Deloitte.

Budget expectations

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Economy

Economy

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Current environment

Upside risks

- **Growth:** India's growth unexpectedly slowed to 5.4 percent[1] in the second quarter, primarily due to low capital formation and a weak export performance driven by geopolitical uncertainties and disrupted supply chains. However, consumer spending, specifically rural consumption, held up well. Among sectors, poor industry sector performance weighed on the robust services and agriculture sectors' growth.
- **Robust infrastructure spending:** The government has consistently increased the budgetary allocation for infrastructure to reduce logistics costs and increase supply chain efficiencies. Capital expenditures grew by 28.4 percent in FY24 (RE)[2] and are expected to grow 17 percent in FY25 (BE).[3] However, during H1 FY25, the centre's capital expenditure is merely 37.3 percent of full-year budget estimates, vis a vis 49 percent of the budget estimate last year within the first six months.
- **Strong credit growth:** The consistent improvement in bank's balance sheets over the past couple of years and the fall in (non-performing assets) NPAs across sectors have increased banks' willingness to lend. This has helped a quick recovery in credit growth post-pandemic. Credit growth remains healthy despite the recent influence of higher policy rates and the RBI's vigilance. Credit to the MSME sector saw strong growth in Q2 2025, with micro and small enterprises increasing by 13.4 percent and medium enterprises by 20.5 percent.[4] This suggests that the MSME sector is increasing its investment to expand.
- **Strong resurgence in the services sector:** The services sector performed well, with a robust 7.6 percent growth in FY24. The sector is expected to continue its growth of 7.1 percent in H1 FY25 as well, while services exports are projected to grow by an impressive 21.3 percent year-over-year. This positive development is encouraging, given the sector's significant contribution to India's GDP and employment. Between April and October 2024, total services exports reached US$216 billion, compared with US$192 billion during the same period in the previous year, primarily driven by growth in IT and business services. Strong growth of over 9.2 percent in H1 FY25 in finance, insurance, real estate and business services plays an important role in determining urban middle-income class spending.

Downside risks

- **Inflation:** India's retail inflation has been volatile due to higher food prices. Barring two months, inflation has been above RBI's target inflation rate of 4 percent this year and in October 2024, CPI breached RBI's upper tolerance (of 6 percent), recording a growth of 6.21 percent.[5] High food prices, especially the skyrocketing vegetable prices with double-digit

[1] https://pib.gov.in/PressReleseDetailm.aspx?PRID=2079024&reg=3&lang=1
[2] https://www.indiabudget.gov.in/
[3] https://www.indiabudget.gov.in/
[4] CMIE, Economic Outlook
[5] CMIE, Economic Outlook

inflation (and at 42.18 percent in October 2024),[6] are concerning as they affect inflation expectations. The persistent rise in food prices is probably affecting even the core prices, which are edging up gradually. Despite the RBI keeping policy rates constant at 6.5 percent since February 2023,[7] inflation has continued to be a problem with temporary reliefs intermittently. A possible rise in inflation in the West could also result in higher import prices, pushing price pressures further up.

- **Geopolitical uncertainties:** The geopolitical concerns weigh on global investors and policymakers. As the Israel and Iran war intensified in October, there was a brief impact on oil prices and a contagion impact on the global supply chains and economy. Emerging markets witnessed capital outflows after the stimulus announcements in China on 25 September, including India. Net FII investments declined sharply to levels last seen at the onset of COVID-19. The US election results will also imply changes in trade and investment relations with the West and impact on global supply chains. Volatile oil prices and the possibility of higher trade tariffs will likely have an adverse effect on India's export growth and the current account balance.

Expectations

The first quarter data points to a notable increase in private consumption and a modest improvement in investment activity. We expect these two to be the fundamental growth pillars as global uncertainties weigh on net exports. With the conclusion of the Indian elections, we anticipate that government spending will pick up, supporting growth in the coming quarters of FY 2025.

Expectation #1

The previous budget emphasized **employment generation and skill development,** with initiatives such as Employment-Linked Incentives and internship programmes. According to the Periodic Labour Survey, the quarterly results for June 2024 show an increase in the Labour Force Participation Rate (LFPR) for both men and women, rising to 74.7 percent and 25.2 percent, respectively, from 73.5 percent and 23.2 percent in June 2023.[8] Additionally, the unemployment rate has been steadily declining.[9]

We anticipate the government will continue to prioritise and enhance efforts towards skill development and employment generation, maintaining the positive momentum. This would help harness the demographic dividend, drive economic growth from both supply and demand sides and boost consumption through higher incomes.

Expectation #2

Inflation remains a crucial challenge for the economy for an extended period, making it a critical consideration for the upcoming budget. The Economic Survey 2024 recommended that India's inflation targeting framework exclude food prices, as food inflation is primarily supply-driven rather than demand-driven. It suggested that the government should address food inflation through supply-side measures rather than relying on the RBI to manage it with demand-side tools.

We anticipate a focus on long-term solutions aimed at strengthening the agricultural value chain, incentivising production and addressing structural supply-side issues that add to the delivery cost. In the short term, we expect the government to go with Direct Benefit Transfer (DBTs) and food coupons to support rural consumption, as rural inflation is higher and affects rural demand.

Expectation #3

Following the US elections, the **risk of volatility in global trade** has increased, with potential measures such as higher import tariffs and tax cuts to promote manufacturing in the US. All these will affect global supply chains, thereby affecting

[6] CMIE, Economic Outlook

[7] https://rbi.org.in/Scripts/BS_ViewBulletin.aspx?Id=22918

[8] https://pib.gov.in/PressReleasePage.aspx?PRID=2046015

[9] https://pib.gov.in/PressReleasePage.aspx?PRID=2046015

Indian exports. As India targets ambitious economic growth, the country must strengthen its position in global markets, especially to reach an export target of US$2 trillion by 2030.[10]

To achieve this, we expect the government to implement a range of measures to enhance the competitiveness of Indian products on the global stage. These may include tariff rationalisation, duty exemptions and remission schemes, which would help lower the cost of Indian exports. Additionally, the government is likely to focus on simplifying export compliance procedures to reduce barriers and enhance exporters' efficiency.

Expectation #4

In recent years, **the government has placed a central emphasis on infrastructure development,** with capital spending increasing from 1.63 percent of GDP in FY2019 to 3.4 percent in FY2025.[11] As India strives to achieve the vision of a Viksit Bharat by 2047, we expect the government to maintain its strong commitment to infrastructure investment, recognising it as a key driver of broader economic growth.

As the government continues to enhance total factor productivity, infrastructure, as one of the fundamental pillars of productivity, will remain a high priority. We anticipate sustained growth in social, physical and digital infrastructure spending will be prioritised. The government is expected to expand road networks, develop multi-modal logistics parks and improve overall logistical infrastructure to support efficient economic activity. At the same time, the government will also focus on health and education, with a special focus on skilling. Recent success in driving path-breaking digital innovations will likely continue as the government focuses on frontier technologies to address social issues such as inclusion, formalisation of the economy and transparent governance.

Policy recommendations

Recommendation #1

To **boost job creation and skilling,** we expect the government to

- Target incentives to boost labour-intensive manufacturing sectors or sectors that can push the rural economy, such as textiles, footwear and food processing
- Allocate resources to enabling technology innovations that enhance the quality of blue-collar jobs while helping to formalise the economy
- Extend financial support to employers and employees to facilitate skill development. This could also entail encouraging collaboration between industries and educational institutions to design job-ready curricula and provide apprenticeships
- Develop a comprehensive database to address skill gap challenges and align the skills the market requires with available talent. Course certification, especially for blue-collar jobs, will be helpful.

Recommendation #2

Controlling **inflation** will be a priority. Long-term initiatives, such as value chain development projects, could be introduced to address the sudden surge in food prices and reduce post-harvest losses. These measures would focus on improving the supply side of the food market. The government could initiate policies that

- Develop a network of cold storage facilities and warehouses at the district and village levels to minimise post-harvest losses and ensure a steady food supply throughout the year
- Promote digital marketplaces that expand platforms such as eNAM (National Agricultural Market) to provide farmers direct access to buyers, reducing dependency on intermediaries
- Ensure that food distribution programmes such as PDS (Public Distribution System) work efficiently to cushion the poorest sections from food inflation

[10] https://www.pib.gov.in/PressReleasePage.aspx?PRID=1868284

[11] CMIE, Economic Outlook

- Introduce direct marketing that encourages private players to procure directly from farmers under-regulated frameworks
- Facilitate collaborations with private companies or even bring in Public-Private Partnerships (PPPs) to modernise supply chain infrastructure and improve procurement efficiency
- Promote technology innovations and solutions (such as blockchain and AI) to digitise supply chains, track inventory and predict weather-based adversaries, thereby reducing wastage and improving forecasting

Recommendation #3

Exporters will need support in times of global uncertainty.

- The further extension of schemes such as Interest Equalisation and the Remission of Duties and Taxes on Exported Products (RoDTEP) would play a crucial role in reducing costs and enhancing the price competitiveness of Indian exports. The Interest Equalisation Scheme provides exporters with subsidies on pre- and post-shipment credit, helping to reduce financing costs and make Indian products more competitive in global markets. Meanwhile, the RoDTEP scheme refunds duties and taxes incurred during the production process but not refunded under other schemes, thus lowering the overall cost of exported goods. Extending these schemes would strengthen the competitiveness of Indian exports.
- The government can incentivise the exporting of high-value manufactured goods such as electronics, precision machinery and medical devices, which is already seeing a rise in the share in exports. Their share increased from 17.6 percent in FY 2014 to 29.5 percent in FY 2024.[12]
- Access to credit, expanding credit guarantee schemes and providing concessional export financing to exporting MSMEs, which often face liquidity challenges.
- Upskill workforce in the export sector will be critical. Training workers in export-critical industries such as textiles, electronics and pharmaceuticals will help India meet global quality standards.

Recommendation # 4

The focus should be on **building physical, digital and social infrastructure.**

- India should also shift focus to emerging markets and diversify its export markets to reduce dependence on the West. This can be done by promoting digital trade and e-commerce platforms. Providing incentives to start-ups will be helpful.
- Allocate resources towards affordable healthcare and expand coverage of health insurance.
- Increase budget allocation for training and hiring healthcare and education professionals, especially in rural and remote regions.
- Incentivise private-sector participation in medical education to address the shortage of doctors and paramedics.
- Enhance funding for R&D and vaccine research and programmes tackling diseases such as cancer and diabetes.

[12] Haver Analytics

Tax

Direct tax

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Current environment

In recent years, the government has undertaken several commendable initiatives to reform the direct tax landscape in India. Key measures include:

- **Reduction in corporate tax rates:** A strategic move to attract investments and improve India's global competitiveness.
- **Rationalisation of withholding tax rates:** Simplified compliance for businesses while ensuring efficient revenue collection.
- **Stabilisation of capital gains taxation:** Enhanced clarity and predictability, fostering greater confidence among investors.
- **Resolution of legacy tax disputes:** Initiatives such as the Vivad se Vishwas scheme have successfully reduced litigation, enabling quicker dispute resolution and freeing resources to focus on contemporary tax matters.

While these reforms have strengthened the foundation of the tax system, there remain opportunities for further refinement to promote ease of doing business and achieve greater administrative efficiency.

The upcoming Budget presents a critical opportunity to address the following areas:

Expectations

Expectation #1: Extending the reduction of headline corporate tax rates for new manufacturing companies and Global Capability Centres (GCC)

- The existing concessional corporate tax rate, set at 15 percent, has been pivotal in attracting investments into India. This rate is currently available to new domestic manufacturing companies under Section 115BAB. However, one of the prerequisites to avail this benefit was that the companies were to commence manufacturing operations by 31 March 2024.
- Considering the significant role this measure has played in promoting economic goals and attracting foreign investments, the tax policy administration may think about reintroducing this regime for companies starting manufacturing operations from 1 April 2024.
- Extending the concessional tax rate would provide an opportunity for such investors who are currently in the process of setting up or considering India as a potential investment destination to use this opportunity.
- There has been progressive growth of GCCs (entities providing support to parent or group entities) in India over the past 5 years. The number of GCCs in India has risen to 1700, with an estimated revenue of about US$64.6 million, which is expected to reach around 2100–2200 by 2030. Considering the growth potential both in terms of revenue and job creation, a similar benefit of a lower rate of 15 percent may be extended to GCCs.

Expectation #2: Clarity on transactions involving the transfer of shares

Provide clarity on taxation of contingent consideration on the sale of shares

- There are instances when share transfer arrangements include clauses for payment of sale consideration in tranches, with one at the time of consummating the transaction and the remaining on the satisfaction of conditions in the future year. Accordingly, the transferor shareholder does not have clarity on the quantum of future receipt at the time of sale.
- There is no clarity on whether the contingent consideration is taxable in the year of transfer of the shares or the year in which the conditions are satisfied in future years.
- In line with the provisions relating to taxation of compensation received on compulsory acquisition of assets, a clarification can be introduced to tax contingent consideration in the year in which the consideration is received.

