KPMG

India Union Budget 2025-26

Point of view

#KPMGBudgetLIVE | #UnionBudget2025 | #Budget2025

Technology, Media and Telecom

KPMG. Make the Difference.

Key announcements for the sector

The Union Budget 2025 has introduced key initiatives impacting India’s Technology, Media, and Telecom (TMT) sectors such enhanced India AI mission funding, an AI Centre of Excellence for Education, and a Deep Tech Fund to fuel innovation. It proposes a national framework for Global Capability Centers in tier 2 cities, tapping into India's vast talent reservoir.

Key tax reforms include

- Introduction of a new income tax bill in the coming week
- Rationalization of TDS/TCS and Transfer Pricing provisions
- Presumptive taxation for non-resident ESDM service providers
- Calibration of duties to bolster local production of electronics.

Critical highlights

1. Customs duty cut on ethernet switches: The import duty on carrier-grade Ethernet switches has been halved from 20% to 10%. This is expected to boost rural and home broadband expansion
2. Government allocation to Telecom & IT sectors: The government has allocated ₹95,298 crore to the Telecom & IT sectors
3. Compensation for telecom service providers: The compensation for telecom service providers for infrastructure creation has increased to ₹28,400 crore from ₹13,700 crore last year
4. Boost to domestic mobile phone manufacturing: Full exemption of customs duty on 28 capital goods and machinery for lithium-ion battery production in mobile phones. Basic customs duty on key components like PCBA, camera modules, connectors, USB cables, and fingerprint sensors reduced from 2.5% to zero
5. Easing of regulations for electronics and IT hardware: Introduction of a light-touch regulatory framework to facilitate smoother compliance and reduce bureaucratic hurdles for manufacturers
6. Strengthening of global supply chain integration: Financial support for sectors like EV batteries, semiconductor components, and advanced display technologies to integrate Indian manufacturing with global supply chains
7. Investment in BharatNet Project: Investment of ₹220 billion in the BharatNet Project aimed at improving broadband connectivity in Gram Panchayats and rural areas
8. Incentives for local R&D in electronics and mobility: Exploration of a new Deep Tech Fund of Funds to support next-generation startups, particularly in AI, semiconductor research, and battery technology
9. Satellite spectrum allocation: The government's decision to allocate satellite spectrum administratively rather than through auctions.

Corporate Tax

- Time limit to furnish an updated return increased from the current 24 months to 48 months from end of relevant Assessment Year, subject to payment of additional taxes
- Timeline for setting-up of ‘start-up’ to avail tax benefits u/s 80-IAC extended till 31 March 2030
- Carry forward of losses in case of merger situation rationalised. Loss of predecessor entity can be carried forward for set-off by the successor company only till 8 AYs from the AY in which the loss was computed by the predecessor company.
- Certain proposals w.r.t. TDS and TCS provisions
  - Higher TDS and TCS in case of non-filers of return of income proposed to be removed.
  - TCS on sale of goods abolished (applicable TDS on purchase of goods continue to apply). Relief from applicability of TCS on sale of unlisted share
  - Law providing relief from prosecution if TDS deducted is deposited within the due date to file quarterly return, now extended to TCS collection and payment as well.
  - Increase in the thresholds for applicability of TDS deduction (specific to companies):

Section	Present threshold	Proposed threshold
Sec 194 [Dividend for an individual shareholder]	INR 5,000 during the FY	INR 10,000 during the FY
Sec 194-I [Rent]	INR 240,000 during the FY	INR 50,000 per month or part thereof
Sec 194J [FTS/ FPS/ Royalty/ Non-compete fee]	INR 30,000 during the FY	INR 50,000 during the FY

- No order imposing penalty to be passed after the expiry of 6 months from the end of the quarter in which the proceedings are completed/ order is passed
- Definition of Significant Economic Presence curtailed – Purchase of goods for the purposes of exports excluded from the purview of SEP
- Threshold for applicability of TCS on remittance made under the LRS Scheme of the RBI increased to INR 10 Lakhs from existing INR 7 Lakhs
- Changes proposed in Turnover and Investment criteria basis which enterprises are classified as Micro, Small and Medium enterprise under the MSMED Act. This will need to be considered accordingly for determining applicability of Sec 43B(h) of the IT Act
- Requirements and procedures for speedy approval of company mergers will be rationalized and scope of fast-track mergers will be widened.

