KPMG

India Union Budget 2025-26

Point of view

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Automotive and Industrial Manufacturing

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The Union Budget 2025 introduces several measures to boost the industrial markets and automobile industry. The Budget proposes reduction in customs duties on raw materials and components, benefiting sectors like chemicals, electronics, and renewable energy. The Budget also supports the automobile industry by lowering tariffs on capital goods and rare minerals, encouraging electric vehicle production, and enhancing infrastructure development. These initiatives aim to increase competitiveness, attract investments, and promote sustainable practices in these sectors.

Key announcements for the sector

Direct Taxes

Corporate Tax

- Overhauling and simplification of Direct Tax Law
  - New Income tax bill to be introduced next week.
- Positioning India as global hub for Electronics System Design and Manufacturing
  - New presumptive taxation regime announced for non-residents, providing services or technology to resident company, establishing or operating electronics manufacturing facility or a connected facility. An introduction of a safe harbour for tax certainty for non-residents who store components for supply to specified electronics manufacturing units. 25 per cent of gross receipts deemed to be taxable as business income.
- Rationalization measures
  - Increase in monetary thresholds for applicability of deduction of tax at source ('TDS') under various sections
  - Significant economic presence not to be formed, if activities by non-resident confined to sourcing of goods from India for the purpose of export
  - Abolishment of collection of tax at source ('TCS') at rate of 0.1 per cent, on sale of goods
  - Abolishment of TDS and TCS, at higher rate, in case of non-filers of income-tax return
  - No prosecution for delay in deposit of TCS, if the sum is deposited on or before the due date of filing such TCS return for respective quarter;
  - Timelines for passing of penalty orders has been rationalized.
- Evergreening of carry-forward of losses on amalgamation and business reorganisation
  - Under the current provision, in cases of amalgamation or business reorganization, the accumulated loss of the amalgamating or predecessor entity is considered the loss of the amalgamated or successor entity for the previous year in which the amalgamation or business reorganization occurred

— To prevent the evergreening of such losses, an amendment is proposed in the Finance Bill. This amendment specifies that eight-year period will be calculated from the year in which the loss was first incurred by the amalgamating or predecessor entity, if the amalgamation is effected on or after 1 April 2025.

Personal Tax

- Income tax slabs and rates remain unchanged under the old tax regime, while new tax regime once again rationalizes the rates and grouping resulting in savings across income slabs
- Income threshold for rebate under new tax regime enhanced from INR 700,000 to INR 1,200,000 (excluding income taxable at special rates e.g., capital gains, etc.)
- Conditions for property to qualify as self-occupied property relaxed
- All unexempted Unit Linked Insurance Plans (ULIPs) will qualify as capital asset and profit / gains from redemption of such ULIPs shall be considered taxable as capital gain on par with equity oriented mutual funds
- Amount withdrawn from National Savings Scheme (NSS) on or after 29 August 2024 shall be considered exempt from tax
- Deduction of INR 50,000 extended for contribution towards minor's National Pension Scheme (Vatsalya) account under old tax regime. Partial withdrawal upto 25 per cent for specified reasons from minor's account shall not be taxable in the hands of parent / guardian.

Transfer Pricing

- Aligning to the generally adopted litigation procedure globally, the concept of block assessment has been introduced for matters involving Transfer Pricing disputes, covering a block of 3 years
- Scope of Safe Harbour rules are proposed to be expanded to provide certainty on international transactions and reduce litigation. The details of the same are awaited.

Indirect Taxes

Goods and Services Tax ('GST')

- Input tax credit ('ITC') provisions amended retrospectively w.e.f. 1 July 2017 to replace the phrase "plant or machinery" with "plant and machinery" to reduce ambiguity in interpretation for availment of ITC. This aligns with the government's intent to not allow ITC on construction of immovable property
- Enabling provisions proposed for Invoice Management System
- Pre-deposit at the rate of 10 per cent proposed for cases involving only penalty, for filing of appeal before first and second appellate authority
- Sale or distribution of vouchers to neither qualify as supply of goods nor services
- Amendment in Schedule III w.e.f. 1 July 2017, to include supply of goods warehoused in SEZ / FTWZ to any person before clearance for exports or to Domestic Tariff Area. No refund for taxes already paid
- Track and trace mechanism proposed to be introduced for the goods to be specified and failure to comply with the provision will invite penalty provisions.