Exemption from levy of capital gains in indirect transfers within the group

- Internationally (such as in the UK and Australia), it is an accepted principle that business reorganisations within a group are tax-neutral, subject to conditions.
- In the absence of specific exclusion, such as the one prescribed under section 47 of the Act, capital gains arising on intra-group transfer of shares of a foreign company having underlying assets in India will be taxable.
- As the business reorganisation within a group does not result in any real income, such transfer, whether in India or outside, should be tax neutral, subject to sufficient safeguards to prevent misuse of such exemption by way of continuity of ownership.
- Hence, a specific provision may be introduced to exempt transactions within the group from the application of indirect transfer provisions in the hands of the shareholder of the foreign company undertaking reorganisation.

Expectation #3: Rationalisation of withholding tax rates

- Currently, there are various rates at which taxes are to be deducted/collected at source, ranging from 0.1 percent to 10 percent. These have often led to litigations arising out of the ambiguities across multiple provisions.
- The government can consider rationalising the rates under the following four broad categories:
  - **First category:** Transactions involving the purchase of tangible/material goods—TDS @ 1 percent, without any threshold limit
  - **Second category:** Transactions involving the supply of any type of services—TDS @ 2 percent, without any threshold limit
  - **Third category:** Transactions through electronic medium/platform—TDS @ 0.1 percent
  - **Fourth category:** Residuary transactions such as interest and dividend—TDS @ 10 percent

Expectation #4: International Tax: Relaxation of compliance for claiming treaty benefit and clarity on applicability of Significant Economic Presence (SEP)

Relaxation in the filing of Form 10F for claiming treaty benefits

- Currently, non-resident taxpayers are required to electronically file Form 10F on the e-Filing portal to avail any treaty benefits.
- Along with Form 10F, non-resident taxpayers are required to provide a copy of the Tax Residency Certificate (TRC) from overseas tax authorities for the entire financial year to confirm their residency status in the other country.
- No overseas tax authorities provide a TRC certifying that the taxpayer is a tax resident for the future period.
- Hence, suitable amendments can be made along with Form 10F, where the taxpayer can furnish TRCs from the previous period (say, for the last 1–2 years) and a copy of the TRC for the current financial year may be provided later (say at the time of filing of its tax return in India).

Disclosures on the applicability of Significant Economic Presence (SEP) in Income Tax Return (ITR)

- A non-resident is considered to have a SEP and shall constitute a business connection in India if either of the conditions are satisfied:
  - Aggregate of payments arising from transactions in respect of any goods/services or property in India by a non-resident exceeding INR2 crore or

- Non-resident engaged in soliciting its business activities or dealing with 3 lakh or more users in India through digital means

- Non-residents filing tax returns in India must disclose if they havea SEP in the country.
- However, a non-resident can avail benefits available under the tax treaty per which its business income is taxable only if it has a Permanent Establishment (PE) in India.
- It is unclear whether such a non-resident is required to disclose SEP with or without considering the existence of a PE in India.
- Hence, a suitable clarification may be issued on scenarios as to when a non-resident is required to disclose whether or not it has a SEP in India.

Expectation #5: Incentivising innovation

Extending tax benefits beyond patents and residents

- Investing in Research & Development (R&D) is crucial for advancing manufacturing processes and technologies. These advancements can spur innovation and strengthen the manufacturing sector's capabilities.
- Substantial investment in R&D, both in strengthening existing institutions and establishing new research institutions, is essential to reduce reliance on foreign technology and innovations.
- Under the extant patent box regime,[1] royalty income arising from patents registered by Indian residents under the Patent Act shall be subject to a lower tax rate of 10 percent, subject to 75 percent of expenditure/the development being undertaken in India.

  The current patent box regime has a limited scope; it does not cover other Intellectual Property (IP), such as know-how, copyrights, designs and trademarks (for various countries, including Ireland and China). Additionally, it does not extend concessions to subsequent owners (transferees) of the patent (such as Ireland and Netherlands) and is not restricted to the first inventor of the invention, as in the extant law.
- The government may consider extending the patent box regime:
  - The current regime is applicable only to Indian residents. Measures can be taken to extend the regime to non-residents as well, with some checks, such as carrying out substantial development of IP in India;
  - Expanding the scope of the term “patentee” so that the concessions are available to the subsequent owner (transferee) of the patent, subject to conditions to prevent misuse;
  - Current regime benefits can be extended to income from designs, copyrights, models and process innovations, similar to the incentives extended by countries such as China, Ireland and Luxembourg.
  - Currently, no expenditure is allowed against income. Certain R&D expenses, amortisation of intangibles and other charges may be allowed as a deduction and the resultant net income can be taxed at a lower rate. Likewise, losses incurred during R&D efforts can be allowed to be carried forward and set off in future years against royalty income.

Production Linked Incentives (PLI) for R&D

- With the removal of the weighted average deduction on R&D spends, taxpayers investing in R&D do not have any additional tax incentives on the spends incurred on R&D.
- An incentive could be provided through an additional deduction of certain specified expenditures spent on R&D (salary costs, materials used, etc.) based on the additional turnover generated through R&D spends compared with earlier year turnover and/or additional employment generated by a taxpayer in R&D and/or based on additional investments made in fixed assets specifically for R&D.
- This would incentivise the directing of private investments into R&D.

[1] Section 115BBF

Policy recommendations

Recommendation #1: Creation of Task Force (TF)

- Business models are rapidly changing, due to which the nature of tax issues and their corresponding conclusions need an understanding of the industry, failing which results in multiple tax disputes.
- A TF comprising senior revenue officials and industry experts should be established.
- Important tax issues may be referred to the TF, carry out detailed research, invite discussions from stakeholders and advise the Central Board of Direct Taxes (CBDT) on the tax position to be taken.
- Once CBDT approves, the same can be issued as a guidance note by CBDT, and such a guidance note can be put up to taxpayers detailing the tax position of the administration, which would guide taxpayers in not taking any aggressive tax positions and avoid litigation.

Recommendation #2: Addressing taxation on the buyback of shares

- Buyback has been a commonly adopted exit/repatriation strategy by investors.
- Tax implications on the buyback of shares underwent changes with effect from 1 October 2024 vide amendments introduced by Finance (No.2) Act 2024. Under the amended provisions, consideration received pursuant to a buyback will be treated as dividends and accordingly taxed in the hands of the shareholders as "income from other sources". Further, the acquisition cost for shares bought back will be considered a capital loss, which can be set off and carried forward against other capital gains.
- In certain scenarios, a shareholder receives consideration equivalent to the capital investment without an upside in value but ends up paying tax on the receipt. This is against the principles of taxation wherein only the income is to be brought to tax and not every receipt. While the shareholder does get the benefit of capital loss, this may or may not be useful to a shareholder.
- In view of the above, it is recommended that the government provide a clarification that on buyback to the extent of capital returned, there should be no tax liability in the hands of the shareholders and, accordingly, no capital loss in the hands of the shareholder.

Recommendation #3: Rationalisation measures for assessments and appeals

Allow protective assessments on issues where taxpayers have succeeded, but revenue authorities contest the issue at higher forums

- Repetitive additions are made in assessments as a revenue appeal for the same issue in an earlier year (which has been held in favour of the taxpayer by the Income Tax Appellate Tribunal (ITAT)) is pending before the High Court (HC)/ Supreme Court (SC).
- This blocks taxpayer's working capital flow even though they have succeeded at the ITAT. The tax amount on these repeated additions also adds to the high "disputed demand" statistics of the tax department.
- Hence, any addition made on a disputed issue already ruled in favour of the taxpayer by the ITAT should be made in subsequent assessments on a **"protective basis"** so that no demand is raised/crystalised on that issue.

Power of ITAT to grant a stay of demand

- Currently, ITAT has the power to grant a stay if the taxpayer deposits not less than 20 percent of the tax demand or furnishes security of an equal amount.
- Hence, even in genuine cases or in case of high-pitched adjustments, taxpayers need to remit at least 20 percent of the tax demand.
- Given that ITAT is a quasi-judicial authority, enforcing such a pre-mandate for the grant of stay causes hardship in high-pitched assessments.

- A limit of 20 percent should be done away with; ITAT can provide a stay based on facts of each case considering legal merits and financial position of the taxpayer with an outer limit of 20 percent to be paid.

Release of refunds determined under Order Giving Effect (OGE)

- Currently, Assessing Officers (AOs) are required to pass orders to give effect to orders of the Appellate authorities within stipulated durations based on the nature of the orders passed.
- However, tax refunds determined per the said orders are significantly delayed, considering that the refunds are released by the Centralised Processing Centre (CPC) after a period of 5–6 months from the date of OGEs.
- For the intervening period, i.e., from the date of the OGE until the actual credit of the refund to the bank, the taxpayer does not receive interest on refunds even though the provisions of the Act mandate that interest be calculated until the date on which the refund is credited to the taxpayer’s account.
- The taxpayer, in such case, is required to file a fresh application before the AO seeking additional interest, which is generally not accepted by the AO, citing that there is no mistake in the order passed by the AO.
- The timeline for releasing the refund from the date of the order must be kept within 15 days, failing which taxpayers should be paid interest for delay in crediting the refund determined.

Indirect tax

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Current environment

- The government will present the Union Budget for the financial year 2025–26 in February 2025. The Budget is expected to strengthen India's manufacturing base, promote exports and simplify trade-related processes to boost global competitiveness.
- The government aims to create a balanced approach encouraging domestic industries to promote the "Make in India" initiative while facilitating seamless integration with global value chains. This is to attract large global players to set up bases in India in response to emerging geopolitical realities.
- In line with the "Make in India" and "Aatmanirbhar Bharat" initiatives, there has been a significant focus on restructuring the tariff structure regarding import duties on raw materials, inputs and capital goods required for domestic manufacturing. The government has also increased duties on certain items, recognising the potential of tariffs to meet different national economic objectives.
- To promote sustainability and mitigate climate change, the government has been focusing on reducing duties on renewable energy equipment, electric vehicle components and green technologies. These measures align with India's commitments to reducing carbon emissions and fostering a greener economy.
- Additionally, the government is taking non-tariff measures, such as licensing requirements and mandatory compliances, to improve the quality and compliance standards, which are often viewed as barriers to international trade.
- Furthermore, the Central Board of Indirect Taxes (CBIC) has been taking measures to digitise compliance, such as faceless assessment and electronic credit ledger for duty payment under customs, to promote ease of doing business. These initiatives will streamline cargo clearance processes and improve trade facilitation.

Expectations and policy recommendations

Expectation #1: Amnesty scheme for customs

- The government should end long-drawn litigation to resolve long-standing disputes, alleviate the burdened judicial pipeline and upgrade the law to keep pace with technological advancements and international best practices.
- Under India's indirect tax regime, several litigation matters are pending at different forums involving duties worth crores.
- An amnesty scheme, along the lines of Sab ka Vishwas, will be a welcome decision. The industry has been waiting for such a scheme for years to address pending litigation matters under customs. This will help especially help small businesses avoid past disputes and move ahead with a clean slate.

Expectation #2: Reduction of procedural compliances to avail Free Trade Agreement (FTA) benefits under CAROTAR

- The introduction of Section 28DA of the Customs Act, 1962, along with the Customs (Administration of Rules of Origin under Trade Agreements) Rules, 2020, has resulted in cumbersome and lengthy procedural requirements for importers, which have imposed additional obligations on them.
- The verification process, as required, should be completed within the stipulated time, per CAROTAR. However, there is no adherence to such timelines, and Bank Guarantee (BG) or PD bonds are demanded for all subsequent shipments until the first shipment is verified.
- With the use of the term “reasonable care,” the onus of accuracy and truthfulness of information has been shifted to the importer. The importer has no visibility of the exporter’s Regional Value Content (RVC) and the supplier will not be willing to share information on its costs or transactions due to confidentiality terms. Hence, verification is impossible for importers.
- A suitable instruction to field officers should be provided to ensure strict adherence to specified timelines for the verification process, and the importer should not wait beyond such timelines.
- BG should only be asked about specific vendor shipments where a retroactive check has not been applied, rather than all subsequent shipments from that vendor, to reduce hardship. Instead of BG, the customs authorities should ask for only bonds, and accordingly, Section 28DA and Rules may be amended to that effect.

Expectation #3: Continued exemption of IGST and compensation cess under the MOOWR scheme

- Manufacturing in Customs Bonded Warehouse, or the MOOWR scheme, is one of the most promising schemes of the government. It has provided impetus to domestic manufacturing and offers exemption/deferment of duty applicable on capital goods and inputs at the time of import.
- However, the Finance Act 2023 made a crucial amendment to the MOOWR scheme by inserting a new Section, i.e., Section 65A in the Customs Act, 1962. According to Section 65A, goods can be imported under the MOOWR scheme, provided that the applicable IGST and compensation cess are paid at the time of import. While IGST and compensation cess are creditable, upfront payment of IGST affects the company’s working capital.
- While Section 65A has not been notified yet, the government should keep implementing the said section in abeyance as it will affect the “Make in India” initiative. This will also make India a major player in the global supply chain.