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.

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 not to allow ITC on construction of immovable property
- Additional condition to be complied to reduce tax liability for Credit note, issued under section 34 of the CGST Act, 2017:
  - Reversal of ITC by the recipient, if availed; or
  - Confirmation that incidence of tax on such transaction has not been passed on to any other person, in any other cases
- Enabling provisions proposed for Invoice Management System
- Provisions related to Input Service Distributor ('ISD') are proposed to be amended to explicitly include provisions for the distribution of ITC by ISD for inter-state supplies, where tax is paid on a reverse charge basis, applicable w.e.f. 1 April 2025
- 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.

Trade and Customs

- Proposal to allow importer to revise Bill of Entry / Shipping Bills post clearance of goods. This would include possibility of claiming refund of excess 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, while Interim Board has been 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. No major changes in goods falling under Technology Sector.

Personal Tax

- The following key changes have been proposed under the new tax regime (default tax regime):
  - Rationalization of income slabs and tax rates:

<table>
<tr><th colspan="2">Existing</th><th></th><th colspan="2">Proposed</th></tr>
<tr><th>Taxable income (INR)</th><th>Rate (%)</th><th></th><th>Taxable income (INR)</th><th>Rate (%)</th></tr>
<tr><td>Upto 3,00,000</td><td>Nil</td><td></td><td>Upto 4,00,000</td><td>Nil</td></tr>
<tr><td>3,00,001 to 7,00,000</td><td>5</td><td></td><td>4,00,001 to 8,00,000</td><td>5</td></tr>
<tr><td>7,00,001 to 10,00,000</td><td>10</td><td></td><td>8,00,001 to 12,00,000</td><td>10</td></tr>
<tr><td>10,00,001 to 12,00,000</td><td>15</td><td></td><td>12,00,001 to 16,00,000</td><td>15</td></tr>
<tr><td>12,00,001 to 15,00,000</td><td>20</td><td></td><td>16,00,001 to 20,00,000</td><td>20</td></tr>
<tr><td rowspan="2">Above 15,00,000</td><td rowspan="2">30</td><td></td><td>20,00,001 to 24,00,000</td><td>25</td></tr>
<tr><td></td><td>Above 24,00,000</td><td>30</td></tr>
</table>

- Income threshold for rebate under new tax regime enhanced from INR 7,00,000 to INR 12,00,000 (excluding income taxable at special rates e.g. capital gains, etc.)
- Income slabs and tax rates remain unchanged under the optional old tax regime.

- The taxation of self-occupied property has been simplified. The conditions for determining annual value of self-occupied property (upto two) as Nil have been relaxed.
- The salary threshold for taxation of amenities and benefits (in general) provided to an employee free of cost or at concessional rate, including expenditure incurred by the employer for travel outside on the medical treatment, to be increased
- Deduction of INR 50,000 made available for contribution towards minor's National Pension Scheme (Vatsalya) account under old tax regime. Partial withdrawal up to 25 per cent for specified reasons from minor's account not taxable for parent / guardian
- All unexempted Unit Linked Insurance Plans (ULIPs) to qualify as capital asset and income from redemption of such ULIPs to be taxable as capital gains on par with equity oriented mutual funds
- The threshold to apply TCS on remittances under the Liberalised Remittance Scheme (LRS) and overseas tour program package to be increased from INR 7 lakh to INR 10 lakh. No TCS to apply on remittance made under the LRS for purpose of pursuing education if the remittance is financed by a loan obtained from specified financial institution(s).

Implications for the sector

The budget's focus on supporting and driving India's deep-tech startups, integrating AI into education, and enhancing telecom infrastructure is poised to drive innovation and growth in India's TMT sectors. The emphasis on ease of doing business and regulatory simplification is expected to create a more conducive environment for industry players. This budget positions India's TMT sector for accelerated innovation and competitiveness, aligning it with global industry standards.

KPMG in India contacts:

Akhilesh Tuteja
National Leader – Technology Media and Telecom
E: atuteja@kpmg.com

Himanshu Parekh
Partner and Head of Tax (West)
E: himanshuparekh@kpmg.com

kpmg.com/in/socialmedia

Access Budget microsite