in the hands of all the taxpayers in general)

New Tax Regime Income Limits	Tax Rate	Tax
Up to Rs.400,000/-	NIL	NIL
Rs.400,001/- to Rs.800,000/-	5%	Rs.20,000/-
Rs.8,00,001/- to Rs.12,00,000/-	10%	Rs.20,000 plus 10% in excess of Rs.8 Lakhs
Rs.12,00,001/- to Rs.16,00,000/-	15%	Rs.60,000 plus 15% in excess of Rs.12 Lakhs
Rs.16,00,001/- to Rs.20,00,000/-	20%	Rs.120,000 plus 20% in excess of Rs.16 Lakhs
Rs.20,00,001/- to Rs.24,00,000/-	25%	Rs.200,000 plus 20% in excess of Rs.20 Lakhs
Above Rs.24 Lakhs	30%	Rs.300,000 plus 30% in excess of Rs.24 Lakhs

Note:

When Total Income exceeds Rs. 50 Lakhs but less than One Crore additional surcharge @ 10% is payable on Total Tax Payable by all the category of the Assessee

When Total Income exceeds Rs. 1 (One) Crore but less than Rs.2 crores, then an additional surcharge @ 15% of such tax payable by all the categories of the Assessee

When Total Income exceeds Rs. 2 Crores but less than Rs. 5 Crores, an additional surcharge of 25% of such tax is payable by all the categories of the Assessee.



Under the new tax regime, when total income exceeds Rs. 5 Crores, all the categories of the specified assesseees pay an additional surcharge of 25% of such tax.

Surcharges arising from dividend income tax and capital gains tax u/s 111A, 112 or 112A are capped at 15%. (No Change)

Note: An additional 4% of the cess is payable concerning all categories.

Chapter 3 – Indirect Tax

Goods and Service Tax

- New Section 2(116A)** has been inserted to define UIM (Unique Identification Marking) for implementing Track and Trace Mechanism.

Section 122B is inserted to provide for penalty for contravention of provisions related to track and trace mechanism provided under Section 148A.

Section 148A is inserted to provide for enabling mechanism for track and trace mechanism for certain commodities.
- New Provision:** Section 12(4) and 13(4) relating to time of supply in respect of Vouchers is being deleted.

Old Provision: Section 12(4) – Time of supply of Goods shall be a) date of issue of Voucher if identifiable at that time or b) date of redemption of Voucher.

Section 13 - Time of supply of Services shall be a) date of issue of Voucher if identifiable at that time or b) date of redemption of Voucher.
- Section 17(5)(d)** of the CGST Act, 2017, amended to substitute the words "plant or machinery" with words "plant and machinery". This amendment will be effective retrospectively from 1st July 2017.

4. **Proviso to Section 34 (2)** is being amended to explicitly provide for the requirement of Reversal of corresponding input tax credit in respect of a credit note, if availed, by the registered recipient, for the purpose of reduction of tax liability of the supplier in respect of the said credit note.
5. **Section 107(6)** is being amended to provide for 10% mandatory Section 107 - Appeals to Appellate Authority predeposit of penalty amount for appeals before Appellate Authority in cases involving only demand of penalty without any demand for tax.
6. Section 112(8) is being amended to provide for 10% mandatory predeposit of penalty amount for appeals before Appellate Tribunal in cases involving only demand of penalty without any demand for tax.

Note: All readers are requested intelligently to read & study the provisions of this publication. We have tried to compile the information to the best of our ability and understanding. Suggestions to improve the publication are always welcome with folded hands. This information has been shared only for educational purposes for the benefit of all.

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