Expectation #4: In case of an inter-unit MooWR to MooWR transfer of goods/resultant products, enabling provisions to be created for disclosing only the deferred duty amount on the imported goods without disclosing per unit price/assessable value of the imported goods.

- The CBIC has issued guidelines[1] for transferring goods between MooWR units. Licensees of both the dispatching and receiving warehouses must accurately record the goods transferred, including the dutiable items and the corresponding duty amount. This is important to ensure that the duty liability is maintained until the goods are cleared for home consumption.
- Thus, the recent guidelines enable MOOWR to MOOWR transfer manufactured/resultant goods in a manufacturing value chain involving multiple MOOWR entities. However, maintaining price confidentiality between the importing MooWR unit and other MooWR units involved in the supply chain is equally important.
- The current provisions mandate that when goods are transferred from one MooWR unit to another, the initial import value (at the time of deposit into the first MooWR unit) is declared, which will lead to the disclosure of the price-sensitive information to the receiving MooWR unit. Disclosure of price to competitors/other MooWR units will not be conducive to business.
- Hence, enabling provisions may be necessitated through amendments in the Customs Act, along with relevant notifications, circulars, instructions and subsequent forms, for "only disclosure of deferred duty amount" instead of the value of imported goods present in the resultant/manufactured product.

[1] Instruction No. 16/2024-Cus., dated 25.06.2024.

- From a procedural aspect, it is suggested that the duty forgone amount may be disclosed at each inter-unit MooWR to MooWR transfer of resultant products. The said amount may be paid by the MooWR unit, which finally clears the resultant goods into the domestic market.

Expectation #5: Time-bound SVB investigations

- Due to cumbersome and time-consuming SVB investigations in related party transactions, there is a huge pendency of cases with SVB cells.
- Meanwhile, all import assessments are mandatorily kept provisional, which leads to much uncertainty regarding the financial liability on account of customs duties for the trade. This results in lost revenue for the government and an undue burden on businesses.
- A scheme must be introduced to liquidate all long-pending SVB investigations (titled "AAP PAR VISHWAS") within a specified period.
- Simultaneously, the SVB Circular could be amended to prescribe that in case investigations are not completed within two years (maximum permissible for completion of first-level adjudication), such provisional assessments would be deemed to be finalised.

Expectation #6: Extending the scope of advance rulings

- The revamped Customs Advance Rulings mechanism through Chapter VB of the Customs Act has witnessed trade resorting to advanced rulings regarding various issues relating to classification, valuation and effective duty implications to obtain certainty, provided in Section 28H (2).
- Non-tariff measures cause great uncertainty, as their notification templates, language, etc., are not aligned with the WCO's Harmonised System of Nomenclature.
- It is recommended that the scope of advance rulings may be expanded through an issue of a notification in the exercise of powers vested by section 28H(2)(f) to empower the Customs Advance Rulings Authority to pronounce rulings on the applicability of specific non-tariff measure on a particular importer/exporter upon seeking written opinion of the concerned departmental authority.
- This expansion of scope may be undertaken gradually, beginning with agencies already on board the Customs SWIFT—single-window platform.

Personal Taxation

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Current environment

- The current budget comes just 6 months after the last one, announced in July 2024 post-elections. In July 2024, the Finance Minister announced a comprehensive review of the Income-tax Act to make the Act concise, lucid and easy to read and understand. The objective was also to reduce disputes and litigations, provide tax certainty to the taxpayers and bring down the demand embroiled in litigation. The Finance Minister aimed to complete this review within 6 months.
- The Central Board of Direct Taxes (CBDT) formed a committee in this regard and invited suggestions from taxpayers, and an overwhelming 6500 suggestions have been received. Hence, one needs to monitor the changes incorporated in the interim before the announcement of the Union Budget 2025.
- In the last budget, the government also announced the Employment Linked Incentives and the Internship Scheme to encourage employment and the skilling of youth in the country. Efforts are also being made to develop a comprehensive and well-thought-out welfare and social security scheme for the gig workforce.

Expectations

Expectation #1: Ease of tax compliance for purchase of property from Non-Residents (NRs)

- **Simplify the TDS compliance for home buyers where the seller is an NRI**

  The current provisions require home buyers to withhold 1 percent of the purchase value as Tax Deducted at Source (TDS), where the property value is INR50 lakh or more. The TDS deposit process is simple and convenient if the seller is a resident (i.e., with the challan-cum-statement in Form no.26QB).

  If the seller is an NRI, tax is withheld at a higher rate, and the buyer is also required to obtain a TAN, deposit the tax deducted and file e-TDS returns. While the purchase and sale of the property is not a recurring transaction, obtaining TAN solely for the mentioned purpose may result in more inactive TANs.

  To address this issue, the TDS process applicable for cases where the seller is an NRI may be eased by introducing these challan-cum-statements similar to those applicable for a resident seller.

- **Enabling tax payments from overseas bank accounts (removing the requirement of having a bank account in India)**

  At present, tax payments in India are accepted through various modes, such as net banking, debit cards, NEFT/RTGS and over-the-bank counter. The bandwidth has been broadened to include many Indian banks and NEFT/RTGS payments and UPI payments. However, these are possible with an Indian bank only, which makes it difficult for an NRI to make tax payments.

NR taxpayers residing overseas would benefit if they were allowed to make tax payments from their overseas bank accounts.

- **E-verification using OTPs to foreign mobile numbers**

  The introduction of e-filing of tax returns has improved the process, saving both time and effort. The last mile step of e-filing is the e-verification process, which is restricted to having accounts with net banking/demat facilities with specified banks, Aadhaar OTP to India mobile numbers, digital signature certificates, etc.

  NR individuals who need to complete the tax return filing process could benefit if the e-verification process can be extended via OTP to foreign mobile numbers or have two-factor authentication (different OTPs for foreign mobile numbers and email addresses). This would reduce paperwork and administrative tasks, such as tracking the ITR-V receipt by the tax office and applying for condonation of delays. Further, the time limit of 30 days should be extended to facilitate verification through physical mode.

- **Credit of tax refund to overseas bank accounts**

  NR individuals, especially foreign nationals, who leave India after closing their bank accounts in India could get a refund for various reasons. The tax refund is payable only to pre-validated Indian bank accounts. Any delay in refund processing could cause bank accounts (even if open under the NRO status) to go into dormant mode. This would prevent the refund from being credited to the account. To alleviate the difficulty, foreign bank accounts should be considered for tax refunds for PAN-holders registered as NR/foreign nationals.

  Rationale and outcome: Ease of administrative hassle for the taxpayers

Policy recommendations

Recommendation #1: Treaty relief for Foreign Tax Credit (FTC) at the time of tax withholding

Taxpayers are allowed tax credits/other benefits in terms of taxes paid outside India, subject to the fulfilment of certain conditions. Currently, taxpayers can claim FTCs in their income tax returns. Hence, these taxpayers end up with a huge refund as there is no specific provision for the employer to consider FTC at the time of tax withholding. To provide legitimate relief to the taxpayers and avoid huge refunds and related cash flow issues, guidelines can be issued for considering benefits under Section 90 at the time of tax withholding and disclosing them appropriately in eTDS returns, especially where such FTC is on employment income.

Outcome: Ease the administrative challenge for taxpayers in claiming refunds in return

Recommendation #2: Revised/belated return (Deadlines)

- The due date for filing the revised or belated returns is 31 December of the following financial year.
- In a situation where the assessee is a Resident and Ordinarily Resident (ROR) in India claiming an FTC, it is difficult to finalise the FTC to be claimed in his India tax return when the return for the calendar year is not yet finalised in the overseas jurisdiction. For example, in the US, returns for 2024 would be finalised only in April 2025. However, in India, the revised/belated returns can be filed for FY2023–24 only until 31 December 2024 to claim the credit for taxes paid from Jan to March 2024.
- If the due date for the belated/revised return filing is not extended, the FTC claimed on the return may not be final as it would be claimed on an estimated basis on the taxes withheld at source in the overseas jurisdiction.
- The due date for filing the revised belated/revised return must be extended at least until 31 March instead of 31 December.

Recommendation #3: Clarity in taxation of stock options

- Section 17(2) provides for taxing stock award benefits as a perquisite. However, the section lacks clarity regarding the taxation of stock awards in the case of NR employees who have rendered a part of services overseas during the grant period to vest. The principle that the benefit accrues over the vesting period is indicated based on court rulings and OECD guidelines.
- However, in the absence of clear guidance, the claim of the taxpayers is denied at the assessment stage by the tax officer. While at the appellate level, claims are accepted, the taxpayers have to go through unnecessary hardship of litigation.

- Clear guidelines stating rules for apportionment of this benefit based on the grant to vesting period should be provided on the lines of the FBT Circular No. Circular No 9/2007 dated 20 December 2007. Further, only the place of rendering services should be considered for apportionment.

Recommendation #4: Valuation rules for perquisite in the form of electric vehicles (Rule 3)

- Rule 3 of the Income tax rules provides the valuation of motor car benefits, where the employer reimburses running and maintenance expenses. The valuation principles consider the cubic capacity of the engine to determine the perquisite value and typically cover only conventional fuel cars; no separate criteria have been laid out with respect to electric vehicles.
- The stimulus provided by the government to electric vehicles includes tax deduction for interest on loans taken to buy electric vehicles, lower GST and exemption/subsidised road tax/registration costs. With the availability of infrastructure facilities such as fast charging stations in public places such as metro stations, electric vehicle usage is increasing.
- Given the encouragement to use electric vehicles, Rule 3 could be suitably amended to bring in the valuation mechanism for hybrid and electric vehicle maintenance (recharging batteries in lieu of fuel) and criteria based on battery capacity (besides the engine capacity).
- This valuation mechanism would help bring much-required clarity, which could, in turn, promote the use of electric vehicles and even pave the way for a greener future.

Recommendation #5: Robust appellate disposal process

- On account of COVID-19, there is a significant pendency in appeal disposal, especially at the level of Commissioner of Income Tax (Appeals). The pendency extends more than 6 years in some cases. To reduce the pressure, the Finance Minister introduced the Vivad Se Vishwas Scheme, cleared dues for petty amounts from the tax portal and introduced the FACELESS Appeal disposal. While this has eased taxpayers' hardship to some extent, the larger issue of pending appeals and refunds remains.
- Hence, the government should adopt a robust machinery with timelines for expediting the process and ensuring a fair redressal.
- Appeals should be resolved promptly in favour of the taxpayers when there are covered matters, especially if the tax officer takes positions that go against judicial decisions.
- A process for automated instructions to issue refunds for cases disposed in favour of the taxpayer.

Social security and Labour code

Saraswathi Kasturirangan
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Expectations and policy recommendations

Expectation #1: The Labour Codes need to be made effective, considering aspects such as the changing workforce, the need for consistency in interpretation and enhancements in ease of business and technology use.

- **Specific measure:** Tax and social security-related regulations are in place for the general employee class, which helps them avail certain benefits subject to few anomalies. The regulatory environment must be upgraded to support workforce flexibility and technological innovation. It should also bring consistency in provisions, enabling ease of doing business for the establishment while ensuring compliance with regulatory requirements. The Labour Codes also bring in additional and newer types of workforce within the social security umbrella thereby increasing coverage of the country's working population. All of the above call for an urgent need to enforce the Labour Codes at the earliest.

- **Outcome:** Consistency must be maintained in interpreting tax and regulatory provisions, considering the evolving trends in work and innovation, as these factors impact many individuals and promote economic growth. This measure will help reduce compliance costs, enhance ease of doing business and ensure regulatory clarity. It will also promote uniform interpretation of laws, encourage investment and foster workforce adaptability to emerging trends. Consistency in provisions and clarity in requirements lead to mutual benefit for businesses and regulators, minimising litigation and paving the way for growth through collaborative working.
- **Rationale:** India's rapidly changing workforce, increasing focus on start-ups and globalisation demand regulatory agility and uniformity. Although there are regulations in place, both for the employer and employees at large, there is a lack of consistency across the legislation, leading to diverse interpretations and multiple compliance requirements. Besides, changes in workforce trends and in the environment call for a need to revisit social security-related provisions and streamline the process with the help of AI automation and digital platforms. The tax provisions also need to address the concern of the employer/workforce to promote ease of business. A transparent regulatory framework addresses generic issues and minimises controversies and tax-saving schemes.