Trade and Customs

- Proposal to allow importer to revise bill of entry / shipping bills post clearance of goods. This would include possibility of claiming excess refund of duty paid or pay additional duty without penalty
- Proposal to introduce time limit for completion of provisional assessment i.e., within 2 years (extendable by 1 year) from date of provisional assessment
- Proposal to abolish Settlement Commission w.e.f. 1 April 2025 with Interim Board authorized to handle all pending applications

- Rationalization of tariff rates: seven different rates of Basic Customs Duty ('BCD') streamlined to two, i.e., 20 per cent and 70 per cent. Overall, eight tariff rates remaining
- Customs duty rates have been realigned and amended, including introduction / extension of tariff exemptions with an objective to promote domestic manufacturing and deepen indigenous value addition. Details of key changes are enclosed as Annexure.

Implications for the sector

- The Budget enables the 'Make in India' vision through a combination of initiatives that include support to the concerning sectors, empowering MSMEs and increasing the capabilities and skills required for rapid growth.
- Initiatives aimed at driving manufacturing include:

Initiatives	Objective
National Manufacturing Mission	Supports industries and clean tech manufacturing with governance structure
Domestic Capacity Development	Promotes integration into global supply chains and industry 4.0 methods
Export Promotion Mission	Sets targets and facilitates easy export credit access
Clean Tech Manufacturing	Focuses on solar PV, electric vehicle batteries, wind turbines, etc., to boost local value and ecosystem
Footwear and Leather Sector	Enhances local manufacturing quality for global competitiveness and exports
Domestic Toy Industry	Develops manufacturing clusters with skills and ecosystem support
Nuclear Energy Mission	Develops Small Modular Reactors with a ₹20,000 crore Budget, aiming for five operational SMRs by 2033
Electric Vehicle Sector	Provides impetus for manufacturing of lithium-ion batteries to support cleaner transportation
PM Dhan-Dhaanya Krishi Yojana	Improves agricultural productivity, irrigation, and supports related manufacturing sectors

- Mechanisms that will enable overall manufacturing growth include:

Spectrum	Focus
MSME Support	Increased investment (2.5x) and turnover limits (2x), enhances credit availability with guarantee cover, for technological upgrades
Start-ups and Entrepreneurs	Fund of Funds for first time entrepreneurs including Women, Scheduled Castes and Scheduled Tribes with loans and skill-building
Centers of Excellence	Establishes 5 centers for manufacturing skill building with global partnerships for curriculum design, training and certifications
Innovation Fund	Rs 20,000 crore fund promotes innovation with private sector partnership
Duty Exemptions	Exempts BCDs for specified capital goods and rare minerals for manufacturing of batteries

Overall, these measures will help in positioning India to rise further in ranks as most favored nation for manufacturing.

Annexure - Changes in customs duty rates (effective 2 February 2025)

- Customs duty structure for specified products has been realigned by reduction in BCD and exemption from Social Welfare Surcharge ('SWS'), with introduction of Agriculture Infrastructure and Development Cess ('AIDC'), resulting in approximate parity with existing effective rates. Illustrative examples include:
  - Solar modules now attracting 20 per cent BCD plus 20 per cent AIDC
  - Solar Cells now attracting 20 per cent BCD plus 7.5 per cent AIDC
  - Commercial vehicles, passenger vehicles, used motorcycles and used specified cycles now attracting 20 per cent / 70 per cent BCD plus applicable AIDC.
- Increase in BCD on interactive flat panel displays (completely built units) from 10 per cent to 20 per cent
- BCD exemption on specified products to boost local manufacturing and value addition. Key products include:
  - 35 additional capital goods for use in manufacture of lithium-ion battery of electric vehicles
  - Cobalt powder and waste, scrap of lithium-ion battery, lead, zinc and 12 more critical minerals to help secure their availability for manufacturing in India
  - Inputs / parts of open cells of LCD / LED television panels
  - Inputs / parts or sub-parts for manufacture of PCBA, camera module, connectors, wired headset, microphone and receiver, USB cable and fingerprint reader / scanner of cellular mobile phone.
- Reduction in BCD on specified goods to provide impetus to domestic manufacturing. Key products include:
  - BCD on open cell and touch glass sheet / touch sensor PCB for manufacture of interactive flat panel display module reduced from 15 / 10 per cent to 5 per cent
  - BCD on ethernet switches / carrier grade reduced from 20 per cent to 10 per cent
  - BCD on motorcycles (depending upon engine capacity) reduced from 50 / 25 / 15 per cent to 40 / 30 / 20 / 10 per cent.
- BCD exemption extended for specified goods till prescribed dates. Illustrative examples include:
  - BCD exemption for specified goods including buses, passenger vehicles, dumpers, goods vehicles, etc. when imported by specified testing agencies for the purpose of testing or certification, extended till 31 March 2029
  - BCD exemption for goods used in manufacturing open cells of LCD / LED TV panel, extended till 31 March 2027.

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