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# India Union Budget 2025-26

## Point of view

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Private Equity

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# Key announcements for the sector

**Key Policy announcements**

- The government plans to establish a new Fund of Fund, in addition to the existing one, to invest in Alternate Investment Funds (AIFs) and indirectly in startups. This new fund will have an expanded scope, with the government contributing an additional INR 100 billion
- A Deep Tech Fund of Funds will also be explored to catalyze the next generation startups as a part of the government's initiative to invest in innovation
- The Foreign Direct Investment (FDI) limit has been increased from 74% to 100% for companies that invest their entire premium within India. The current conditions and requirements for foreign investment will be simplified
- The process for approving company mergers will be streamlined by simplifying requirements and procedures, expanding the scope, and making fast-track mergers more accessible
- To encourage sustained foreign investment and in the spirit of 'first develop India', the current model Bilateral Investment Treaty (BIT) is proposed to be revamped and made more investor friendly
- A high-level committee will be set up to review all non-financial sector regulations, certifications, licenses, and permissions
- Government to set up SWAMIH Fund 2 as a blended finance facility with contribution from the Government, banks and private investors. This fund of INR 150 billion will aim for expeditious completion of another 100,000 units of affordable and mid-income housing projects and further help middle-class families, who were paying EMIs on loans taken for delayed apartments while also paying rent for their current dwellings.

**Key Tax amendments**

- No changes made to the corporate tax rates, and concessional tax rates for new manufacturing companies have not been reinstated
- Any security held by a Category I and II AIFs shall be treated as a 'capital asset' and income from the transfer of such securities will be taxed as capital gains
- 100% tax holiday for eligible startups is extended for an additional five years. This benefit is available to eligible startups incorporated before 1 April 2030, for any three consecutive years out of ten years from the date of incorporation
- The current exemption for Sovereign Wealth Funds (SWFs) and Pension Funds (PFs) regarding interest, dividend, and long-term capital gain income is extended to investments made up to 31 March 2030

- The above exemption to SWFs and PFs shall be extended to long term gains arising on unlisted debt securities which were deemed as short-term capital gains for taxation purposes
- Income from the sale of long-term listed securities by Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs) shall be taxed at 12.5%
- Long term capital gains tax rate on transfer of securities held by FPIs (other than those covered in section 112A i.e listed and sold on market) shall be taxed at 12.5% instead of 10%
- In case of amalgamations effected from 1 April 2025, loss of qualifying amalgamating company shall be allowed to be carried forward by the qualifying successor company only for eight assessment years from the assessment year in which such loss was first computed for predecessor entity without any opportunity for evergreening. Similar changes are made for other qualifying re-organisations
- Tax compliance simplification and efficiency related proposed amendments
  — Tax collection at source (TCS) related provisions not to apply on sale of goods (including on sale of shares)
  — Provisions relating to deduction/collection of tax at higher rates has been removed for non-filers of return of income
  — Exemption from prosecution for delayed payment of TCS where payment of TCS is made on or before due date for filing the quarterly TCS statement.
  — Time limit for filing an updated return has been extended from two years to four years from the end of the relevant assessment year
    - Rate of additional income tax payable for updated return filed after expiry of two years and up to three years would be 60% of the aggregate of tax and interest payable
    - Rate of additional income tax payable for updated return filed after expiry of three years and up to four years would be 70% of the aggregate of tax and interest payable
  — No updated return can be filed after three years from the end of the relevant assessment year, if a show-cause notice for income escaping assessment has been issued. However, this restriction will not apply if an order is passed determining that it is not appropriate to initiate re-assessment.
- IFSC fund manager related amendments
  — Currently, to obtain safe harbor for managing an offshore fund from India, the direct and indirect participation of residents must be less than 5% of the fund's corpus. This condition will now be tested twice a year (on 1 April and 1 October). If the condition is not met on either date, there is a four-month period to comply
  — The Central Government is permitted to relax conditions for eligible fund managers based in the International Financial Services Centre (IFSC) if the manager commenced operations on or before 31 March 2024. This eligibility is now extended to fund managers starting operations in the IFSC on or before 31 March 2030.
- Other IFSC related amendments
  — Tax neutrality on relocation of an offshore fund to resultant fund set-up in IFSC now expanded to also include resultant funds in IFSC which are ‘Retail Schemes’ and ‘ETFs’
  — Income earned by non-residents by entering into a derivative instrument issued by a FPI being an IFSC unit (subject to certain conditions to be prescribed) is proposed to be exempt and at par with current provisions on transfer of offshore derivate instruments issued by offshore banking unit in IFSC.

# Implications for the sector

- Union Budget 2025 has introduced significant measures expected to stimulate private equity investments and support the growth of various sectors in the economy
- Extending the tax holiday for eligible startups and exemptions on the income of PFs and SWFs demonstrates the government's commitment to promoting funding in key areas like the startup ecosystem and infrastructure sector
- Budget 2025 addresses transformative reforms for private equity and venture capital over the next five years, enhancing India's growth potential and global competitiveness
- The government's intent to introduce a new income-tax bill in the first week of February 2025 aims to simplify tax laws for taxpayers and tax administration, provide tax certainty, and reduce litigation
- Non extension of 15% corporate tax rate for new manufacturing entities could be a missed opportunity to further incentivize manufacturing investments in India. Additionally, the unexpected decision to disallow the evergreen treatment of losses on mergers could impact merger and acquisition strategies for companies
- With these priorities, the vision is to facilitate foreign investment in India allowing PE and VC firms to contribute and benefit by investing in priority sectors and businesses. Overall, these measures aim to attract foreign investments and contribute to India’s economic growth.

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