Expectation #2: Widen the social security benefits for the newer workforce, such as gig and platform workers, via Labour Codes

- **Specific measure:** Workers in the organised sector are entitled to social security benefits such as Provident Fund, Employees' State Insurance/group medical insurance and maternity benefits. While the contribution is based on the employment relationship and the schemes are funded partly/mainly by the employer, the primary objective of these benefit schemes is to entitle these workers to financial benefit/support at times of distress (such as death, sickness, maternity and temporary disability).
- **Measurable outcome:** Organisations that employ a newer workforce can contribute to designated schemes or funds by paying a fixed amount or rate for each individual within that workforce. These schemes or funds could be in the form of life insurance policies/retirement/pension plans/medical insurance policies/emergency funds (specific to cater to gig and platform workers) from which these individuals can draw financial support/benefits in times of need.
- **Rationale:** With the rise of newer types of workforce, the concept of employer-employee relationship is on the wane. These are not restricted to the lower strata involving minimum skill sets but include niche services requiring specialised knowledge and experience. With more individuals opting for freelance work, these jobs provide a livelihood to a sizeable population. Therefore, this workforce section must also be brought within the ambit of social security. Additionally, other sections of unorganised workers, such as those engaged with self-help groups and domestic helpers, need to be provided with social security to safeguard against challenges/loss from unforeseen risks. One should also bear in mind that some of these jobs (such as drivers/food delivery agents) could involve significantly higher risks, such as accidents/death/disability, thus making social security benefits indispensable to such a workforce. These individuals cannot be devoid of benefits merely because they do not have an employer/employment relationship. As the Labour Codes recognise these new types of workforce, it is only apt that the workforce is provided with due benefits through appropriate mechanisms and infrastructure.

Transfer Pricing

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Current environment

The Transfer Pricing (TP) legislation was introduced in India over two decades ago and has undergone several changes to align with the evolving global and economic landscape. Despite these changes, TP law remains one of the most complex areas of the Direct Tax statute, as highlighted in a recent survey conducted by Deloitte. This is largely due to year-on-year litigation with huge demands emanating from divergent views of the taxpayer and tax administration on the interpretation of TP laws and a lack of guidance on a few complex TP issues. To address this, the Government of India introduced dispute prevention mechanisms such as Advance Pricing Agreements (APAs) and Safe Harbour Rules (SHRs). However, the SHRs could not achieve their intended objective due to limited coverage and high rates. This has increased the burden on APA inventory. APA conclusions are getting delayed due to the higher rate of APA applications every year compared with the conclusions with a limited number of officers. Additionally, some of the legal provisions in the TP regulations and compliance need simplification and alignment with global standards.

These challenges require the government's attention and necessary action to enhance tax certainty and promote ease of doing business for global multinationals operating in India.

Expectations and policy recommendations

Expectation #1: Reduction in litigation

- **Streamlining SHRs:** Existing SHRs have been restricted to small companies, making them inaccessible to medium and large enterprises. Safe harbour rates are higher than the comparable benchmark, making them commercially unviable for taxpayers to adopt. Therefore, taxpayers will continue to face the risk of litigation or apply for APA to attain tax certainty. This increases the APA inventory. The APA programme should primarily involve cases with complex transactions and business models that require in-depth business and economic analysis to set transfer prices. The government may re-evaluate the safe harbour provisions on the following three aspects:
  - reduce the class of transactions from the safe harbour and restrict them only to IT, ITeS and business support;
  - provide the safe harbour rates closer to comparable benchmarks with a little premium for certainty; and
  - increase the threshold to cover almost 75 percent of the companies operating in this relevant industry. This can serve the dual purpose of providing tax certainty to taxpayers and easing the APA burden.
- **Streamlining APA scheme to expedite resolutions and remove certain anomalies in law**
  - **Speedy unilateral APA conclusion:** The government can consider introducing an objective/quantitative approach, such as indicative financial yardsticks for resolving routine cases, rather than a subjective approach and detailed case-based analysis. This may help in quicker decision-making and faster resolutions. This can be coupled with standard questionnaires for specific industries.

- **Impetus on high-value APAs:** The government may also consider segregating the APA cases into high-value and low-value cases based on the quantum of international transactions and allocating the high-value APA cases to a larger team of officers comprising senior tax officers. The low-value APA cases can be considered for negotiation and disposal under the matrix system to ease the inventory of pending APA cases.
- **Increase the frequency of competent authority meetings with treaty partners:** The limited number of competent authority meetings with treaty partners also affects the progress of the APAs. Regular and frequent competent authority meetings can augment the speedy conclusion of bilateral APAs.
- **Mechanism for corresponding tax adjustment and withholding tax refund for AE on conclusion of APA:** The APA scheme does not provide for corresponding tax adjustment in the hands of the associated enterprise based on the agreed Arm's Length Price (ALP), resulting in excess withholding tax in India.
- **Removal of restrictions under section 92(3) for unilateral APAs:** Section 92(3) of the Act is a restrictive tax provision. Under this provision, the taxpayer's taxable income already reported in the tax return cannot be reduced or losses cannot be increased due to TP adjustment. This provision was primarily introduced for TP audits. APA is a dispute prevention mechanism. Restrictions under section 92(3) should not apply to APA resolutions.
- **Introduction of APAs for Specified Domestic Transactions (SDT):** APAs can only be applied to determine the ALP of international transactions between Associated Enterprises (AEs) and the SDTs (i.e., transactions between domestic AEs) are outside the purview of APA. SDTs have been scrutinised by the tax officers, and it is likely that the litigation will increase in the future, with SDTs being applicable to transactions of entities covered by Section 115BAB. The introduction of APA for SDTs will provide taxpayers with an option to avoid disputes and reduce the inventory of TP litigation pending before various forums.
- **Allowance of treaty benefits to US single-member Limited Liability Company (LLC):** Due to the differences in treaty interpretation, Indian Competent Authority does not consider a US single-member LLC to be a "person" and a "resident" under Articles 3 and 4 respectively of the India-US tax treaty. Due to this, a single-member LLC, which is a common corporate structure in the US, is not allowed to claim the benefits of the India-US tax treaty in India. As a result, a US single-member LLC is not allowed to apply for a Bilateral APA or MAP in India. This results in hardship and double taxation for US MNEs with such corporate structures. The government may allow such single-member LLCs to apply for a MAP and/or bilateral APA to alleviate this hardship.
- **Advertisement, Marketing and Promotion expenses (AMP):** The dispute over whether AMP constitutes an international transaction has been ongoing in India since 2013 and is now before the Hon'ble Supreme Court. only provides an ALP for AMP expenses if the taxpayer accepts it as an international transaction. Since APA authorities have a detailed and holistic understanding of the business and functions of the taxpayer, APA may be allowed to provide a resolution for AMP issue without requiring the taxpayer to accept it as an international transaction, which may not be the correct position in the facts and circumstances of the case.
- **Profit attribution to Permanent Establishments (PE) in APAs:** Significant litigation exists regarding the existence of a PE and its profit attribution. The government may consider amending the APA provisions to allow arm's length profit attribution under APA for potential PE cases that are facing litigation in India without having to accept the existence of PE in India. This is similar to the approach adopted in settling such disputes under the Mutual Agreement Procedure (MAP).

• **Mandatory timelines for Commissioner of Income Tax (Appeals) (CIT(A)) to pass the order:** The Income Tax Act does not provide any mandatory timeline for CIT(A) to pass the order. It is seen that many appeals are pending for 4 to 5 years before the CIT(A), thus delaying the litigation process and making the entire CIT(A) route ineffective. CIT(A) is an administrative appellate mechanism, and imposing a timeline for disposal at the CIT(A) level can bring certainty of delivery, being an important taxpayer service.

Expectation #2: Relaxation in TP compliance and documentation for Non-resident taxpayers

• **Exemption from filing form 3CEB:** Section 115A of the Income Tax Act 1961 (I-T Act) exempts a non-resident from filing an Income tax return if it is assessable to tax in India for dividend, interest, royalty or fee for technical services and the taxes have been appropriately withheld from such taxable income. However, Section 92E has not been amended consequent to the above exemption under section 115A(5) of the Act. This leads to a situation where a non-resident does not need to file a tax return in India but still needs to file Form 3CEB to avoid penalties for not reporting an international transaction. Considering the above anomalous situation, it is recommended that section 92E be amended to provide an exemption to non-resident assessees from filing Form 3CEB, where they are exempted under section 115A(5) from filing tax returns in India.

- **Dividend receipts not be classified as international transactions:** After the abolition of dividend distribution tax, dividend income is taxable in the hands of shareholders. A non-resident shareholder receiving dividends may still be required to file Form 3CEB. However, dividend payment by a company is an appropriation of profits and arises out of corporate action. Hence, the ALP of dividends is not determinable or technically covered under TP. The law should specifically provide an exemption for transactions such as dividend and bonus shares, which are not covered under TP regulations. Therefore, TP reporting and compliance are not required for such transactions.
- **Aligning Country-by-Country (CbC) threshold with OECD guidance:** Section 286 of the I-T Act, read with rule 10DB(6) of the I-T Rules, provides for a threshold of INR6400 crore for an MNE group to be liable to file the CbC report. However, per the OECD, in BEPS Action 13, an MNE group is liable to file a CbC report if its aggregate consolidated revenue exceeds EUR750 million. As the Indian TP law prescribes the threshold in INR, Non-resident MNEs must do a currency conversion to evaluate the requirement to file a CbC per Indian law. Due to this conversion and constant currency fluctuations, some MNE groups breach the local threshold of INR6400 crore. In contrast, they remain under the global limit of EUR750 million, which creates an additional compliance burden in India.

  The government should amend the Rules to provide that if an MNE group does not breach the OECD threshold of EUR750 million, it should not be required to file a CbC report even if, due to currency fluctuations, it breaches the threshold of INR6400 crore per the Indian I-T Act.

Expectation #3: Simplification of law

- **Introduction of specific rules for Profit attribution for PEs:** Indian tax law contains Rule 10 under the Income-tax Rules, 1962 (Rules) for the attribution of profits to PEs. Rule 10 requires profit attribution to PE as a reasonable share of global turnover or profits or any other basis as may be reasonable. This is an ad-hoc mechanism without any scientific basis. The government issued a consultation paper in 2019 to guide profit attribution. However, taxpayers made multiple representations of the approach provided therein. The profit attribution approach was not finalised and issued by the government. The government should provide guidelines for profit attribution to PEs in India and set out its approach for global profit allocations. TP analysis is a globally accepted method of profit attribution to PEs. Even the APA negotiations are being impacted due to the absence of clarity on India's approach to PEs.
- **Definition of associated enterprise to cover newer forms of entities such as business trusts and LLP- Section 92A:** TP law was introduced more than two decades ago. The AE relationship is defined under section 92A, which provides the basic test for the AE relationship and covers direct or indirect participation in capital management and/or control. Section 92A(2) provides thirteen conditions in which two or more enterprises would be considered to be AEs. However, new corporate structures such as LLPs and business trusts have emerged over the years, which were not envisaged while drafting section 92A. The government may amend the provisions of section 92A to cover newly constituted forms of organisations such as REITs and LLPs.
- **Clarity on the use of Fair Market Value (FMV) under Rule 11UA versus ALP:** The current Income Tax rules provide the valuation approach under Rule 11UA for the valuation of assets. The taxpayer, at his option, may choose any of the methods as prescribed under Rule 11UA(2). Per Section 92 of the Income Tax Act, any cross-border transaction between two associated enterprises should be undertaken at Arm's length. However, Chapter X of the Income Tax Act does not provide any valuation basis for computing the ALP.

  In the absence of specific valuation rules under Chapter X, there is an ambiguity as to whether the valuation done per Rule 11UA can be challenged by the tax officer. The government may clarify the appropriate valuation method to be adopted by the taxpayers undertaking such cross-border transactions.

Mergers and acquisitions tax

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Current environment

- During the first nine months of 2024, the total value of deals in India surged by 66 percent compared with the same period in 2023, driven primarily by high-value transactions.
- Businesses across various sectors in India intend to further use cross-border M&A to strengthen their international presence, acquire new technologies and consolidate resources.
- Considering the above, the following are the expectations for the upcoming Budget, which will help streamline tax structures and improve the overall ease of doing business.

Expectations

Expectation #1: Taxation on contingent consideration

- At the time of making investments in India, most investors plan to introduce a combination of clauses in the shareholder's agreement, including contingent consideration based on certain performance milestones.
- In essence, such clauses incentivise promoters to achieve better performance after the deal.
- No clarity exists on whether such contingent considerations should be taxed in the year of transfer of shares or in the year of receipt after the consideration crystallises.
- It may be clarified by an explanation or clarificatory provision that the contingent portion should be taxable as capital gains in the year it is crystallised, irrespective of the year the transfer of share takes place.
- The introduction of a mechanism to defer taxation until the contingency is realised would improve tax certainty for both parties involved in the transaction.

Expectation #2: Applicability of Section 56(2)(x) on listed company trades

- Section 56(2)(x) of the Income Tax Act, 1961 serves a critical role in preventing tax avoidance through undervalued asset transfers. Still, its interpretation in the case of the trade of shares of listed companies in an off-the-exchange transaction could lead to unintended tax liabilities.
- Anti-abuse gains arise in the hands of the buyer if the traded price of the listed entity on the date of receipt of such shares exceeds the transaction price as agreed between the parties for an off-the-exchange transaction.
- Generally, a significant time gap exists between the signing and closing of a transaction involving the listed entity due to open offer obligations, which are required to be followed per the capital market regulations. Thus, instances occur where the traded price of the listed company increases in the interim period, leading to unintended tax consequences for the buyer.

- To avoid unnecessary tax burdens and provide greater clarity for M&A and investment activities, it would benefit the acquirer to receive clarification relating to this issue.

Expectation #3: Exemptions for enabling carry forward of business losses in case of internal group structuring

- According to Section 79, no loss incurred in any prior year is permitted to be carried forward and set off in the event of a change in shareholding of a closely held company unless shares carrying not less than 51 percent of the voting power, are beneficially held by persons who held such shares in the year in which the loss was incurred.
- Currently, differing judgements exist regarding the interpretation of "change in beneficial ownership" in the absence of a specific definition.
- Section 79 should introduce exemptions for internal group restructuring to enable the carry-forward of business losses where the beneficial ownership of group entities continues to be the same.
- This would ensure that tax losses can continue to be used post-reorganisation in case of legitimate group restructurings.

Policy recommendations

Recommendation #1: Introduction of tax consolidation regime

- In India, multiple subsidiary structures are prevalent to house businesses in separate entities under the parent company for various commercial reasons.
- However, such group structures result in various challenges from a tax and regulatory compliance front for both the taxpayer and tax department.
- Adoption of the "Group Tax Consolidation Regime" is crucial and will prove to be beneficial for the taxpayer as well as the department in various ways, including:
  - Reduced tax compliance costs for corporate taxpayers
  - Efficient usage of tax losses through set-offs at the group level, thereby lowering the tax burden on large conglomerates operating in various sectors
  - Reduced tax administration costs for revenue authorities due to a reduction in the number of litigations

Recommendation #2: Tax clarity on internalisation

- A noticeable rise in the "internalisation" of India-based groups is evident through the integration of ownership and the consolidation of the entity's value back into India.
- Considering that "internalisation" involves consolidation of value at the Indian level, it is expected to bring long-term benefits for the economy, both from a tax and exchange control perspective.
- Considering there is no third-party transfer and the value remains within the group, specific policy amendments enabling internalisation in a speedy and tax-efficient manner shall help boost shareholders' confidence and strengthen the Indian market by consolidating value in India.

Sectors

Automobile

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Current environment

- India is the world's third-largest automobile market, with a strong position in the heavy vehicle category. The ever-evolving sector is undergoing a significant transformation in India, mainly driven by changing consumer preferences, emerging sustainable needs and evolving government policies.
- A significant shift is the growing preference for Electric Vehicles (EVs) over traditional internal combustion engine (ICE) vehicles, as consumers increasingly seek sustainable and cost-effective modes of transportation. This is further fuelled by various favourable measures taken by the government to promote the use of EVs; these include demand—and supply-side subsidies and lowering GST on the sale of EVs (5 percent) compared with traditional ICE vehicles, which are currently taxed at the high tax bracket.
- In terms of manufacturing capacity, the country has seen a significant reduction in import dependency and increased domestic production, with the latter being limited mainly to high-end luxury vehicles. This is due to various incentive schemes/policies introduced by the government, which have given a much-needed impetus to indigenous automobile manufacturing and helped the sector become Aatmanirbhar.
- Though the sector has seen positive changes, certain shortcomings require the attention of policymakers. For instance, the industry has been grappling with the issues around complex classifications for a long time now. The government can also consider removing the compensation cess on the sale of vehicles.
- With growing urbanisation and a rise in disposable income, the automobile sector is poised to grow at a healthy rate. However, to attract more global investments in promoting domestic manufacturing and ensure sustained growth of the sector, it is critical that concentrated efforts are taken to create a conducive environment for the automotive sector.

Expectations

Expectation #1:

- **Specific measure:** Simplified classification and GST rate structure for automobiles and auto components
- **Outcome**
  - A simplified nomenclature will facilitate ease of doing business.
  - It would aid in eliminating confusion and improve compliance, thereby reducing unnecessary litigation around classification.
- **Rationale**
  - One of the most significant issues in the auto sector is the complexity and inconsistency in the classification of auto parts, components and finished vehicles under the HSN (Harmonised System of Nomenclature).

- Different auto components, such as engines, chassis, and batteries, fall under different chapters, resulting in increased complexities and incorrect classification, especially by companies dealing with auto components.
- Hence, it is recommended that the government consider introducing a simplified classification structure where similar components or components with similar end use are categorised under the same bucket.

Expectation #2:

- **Specific measure:** Reduction of GST on hybrid vehicles
- **Measurable outcome**
  - Hybrid vehicles can be considered as one of the closest alternatives to EVs. Promoting the use of hybrid vehicles will help reduce carbon emissions and reduce import dependency on crude oil.
  - Reduction in GST rates on hybrid vehicles will make them more affordable and practical for Indian consumers to adopt. Hybrid vehicles can be an intermediate step for consumers who are not entirely ready to transition towards EVs.
  - This will encourage automakers to focus on hybrid technologies, which can be an effective bridge to EVs, especially in regions where the EV charging infrastructure is still underdeveloped.
- **Rationale**
  - Hybrid vehicles in India are currently burdened with the highest rate of tax (28 percent), making them less attractive than fully electric or conventional petrol/diesel vehicles.
  - Considering that hybrid vehicles are a practical alternative to reduce emissions and promote electrification, every effort should be made to promote such technologies and encourage the transition from Internal Combustion Engine (ICE) vehicles to greener alternatives.
  - This becomes especially important for countries such as India, where relative EV infrastructure, such as charging points and battery manufacturing units, is still nascent or developing.

Expectation #3

- **Specific measure:** Simplified refund procedure for EV manufacturers.
- **Measurable outcome:** Enhanced cash flow due to reduced blocking of working capital.
- **Rationale**
  - EV manufacturers in India have been struggling with the issue of inverted duty structure. With EVs attracting a lower GST rate than major inputs, including lithium-ion batteries, EV manufacturers are left with only one option, which is to claim a refund of unused ITC. Further, the non-availability of a refund on ITC attributable to capital goods is leading to an increase in the cost of production.
  - Considering the government's intent to rigorously promote electrification and localised manufacturing of EVs, all necessary steps should be taken to create a conducive environment for EV manufacturing in the country. Simplified and fastened refund procedures will ensure that EV manufacturers are not overburdened with unnecessary costs and that working capital is not blocked, both of which are extremely critical for a business, especially for start-ups.
  - Refunding ITC on capital goods for EV manufacturers is also necessary, considering the industry is capital-intensive.

Policy recommendations

Recommendation #1:

- **Details**
  - The Production Linked Incentive (PLI) scheme for automobiles has been crucial in attracting investments and boosting domestic manufacturing of automobiles and auto components. While the PLI scheme has seen positive outcomes, certain key problems/shortcomings exist, such as stringent DVA computation and delays in the disbursement of incentives.
  - It is important that these problems are addressed effectively, in line with the current requirements of the Indian automotive sector, to ensure the scheme's overall success.

- For instance, the government could consider measures including relaxing the domestic value addition criteria and streamlining the disbursement process to ensure that incentives are provided to eligible applicants on a timely basis.
- As mentioned above, such proactive measures would aid in making the scheme a complete success for all stakeholders. It will also ensure higher participation by the stakeholders in case the government proposes to introduce an updated version of the PLI scheme for automobiles.

- **Expected impact**
  - Relaxation in DVA norms will ensure that if selected applicants fail to meet the DVA requirements by a small margin, they will not be ineligible to claim incentives under the scheme.
  - Streamlining the disbursement process will warrant improved cash flows for manufacturers, enabling them to invest in production scale-ups, infrastructure and new technology. Reduced delays in incentive disbursements will also ensure faster decision-making and investments in the sector.

Recommendation #2:

Widening the scope of the scheme to promote manufacturing of electric passenger cars in India

- **Details**
  - The Ministry of Heavy Industries (MHI), vide notification dated 15 March 2024, introduced the "Scheme to promote manufacturing of electric passenger cars in India" to promote India as a manufacturing destination for EVs and attract investments from global EV manufacturers (Scheme)." The scheme provides incentives in the form of a reduced Customs duty of 15 percent on imported vehicles of value US$35,000 and above to eligible companies for five years.
  - The scheme is considered pivotal towards promoting EV production/adoption in India and reducing import dependency on crude oil. For a company to claim incentives under the said scheme, certain conditions in terms of minimum investment, minimum domestic value addition, timelines, etc., are required to be met.
  - While most conditions seem to be justified, limiting the applicability of the scheme only to vehicles of value US$35,000 and above is rendering the scheme ineffective for a majority of the Original Equipment Manufacturer (OEMs) currently operating in a price-sensitive market such as India.
  - Accordingly, it is recommended that the government consider widening the scheme coverage by extending the benefit of reduced Customs duty to four-wheelers with a value of up to US$35,000. Such a step will help attract greater investments, propelling the domestic manufacturing of automobiles and ensuring faster adoption of EVs in the country, as consumers will have a greater choice of EVs at all price points.
- **Expected impact:** The widening of scheme coverage is expected to generate significant results in terms of attracting investments into the automobile sector from global EV manufacturers. This will ensure significant growth of the Indian automobile sector in terms of the manufacturing set-up, employment generation and other socio-economic benefits. Moreover, the entry of new companies into the Indian market will increase healthy competition and provide consumers with a larger pool of vehicles to select.

Agriculture

Anand Ramanathan
Partner and Consumer, Products and Retail sector Leader

Current environment

- India's Gross Value Added (GVA) from agriculture stands at INR23 lakh crore[1] with a share of 18 percent[2] in the total GVA. Agriculture and allied sectors employ 46 percent[3] of the country's population, making Agriculture the backbone of the Indian economy.
- India contributes 11 percent to global agricultural production.[4] Nevertheless, its share in the overall export of food products is modest, ranging at 2–3 percent, and the export share in the processed food category is even lower, falling within the range of 1–2 percent.[5]
- Agriculture exports in India stood at INR2.2 lakh crore in FY2024, reflecting a decrease of 5 percent compared with FY2023 due to a ban on exports of non-basmati rice and stringer regulations for other key agricultural commodities.[6]
- The government has been proactively supporting the sector through various schemes such as Rashtriya Krishi Vikas Yojana and Mission for Integrated Development of Horticulture, which focus on strengthening the entire agricultural value chain. Targeted schemes such as Per Drop More Crop, Sub Mission on Agriculture Mechanisation and Agriculture Infrastructure Fund are helping solve challenges related to irrigation, mechanisation and agriculture infrastructure. Various efforts are also being made to integrate technology in agriculture through the Digital Agriculture mission, Agristack and other initiatives.
- With rising per capita incomes and changing consumption patterns, the consumer focus has now shifted towards high-nutrition food products such as horticulture, dairy, poultry, fisheries and processed food. A simultaneous shift in the production pattern is also taking place slowly through focused crop diversification and the development of value-added infrastructure; however, significant additional efforts are still needed.
- The pre-existing challenges of low average productivity, fragmented landholdings, low mechanisation, poor soil health and lack of primary value addition remain pertinent and need to be looked at from a new lens to ensure maximum benefits for farmers. The government has achieved ~90 percent of its target to form 10,000 Farmer Producer Organisations by March 2025.[7] These organisations can be crucial in developing the right capabilities to tackle these challenges at the farmer level and facilitate resource pooling. Therefore, it is crucial to strengthen them to effectively address farmers' challenges.

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[1] https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2022323

[2] https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2022323

[3] https://sansad.in/getFile/loksabhaquestions/annex/1714/AS228.pdf?source=pqals#:~:text=According%20to%20the%20Periodic%20Labour,allied%20sector%20during%202022%2D23.

[4] UN Comtrade 2020 data - BEC Categories 1 for overall and 12 for processed food products

[5] UN Comtrade 2020 data - BEC Categories 1 for overall and 12 for processed food products

[6] DGCIS

[7] https://www.financialexpress.com/policy/economy-to-meet-10000-fpo-target-by-year-end-govt-3565145/

- Transformative measures are needed to improve the availability of quality seeds, strengthen the extension mechanism, facilitate post-harvest management and ensure market access for farmers.

Expectations

Expectation #1: Comprehensive programme for yield improvement

- **Specific measure:** Crop-wise programmes for selected crop clusters with support for the use of specialised machinery, the right package of practices, availability and affordability of inputs, as well as timely crop advisory and extension services for farmers/crop-focused Farmer Producer Organisation (FPOs). Nomination of model farmers to ensure effective knowledge transfer for best practices at the block level.
- **Measurable outcome:** Increased awareness of advanced package of practices, cross-sharing of knowledge through progressive farmers and improved yield across key crops.
- **Rationale:** In India, wheat and paddy occupy ~60 percent[8] of the area under food grains, while ~15 percent[9] of pulses consumed in the country are imported. To ensure self-sufficiency across food categories, there is a need to diversify into other crops, such as pulses, oilseeds, maize and millet. This is possible only when the area under paddy and wheat is available for different crops. Yield improvement can help free more areas without risking food security. Also, the country's population is expected to reach 160 crore in the next decade[10] substantially increasing the household demand for food. With limited land, water and other resources, higher productivity levels will have to be achieved to ensure self-sufficiency and nutritional security for the nation.

Expectation #2: Creation of enabling seed ecosystem

- **Specific measure:** Streamlining the launch, multiplication and distribution of seeds for newer varieties through ICAR and other research institutions to ensure maximum spread and adoption by farmers. This can be achieved by developing the appropriate enabling infrastructure that supports innovation and R&D in seeds by both public and private entities. Such infrastructure includes creating a demand aggregation framework to ensure proper planning and availability of seeds, setting up seed distribution programmes, dedicating extension and outreach initiatives to replace farm-saved seeds, etc.
- **Measurable outcome:** Improved Seed Replacement Rate (SRR) and Varietal Replacement Rate(VRR) enhance the yield of agricultural and horticultural crops.
- **Rationale:** India, despite being a leading producer, lags in productivity across multiple crops. ICAR and other research institutes have developed several new and improved varieties through decades of research. These varieties have multiple beneficial traits, such as stress tolerance, heat resistance, drought resistance and insect/pest resistance, and they can give maximum yields in certain agro-climatic zones. However, most of these varieties have been limited to the research institutions or nearby areas. To ensure higher yields across the country, seeds of such varieties must be brought into mainstream production.

Expectation #3: Fast-tracking adoption of digital agriculture

- **Specific measure:** To safeguard the rights of various stakeholders, it is crucial to speed up the creation and integration of robust agri-databases across the country, develop agri-exchanges for efficient data exchange and consent management and establish the right framework for agri-data management. This will help private players create new solutions for farmers and validate them quickly. Integrate digital agriculture and technology solutions into the vast extension machinery existing in the country to build trust and acceptability among farmers. Educate the staff at Krishi Vigyan Kendras and Agriculture Technology Management Agencies, the Agriculture Officers, Technical Assistants as well as other stakeholders to enable efficient information transfer to farmers for enhancing digital literacy and rapid trust building.
- **Measurable outcome:** Increased adoption of agri-tech services and solutions by farmers to obtain timely and right

[8] https://www.indiabudget.gov.in/economicsurvey/doc/stat/tab116.pdf

[9] https://www.financialexpress.com/policy/economy-import-reliance-for-pulses-oil-seeds-to-stay-through-fy31-study-3319116/

[10] https://iris.who.int/bitstream/handle/10665/41864/0965546608_eng.pdf

information while aiding accurate and informed decision-making. This will enable farmers to reduce costs, increase farm yields, improve produce quality and obtain better price realisation.

- **Rationale:** The government has taken multiple steps, such as the development of farmers, crop and land registries, setting up of the agriculture accelerator fund and Krishi Decision Support System to improve the technology integration in Agriculture. Several private players also offer technology solutions across the agriculture value chain, which help improve farm productivity and produce quality, reduce costs and establish market linkages. However, the implementation on the ground largely depends on farmers' adoption of agri-tech solutions. Though farmers have started using technology, the adoption rate is low and is growing slowly. The integration of digital agriculture and technology solutions into the vast extension machinery existing in the country is crucial to building trust and acceptability among farmers.

Expectation #4: Strengthening of Farmer Producer Organisations (FPOs)

- **Specific measure:** Capacity building and incentives for FPOs to enable produce aggregation, storage and value addition and developing right market linkages with private players or institutional buyers. Facilitating linkages of FPOs with financing institutions to help members access institutional credit. Development and execution of regular training programs and workshops for FPOs at the district/ state level and basic online modules for FPO managers. FPOs can become the most effective instruments for uplifting small and marginal farmers through dedicated efforts and the right checks and regulations.
- **Measurable outcome:** More active and long-functioning FPOs with better operations and higher profits for member farmers.
- **Rationale:** FPOs can play a vital role for small and marginal farmers by providing support at every stage of the crop value chain. While promoting the formation of FPOs is necessary, it is equally important that these FPOs run smoothly to ensure profitability for their farmer members. Hence, it is imperative that the managing members possess basic managerial and financial capabilities.

Policy recommendations

Recommendation #1: Adopting cluster approach for better execution

- **Details:** India is a large country, and implementing country-wide schemes is cumbersome and has a lower impact. Therefore, it is recommended that a cluster approach be followed.
- **Expected impact:** Clusters of selected commodities can help focused diagnostics of the challenges across the crop value chain. It can support dedicated yield improvement initiatives by focused extension services, increased produce quality and value addition through investments in storage, processing and quality infrastructure, and demand-driven market linkages through targeted commercialisation in domestic and international markets. Clusters can help disseminate region-specific advisory, develop the skills of FPOs and build trust in novel technologies through collective responsibility.

Recommendation #2: Revamping the post-harvest infrastructure

- **Details:** Creation and linking of storage, grading and cooling units across the country at high-demand areas such as mandis, ports and airports, as well as promoting micro-cold storages at farmgate and village levels. Existing schemes such as AIF can be used to develop these facilities and build stakeholder capacity in collaboration with private players to ensure efficient operations. Initiatives such as the Agriculture Infrastructure Fund (AIF) and the Mission on Integrated Development of Horticulture (MIDH) are commendable steps towards addressing the country’s post-harvest infrastructure needs. However, the limited uptake of the AIF indicates the need to revisit its provisions and those of similar schemes to enhance their financial viability and encourage greater private-sector participation.
- **Expected impact:** It will help reduce losses, promote grade-based pricing of produce, leading to better prices, reduce transportation costs and eliminate distress selling by farmers.

Retail

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Partner and Consumer, Products and Retail sector Leader

Current environment

Urban demand deceleration and its implications

The urban FMCG sector, a major contributor to India's consumption story, is experiencing a slowdown, particularly in mass-market segments. The last fiscal quarter saw a noticeable decline in sales volume growth in urban areas, with the mass-market segment dropping by over 10 percent in key metropolitan cities.[1] Recent major Fast-Moving Consumer Goods (FMCG) company financial disclosures highlighted that the average consumption among lower-income urban consumers fell by 15 percent due to elevated food inflation,[2] which remains above the RBI's comfort level of 6.4 percent.[3] Conversely, the premium category has shown resilience, with a 12 percent growth year-on-year, driven by higher-income groups.[4] This divergence underscores the need for nuanced budget policies to revitalise urban demand without jeopardising premium segment growth.

Rural market resilience

Rural markets, comprising 35 percent of India's FMCG sales, are rebounding with a 6 percent year-on-year growth in volume sales.[5] The increase in rural consumption is also reflected in a 3 percent rise in tractor sales[6] and a 10 percent uptick in three-wheeler sales, indicating a broader rural economic revival. Factors such as favourable monsoon patterns and increased government spending on rural employment schemes, which reached INR1.80 lakh crore under MGNREGA in 2024–25[7] have contributed to this growth. Continued investments in rural infrastructure, digital penetration and affordable product offerings can amplify these gains. Policymakers must allocate significant budget resources to sustain this momentum.

Challenges posed by quick commerce

The rise of quick commerce platforms at a 25 percent CAGR is altering traditional retail dynamics.[8] Reports indicate that Q-commerce platforms such as Zepto and Blinkit captured 8 percent of the urban grocery market share in 2023, up from 3 percent in 2021.[9] Tier 2 cities now contribute 30 percent of these platforms' overall sales, signalling their broader reach.

[1] https://www.cnbctv18.com/business/fmcg-sector-grows-5-7-rural-grows-twice-as-fast-as-urban-in-july-sept-quarter-nielseniq-19505734.htm
[2] https://www.livemint.com/companies/hul-highlights-demand-slowdown-in-urban-markets-bets-on-rural-relief-11729693938529.html
[3] https://timesofindia.indiatimes.com/business/india-business/rbi-monetary-policy-meeting-live-updates-mpc-meet-governor-shaktikanta-das-repo-rate-reserve-bank-of-india/liveblog/114062096.cms
[4] https://www.crisil.com/content/dam/crisil/our-analysis/reports/corporate/documents/2023/03/rider-in-the-storm.pdf
[5] https://www.indianretailer.com/news/fmcg-sector-india-sees-strong-growth-2023-24
[6] https://www.tractorjunction.com/tractor-news/retail-tractor-sales-report-oct-2024/
[7] https://prsindia.org/files/budget/budget_parliament/2024/DfG_2024-25_Analysis-Rural_Development.pdf
[8] https://indusfood.co.in/article/quick-commerce-in-india-transforming-the-food-delivery-landscape/#:~:text=The%20Q%2Dcommerce%20market%20in,over%2024.3%25%20during%20the%20period
[9] https://nielseniq.com/global/en/insights/analysis/2024/indias-fmcg-market-remains-resilient-and-is-poised-for-growth-in-2024/

However, this expansion has negatively impacted Kirana stores, with the Confederation of All India Traders (CAIT) reporting a 12 percent decline in small retail revenues in urban areas.[10] Initiatives such as Open Network for Digital Commerce (ONDC), supported by the government, are steps towards creating a balanced retail ecosystem. Budget allocations should address small business support mechanisms and foster technological progress in commerce.

Macro-economic considerations for the Budget formulation

India's GDP growth is expected to moderate to 6.3 percent in FY25,[11] per World Bank estimates, reflecting the combined impact of fiscal consolidation and tighter global credit conditions. Core inflation remains at a manageable 4.8 percent, but food inflation poses challenges at 5.1 percent due to global supply chain disruptions.[12] The country's current account deficit is projected at 1.9 percent of GDP, supported by a 13 percent rise in services exports, mainly IT services, which contribute US$325 billion annually.[13] This economic backdrop underscores the need for prudent fiscal policies that prioritise consumption revival, infrastructure development and innovation-driven growth.

Expectations

Expectation #1: Introduce higher income tax exemptions to boost disposable income

- **Specific measure:** Relax the basic income tax exemption limit under the old regime from INR2.5 lakh to INR3.5 lakh and raise the standard deduction under the new tax regime from INR50,000 to INR75,000.[14]
- **Expected outcome:** A 5–7 percent increase in disposable income for middle-income households could lead to a 6 percent rise in consumer spending on FMCG and other essential goods. This is expected to contribute to a 0.7 percent growth in GDP directly.[15]
- **Rationale:** With consumption accounting for over 60 percent of India's GDP, boosting disposable income is critical to reviving demand. The urban middle class, a significant portion of the consumer goods market, has shown a cautious spending pattern due to stagnant income growth and high inflation. Tax relief will alleviate financial pressure and stimulate spending.

Expectation #2: Reduce GST rates on mass-consumption FMCG products

- **Specific measure:** Lower GST rates on mass-consumption FMCG products, such as personal care and packaged foods, from 18 percent to 12 percent.[16]
- **Expected outcome:** A projected 8 percent increase in volume sales of mass-market FMCG products, leading to higher tax collections from increased consumption and a 0.5 percent boost in GDP.[17]
- **Rationale:** Price sensitivity among lower-income groups has led to a decline in mass-segment consumption. By reducing GST, the government can offset this decline, support small-scale FMCG manufacturers and enhance affordability for essential goods, aligning with its inclusive growth agenda.

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[10] https://www.findingoutperformers.com/p/q-commerce-vs-kiranas

[11] https://www.livemint.com/economy/indias-gdp-growth-estimated-to-decelerate-to-6-3-in-2025-says-goldman-sachs-sees-shallow-rbi-rate-cut-from-q1cy25-11732244322981.html

[12] https://www.livemint.com/economy/indias-gdp-growth-estimated-to-decelerate-to-6-3-in-2025-says-goldman-sachs-sees-shallow-rbi-rate-cut-from-q1cy25-11732244322981.html

[13] https://www.livemint.com/economy/indias-gdp-growth-estimated-to-decelerate-to-6-3-in-2025-says-goldman-sachs-sees-shallow-rbi-rate-cut-from-q1cy25-11732244322981.html

[14] https://timesofindia.indiatimes.com/business/india-business/budget-2024-income-tax-expectations-raise-basic-exemption-limit-standard-deduction-and-nps-benefits-for-taxpayers/articleshow/111856310.cms

[15] https://www2.deloitte.com/content/dam/Deloitte/in/Documents/consumer-business/in-cb-spurring-growth-in-fmcg-retail-and-e-commerce-sectors-in-india-noexp.pdf

[16] https://m.economictimes.com/news/economy/finance/gst-rate-cut-tax-on-several-mass-use-products-may-be-reduced/articleshow/113907071.cms

[17] https://www.kanvic.com/insights/8-trends-shaping-fmcg-industry-in-india

Expectation #3: Provide targeted tax incentives for rural market development and innovation

- **Specific measure:**
  - Allocate INR10,000 crore FMCG Rural Growth Fund to strengthen rural distribution networks and offer tax rebates for companies investing in affordable rural product lines.[18]
  - Introduce a 150 percent weighted tax deduction on R&D expenses for FMCG companies innovating in sustainable packaging and health-focused products.[19]
- **Expected outcome:** A 10 percent growth in rural FMCG sales, contributing an additional INR50,000 crore in annual revenue for the industry. Enhanced R&D incentives would promote innovation, creating premium and sustainable product categories with higher profit margins.
- **Rationale:** Rural India accounts for over 35 percent of FMCG consumption[20] and is poised for significant growth if supported by better distribution infrastructure and affordable products. Additionally, providing incentives for R&D aligns with global trends focusing on sustainable and health-oriented goods, positioning India as a leader in innovative FMCG solutions.

Policy recommendations

Recommendation #1: Regulating quick commerce practices for equitable retail growth

- **Details:** Implement regulatory measures to curb predatory pricing and ensure transparency in fund usage by quick commerce platforms. This includes introducing compliance with FDI norms, fair trade practices and supply chain transparency.[21] Regulatory bodies such as the Competition Commission of India (CCI) and the Ministry of Commerce should take measures to ensure adherence to the Competition Act, 2002,[22] and the Foreign Exchange Management Act (FEMA). Develop an ethical code of conduct that protects small retailers, distributors and Kirana stores from market distortions caused by deep discounting and other anti-competitive practices.
- **Expected impact:** Regulating quick commerce practices will create a level playing field, safeguarding the livelihoods of over 30 million Kirana stores and 8 crore small retailers[23] and distributors, which are vital to India's retail ecosystem. The policy will promote sustainable competition, ensuring quick commerce platforms operate ethically and transparently. With improved oversight, consumer trust in e-commerce will strengthen, while protecting traditional retail sectors will contribute to a more equitable economic growth trajectory. Additionally, fostering fair trade practices will reduce market concentration risks and enhance the resilience of the retail economy against external shocks.

Recommendation #2: Expanding the PLI Scheme for the consumer goods industry

- **Details:** Expand the scope of the Production Linked Incentive (PLI) scheme to include high-demand sub-sectors within the consumer goods industry, such as home appliances, personal care products and small consumer electronics. Allocate additional incentives to manufacturers prioritising domestic value addition and labour-intensive operations.[24] The expanded policy should include simplified application processes, measurable performance-linked benchmarks and targeted benefits for MSMEs to enhance participation across all tiers of the manufacturing ecosystem. This expansion should also focus on facilitating backward integration and encouraging investments in export-oriented manufacturing.

[18] https://retail.economictimes.indiatimes.com/news/food-entertainment/personal-care-pet-supplies-liquor/fmcg-biggies-react-to-budget-2024-expect-more-job-opportunities-boost-in-demand-for-fmcg-products/111963632

[19] https://www.volopay.com/in/blog/tax-benefits-for-research-and-development/

[20] https://www.linkedin.com/pulse/indian-fast-moving-consumer-goods-fmcg-sector-tecnovaglobal-3q0qc#:~:text=In%202022%2C%20the%20urban%20segment,a%202.5%25%20rise%20in%20volumes.

[21] https://economictimes.indiatimes.com/industry/services/retail/cait-releases-white-paper-with-allegations-of-unfair-trade-practices-against-quick-commerce-companies/articleshow/115253811.cms?from=mdr

[22] https://news.abplive.com/business/fmcg-distributors-call-for-intervention-point-out-deep-discounting-predatory-pricing-policies-from-quick-commerce-players-1733652

[23] https://www.fortuneindia.com/macro/traders-accuse-quick-commerce-platforms-of-flouting-rules/119125

[24] https://www.pib.gov.in/PressReleasePage.aspx?PRID=1710134

- **Expected impact:** An expanded PLI scheme will bolster India's domestic manufacturing capacity, reducing import dependency and addressing demand-supply gaps for consumer goods. This policy is projected to attract substantial investments in the sector, drive industrial output and support the creation of over 1 million jobs within five years,[25] particularly benefiting the semi-skilled and unskilled workforce. Strengthening backward linkages and fostering innovation will enable MSMEs to scale operations and contribute to the manufacturing value chain.[26] Enhanced export capabilities will also improve India's global competitiveness, positively impacting the trade balance and GDP growth. This initiative aligns with the "Make in India" and "Atmanirbhar Bharat" visions, fostering long-term economic resilience.

Recommendation #3: Enhance rural demand through targeted subsidies and skill development programmes

- **Details:** The rural economy, which contributes significantly to GDP, requires targeted interventions to revive demand sustainably. Instead of focusing solely on income support, the government should enhance rural livelihoods by increasing budget allocations for skill development programmes,[27] such as Pradhan Mantri Kaushal Vikas Yojana, tailored to the specific needs of rural regions. Furthermore, subsidies on agricultural inputs such as fertilisers, seeds and irrigation equipment should be recalibrated to ensure affordability without creating fiscal strain.[28] Introducing interest-free micro-loans for rural entrepreneurs could stimulate small business activity, creating additional employment opportunities.
- **Expected impact:** Diversified rural incomes through skill-based employment can drive non-agricultural consumption in rural areas, reducing agricultural dependency. Enhanced purchasing power will steadily increase demand for consumer durables, FMCG products and healthcare services. The economy can benefit from a broad-based consumption push, adding resilience against global uncertainties.

[25] https://www.investindia.gov.in/production-linked-incentives-schemes-india

[26] https://www.competitiveness.in/wp-content/uploads/2024/04/TID_WP_29_Enhancing_Competitiveness_of_MSMEs_in_India.pdf

[27] https://www.indiabudget.gov.in/doc/eb/sbe87.pdf

[28] https://fbj.springeropen.com/articles/10.1186/s43093-023-00232-1#:~:text=First%2C%20government%20expenditure%20on%20input,most%20in%20need%20of%20assistance

Financial Services

Himanish Chaudhuri
Partner and Financial Services Leader

Current environment

- The Indian economy continued to exhibit resilience during 2023–24 amid geopolitical tensions. The real GDP growth improved to 7.6 percent[1] in 2023–24, coupled with foreign exchange reserves crossing an all-time high of US$700 billion in September 2024. With India striving to become a developed nation by 2047, i.e., Viksit Bharat, the financial services sector will have to be a key enabler to achieve this aspiration.
- India's banking sector is in a strong position, with banks adequately capitalised. Digitalisation has made banking convenient to customers and assisted in financial inclusion, with India accounting for nearly 46 percent of the world's digital transactions.
- Despite volatility in the global financial markets, the Indian capital markets became one of the best-performing emerging markets in 2024. The inclusion of Indian government bonds in the global bond indices[2] has attracted significant capital inflows estimated to range from US$20 billion to US$25 billion. Additionally, India's primary equity markets outperform regional peers in 2024, showing a remarkable increase in IPOs. India today has the 5th largest capital market in the world.
- The government has announced various initiatives to promote India's financial sector and maintain the optimism of global investors. This *inter-alia* includes (i) the financial services vision and strategy document, laying down the guidance for the next 5 years, (ii) the set up of a data repository, the Reserve Bank-Climate Risk Information System (RB-CRIS), to provide regulated entities necessary data to undertake a climate risk assessment and (iii) simplification and revamp of Indian exchange control regulations and income tax laws.
- While the outlook of financial services looks bright, the sector will have to grow 20 times,[3] to support India's vision of Viksit Bharat. To achieve this momentous growth, the sector will continue navigating the ongoing geopolitical tensions, fostering financial inclusion and discipline, embracing new technology and innovations and creating a robust risk management framework.

Expectations

Expectation # 1: Accelerate the growth of IFSC GIFT City

- IFSC GIFT city is the cornerstone of India's vision to become a global financial hub. The existing liberalised regulatory and tax regime has improved the attractiveness of IFSC GIFT City. This has increased the activity level in IFSC GIFT City, which is still largely focused on India inbound. To accelerate IFSC GIFT City's development, promoting India's outbound activities

[1] Reserve Bank of India's Annual Report 2023-24

[2] JP Morgan's Government Bond Index-Emerging Markets (GBI-EM), Bloomberg's EM Local Currency Government index, and the FTSE Emerging Markets Government Bond Index

[3] Report on "Banking for a Viksit Bharat" issued at FIBAC 2024 event by Federation of Indian Chambers of Commerce and Industry (FICCI), Indian Bank's Association (IBA), and Boston Consulting Group (BCG).

and establishing IFSC GIFT City as a global financial services hub is essential. This will help it compete effectively with other leading international finance centres (such as Hong Kong, Singapore, London and Dubai).

- A critical challenge hampering the growth of IFSC GIFT City is the inability to attract and retain skilled talent. This issue can be resolved by extending various fiscal incentives to (i) employees who work in IFSC GIFT City (by way of tax rebates) and (ii) the employers who create more employment opportunities in IFSC GIFT City (by way of additional weighted tax deductions/rebates).
- The following measures may be considered for onshore emerging financial services to IFSC GIFT City:
  a. Non-banking units in IFSC GIFT City who are now permitted to deal in Offshore Derivative Instruments (ODIs), with Indian securities as underlying, should be extended similar income tax benefits that apply to the IFSC GIFT City banking units (and their clients) dealing in ODIs.
  b. To allow finance companies in IFSC GIFT City to undertake Global/Regional Corporate Treasury activities efficiently without creating adverse tax consequences, it is important to exempt such activities from the applicability of deemed dividend provisions.
  c. To promote banking activities in IFSC GIFT city, the LRS remittances undertaken by AD Banks, currently subject to a TCS rate of 20 percent, should either be either exempted or subjected to a lower rate (e.g., 5 percent) if processed through a banking unit in IFSC GIFT City.
  d. It is requested that the sunset clauses be extended by a minimum period of 5 years to allow new players to commence operations in IFSC GIFT City and take benefit of the income tax incentives. This includes (i) investment division of an offshore banking unit (sunset clause expiring on 31 March 2025), (ii) ship leasing and aircraft leasing businesses (sunset clause expiring on 31 March 2025) and (iii) India-based fund managers proposing to manage overseas funds (sunset clause expiring on 31 March 2024). Likewise, the sunset clause (31 March 2025) should be extended by a minimum period of 5 years to allow offshore funds to relocate to IFSC GIFT City tax-efficiently.
- To increase the attractiveness of IFSC GIFT City, consider applying a lower income-tax rate (15 percent) upon completion of the income-tax holiday period.
- To provide tax certainty, consider (i) exempting the applicability of General Anti-Avoidance Rule (GAAR) provisions to arrangements entered by or with IFSC GIFT City units and (ii) having a separate income-tax law and a common income tax office/cell in IFSC GIFT City to apply exclusively to IFSC GIFT City units.

Expectation #2: Incentivising infrastructure investments by Sovereign Wealth Funds (SWFs) and Foreign Pension Funds (FPFs)

- Infrastructure development is among the nine priorities of the government to achieve its vision of Viksit Bharat. To attract long-term, stable and pedigreed foreign capital in infrastructure projects, further rationalising the current income-tax regime is needed [section 10(23FE)]. Accordingly, the following measures may be considered:
  a. As large-value infrastructure investments take time to finalise and implement, the sunset clause (31 March 2025) for implementing new infrastructure investments should be extended by a minimum period of 3 years.
  b. Any payment made to a notified SWF and FPF, which is exempt from tax in their hands, be exempted from the applicability of Indian withholding tax provisions.
  c. To promote nationwide infrastructure development, the income-tax benefits should be extended to infrastructure investments implemented through existing domestic holding companies that are set up and registered before 1 April 2021.
  d. To promote reinvestment in new infrastructure projects and reduce the incidence of double taxation, dividends received by the domestic holding company from its SPVs should be exempted from tax to the extent such dividends are reinvested in qualifying infrastructure projects.
  e. The notified SWFs and FPFs should be exempted from the long-term capital gains arising from an indirect transfer of Indian infrastructure assets held through an overseas holding entity.
  f. The notified SWFs and FPFs should be exempted from long-term capital gains arising from eligible investments implemented in the form of unlisted bonds/debentures, regardless of the deeming fiction to treat such capital gains as short-term.

Expectation #3: Diversification of India's financial services sector

- India's strong macroeconomic fundamentals have created the right platform to promote global diversification of India's Asset Management industry. While the industry continues to grow domestically, it is important to create a conducive environment for Indian mutual funds to penetrate global markets.

  An imperative need has emerged to raise the current overseas investment limit (both industry level limit and individual fund house limit) placed on Indian mutual fund houses to invest overseas. With the current investment limits hitting a ceiling, Indian mutual fund houses have been restricted from accepting further monies for investing overseas. A significant increase in India's forex reserves (reaching an all-time high) and a strong inflow of foreign capital create a compelling case to increase the existing industry level limit of US$7 billion and individual fund house level limits. The aforementioned will also (a) provide Indian investors with increased investment opportunities at the global level and (b) likely attract global mutual fund houses to set up shops in India to target Indian investors, which will consequently promote the growth of the industry and create more jobs in India.

  Additionally, the increased overseas investment limits will catalyse Indian mutual fund houses to launch global funds in India that invest directly in overseas securities rather than the prevailing fund-of-fund structures. This will augment India's mutual fund industry.

  Lastly, the Indian government should work towards introducing the concept of "passporting," in line with overseas standards, that allows Indian mutual funds to freely market their schemes in other countries without facing any regulatory restrictions in the host country. This will create a market for Indian mutual funds globally, allowing them to target foreign investors beyond the overseas Indian diaspora (i.e., NRIs / PIOs / OCIs).

- **Position India as a fund management jurisdiction**

  Led by a strong growth story, India has emerged as a hub for private equity investment by global investors. Despite this, India has not been able to position itself as a global fund management jurisdiction. One of the key challenges dissuading foreign private equity fund managers from freely operating from India is the lack of clarity on the taxability of carried interest (or carry) in the hands of fund managers, i.e., the share of the fund's profit allocated to the fund manager. Most fund management jurisdictions provide clear tax laws on the taxability of carried interest, wherein carried interest is treated as investment income subject to a concessional income tax treatment with no indirect tax levy (such as VAT or GST) on such payments. On the other hand, Indian income tax laws do not contain any specific guidance on the taxation of carried interest, thereby creating uncertainty on the taxability of such income, with a potential adverse outcome of such income being taxed as ordinary income subject to the full tax rate. Moreover, a recent tax ruling has held that carried interest paid to a fund manager is in nature of service fees, thereby falling within the incidence of GST levy. Given the above, to promote India as a fund management jurisdiction, the Indian government must take a leaf from international practices and issue clear and concessional tax law, providing guidance on the taxability of carried interest as follows:

  a. Carried interest be deemed to be taxed under the head "Capital Gains" in the hands of fund managers; and

  b. Carried interest be exempted from the GST levy.

- To realise India's vision to become an international financial services centre, the Indian government must provide an attractive gateway for foreign financial services players to enter India. Foreign players create a competitive landscape by bringing best practices, quality customer services and innovative financial products and services. One challenge that such players face is the incidence of high tax rates and challenging entry norms vis-à-vis other global financial services centres such as Singapore and Hong Kong.

  While IFSC-GIFT City is a step in the right direction, providing a liberalised regulatory and tax framework, similar measures are suggested to liberalise the regulatory and tax framework in mainland India. This will attract financial service players such as foreign broker-dealers, reinsurance companies, prime service providers and global custodians, who have until now refrained from establishing a presence in India.

Policy recommendations

Recommendation #1: To onshore the offshore to IFSC GIFT City, the following policy measures may be considered:

a. Expedite issuance of a regulatory and tax framework for the use of a Variable Capital Company (VCC) structure, in line with international standards, to house funds in IFSC GIFT City.

b. Establish a liberalised regulatory and tax framework to attract internalisation of Indian start ups to IFSC GIFT City.

c. Fast track the set up of an International Arbitration Centre in IFSC GIFT City.

Recommendation #2:

To promote the financial stability of the banking sector, the government may consider (i) accelerating the privatisation of public banks and (ii) introducing common guidelines in effective governance, data protection and addressing cyber security risk.

Recommendation #3:

It is recommended that the Harmonised Master List of Infrastructure Sub-sectors be updated more frequently to provide impetus for investment in new and emerging infrastructure sub sectors.

Insurance

Debashish Banerjee
Partner

Current environment

- The insurance sector has been doing well since December 2023; however, the momentum slowed in May–June 2024. The country is experiencing interesting times with a growing GDP and an expanding middle-class population.
- The growth in new life insurance policies remained range-bound at about 12.1 percent in June 2024. However, the increase in the number of LIC policies sold in June 2024 was marginally higher than private companies.
- The non-life insurance industry remained range-bound. The underwritten gross premium grew 15.5 percent in April–May 2024, with the general insurance and stand-alone private health insurance growing 14.8 percent and 26.5 percent in the first two months of this fiscal year.
- The sector is in a transitional phase, moving from traditional business models to more technology-driven and customer-centric approaches. Insurance companies are adopting new technologies, such as AI, ML and GenAI, to offer better and customised products and services to customers.
- With government initiatives such as “Insurance for All” by 2047, removing reinsurance commissions and co-insurance premiums as taxable services are likely to benefit the industry.

- It is performing well in areas such as digital transformation, microinsurance growth and the adoption of ESG principles.
- It faces challenges such as declining margins in traditional insurance lines, rising claims costs, regulatory pressures and the complexity of underwriting emerging risks such as cyber threats.

Expectations

Expectation #1: Making the regulatory framework suitable for increased participation from different players.

- **Specific measure:** Global insurance firms are keen to enter the Indian market, driven by its vast potential. Markets such as Japan, Australia and New Zealand are more penetrated than India. Can we bridge this gap by relaxing the FDI regulations to attract more foreign capital into the insurance sector, which can be crucial for expanding the industry's capacity to underwrite and invest?
- **Outcome:** Facilitate entry of more players or tie up of Indian companies with foreign firms. Leads to the overall growth of the industry and newer products.
- **Rationale:** The entry of more players or the tie-up of Indian companies with foreign firms will foster innovation in products and competition for the market, which may translate to higher penetration and seamless services to end customers.

Expectation #2: Policies and support for Digitisation, fair collection and usage of data

- **Specific measure**
  - The shift to digital platforms is expected to continue growing in the insurance space. Budgetary allocations may be made to support digital insurance infrastructure, such as reducing the burden of licensing or regulatory approval for insurance companies.
  - In addition, policies on fair collection and usage of lifestyle data from customers can help build data-backed solutions to assist underwriting, risk management and claims operations. A budget outlay for collecting and maintaining such lifestyle data via insurance data centres can help develop lifestyle and disease predictive models to better predict risk.
- **Measurable outcome:** More AI and data-backed products are produced to improve customer services and claims operations. This will bring more expertise, especially in underwriting and risk assessment and setting up early life and health insurance warning systems.
- **Rationale:** Digital-first insurance models are the future to improve customer service and innovate new products. InsurTech companies are focused on innovating new technologies across the insurance lifecycle.

Expectation #3: Facilitate better Public-Private Partnerships (PPPs), especially in the life and health insurance space

- **Specific measure:** Enhance collaboration between private insurers and public health programmes and include budget provisions to increase coverage and affordability.
- **Measurable outcome:** Increasing penetration of life and health insurance in rural areas and boosting the “Insurance for All” scheme.
- **Rationale:** Policyholder protection and financial inclusion remain central to discussions around reforms and funding as governments increasingly seek to ensure that insurance products are accessible, affordable and effective in mitigating risk.

Policy recommendations

Recommendation #1: Set an outlay in the budget to foster PPP and create an advisory board to speed up “Insurance for All” schemes.

- **Details:** Establishing a board comprising industry leaders, academic experts, technologists and policymakers dedicated to boosting insurance penetration would be a key strategy in tackling the challenges of accessibility, affordability and awareness in India’s insurance sector. By fostering collaboration between public and private stakeholders, encouraging innovation and advocating for policy reforms, such a board can help bring insurance benefits to millions of underserved and economically vulnerable citizens across the country.

- **Expected impact:** Accelerate insurance penetration, formulate better policy, advance technological advancements for digital transformation and improve product development and design, all of which will ultimately benefit the customer seeking insurance.

Recommendation #2: Address supply-side issues on priority, including limited talent availability and reinsurance capabilities in 3–5 years.

- **Details:**
  - Push talent supply
    - More institutions should be established to train individuals in both technical and non-technical skills. There is only one institute for training insurance professionals—the National Insurance Institute.
    - Attract more talent globally or use the GCC model to provide necessary talent, especially in the back-office functions.
  - Boost insurance penetration of peril insurance
    - Given recent climate change and increased calamities, peril insurance penetration must improve from its current low levels.
    - Need to boost efforts on increasing insurance awareness and providing simplified products with improved trust.
  - Address the impact of Ayushman Bharat on private insurance
    - It is essential to assess and address the impact of providing free health insurance for senior citizens under Ayushman Bharat, which could lead to a decrease in retail premiums and an increase in group/government premiums
  - Establish another reinsurer
    - Considering the expected growth, increased wealth and data, it may be beneficial to establish another reinsurance company inaddition to GIC.
- **Expected impact:** The move towards more transparent and proactive regulations is critical; developing internal capabilities to manage the scale of expansion is needed in the insurance sector in the next 5–7 years.

Real Estate

Nandita Tripathi
Partner

Expectations and policy recommendations

Direct Tax

Expectation #1: Increase in deduction for home loan repayments

- Currently, the repayment of the principal component of home loans is eligible for tax deduction under Section 80C. In contrast, the repayment of interest component of up to INR 2 lakh qualifies for tax deduction under Section 24(b).
- However, with multiple investment options, small savings instruments, insurance policies, pension plans, etc., crowding Section 80C, many home loan borrowers remain bereft of availing tax deductions on their entire home loan principal repayments. Similarly, the upper cap on Section 24(b) becomes inadequate for many home loan borrowers, especially in the initial years of their home loan tenure.
- Hence, there should be a separate section for home loan repayment with a combined maximum deduction of up to INR 5 lakh for both principal and interest components. This would boost home buyers' sentiments and, thereby, increase demand in the housing industry.

Expectation #2: Restriction on set-off of loss from house property against the income under any other head of income during the same year up to INR 2 lakh

- Until FY2016–17, house property loss was allowed to be set off against income arising under any other heads of income during the same year. Section 71(3A) has been introduced effective from FY2017–18 (Assessment Year - 2018–19) to restrict the set-off of loss from house property against the income under any other head of income during the same year up to INR2 lakh.
- The loss not so set-off (exceeding INR2 lakh) would be allowed to be carried forward for set-off against house property income for the next eight assessment years. The intention behind this amendment appeared to curb interest deduction in respect of second house property owned by an individual or a HUF.
- However, the amendment is applicable to all house properties, including commercial house property. This is detrimental to the real estate industry engaged in the construction and leasing of commercial properties wherein, in the initial years, heavy house property loss is generated due to interest deduction.
- Hence, this restriction of allowability of set-off of house property loss only up to INR2 lakh against other heads of income should either be removed entirely or commercial properties should be excluded from this provision.

Expectation #3: Consequential amendments to be made in Sections 54, 54B, 54D and 54F

- The Finance Act, 2017 amended section 2(42A) to reduce the period of holding from existing 36 months to 24 months in case of immovable property, being land or building or both, to qualify as long-term capital asset. The same is done to promote the real estate sector and make it more attractive for investment.

- Further, even the Finance Act 2024 has reduced the standard period of holding for capital assets from 36 months to 24 months to qualify as long-term capital assets.
- However, the exemption provisions relating to capital gains on immovable property provided under Sections 54, 54B, 54D and 54F still provide a minimum period of holding of 3 years for new assets purchased or constructed.
- Consequential amendments for reducing the holding period of immovable property from 3 to 2 years are required to be made in Sections 54, 54B, 54D and 54F in line with the amendment in Section 2(42A).

Expectation #4: Tax on notional rent on unsold properties held as stock in trade

- Section 23(5) provides to tax the notional rental income in respect of unsold property that is held as stock-in-trade and which is not let out during the whole or part of the year after a prescribed cooling period of 2 years from the end of the financial year in which the completion certificate is obtained from the competent authority.
- While the provision provides for a cooling period of 2 years from the end of the year in which the completion certificate is obtained, there are chances that a genuine developer might not be able to sell off its entire inventory.
- Real estate developers hold the land and buildings as inventory for development and sale to consumers, like any other manufacturer, which holds raw materials, process stock, and finished goods. Real estate developers can't lease out the ready-to-move inventory. Hence, taxing the deemed rental on the properties held for sale is highly unjustifiable.
- Considering the industry needs, the following are our recommendations:
  i) Provision of Section 23(5) may be rationalised in order to provide a higher cooling period of 5 years instead of the existing 2 years period or
  ii) Amend the section to tax the deemed income only when the property is developed as rental income generating assets.

Expectation #5: Include the Real Estate sector within the purview of Section 72A

- Under the existing provisions contained in section 72A of the Act, the benefit of carry forward of losses and unabsorbed depreciation is allowed in cases of amalgamation of a company owning an "industrial undertaking" or a "ship" or a "hotel" with another company, or a "banking company" with a specified bank or "one or more public sector company or companies engaged in the business of operation of aircraft" with one or more public sector company or companies engaged in similar business.
- The term "industrial undertaking" is defined to mean any undertaking which is engaged in the manufacture or processing of goods, manufacturing of computer software, the business of generation or distribution of electricity or any other form of power, the business of providing telecommunication services, whether basic or cellular, including radio paging, domestic satellite service, network of trunking, broadband network and internet services, mining or the construction of ships, aircraft and railway systems.
- Generally, companies that fall within the meaning of an "industrial undertaking" are capital-intensive and have made huge investments at the time of setting up. However, there are various other capital-intensive industries (such as real estate) which are not covered under this provision as they do not fall within the meaning of an "industrial undertaking".
- It is recommended that the scope of section 72A of the Act be widened to include other capital-intensive sectors such as real estate and infrastructure.

Expectation #6: Taxation regime in case of JDA entered by assessees other than an individual or HUF

- The Finance Act, 2017 inserted sub-section (5A) in Section 45 to provide that capital gains arising in the case of Joint Development Agreements (JDAs) shall be chargeable to tax in the year in which the competent authority issues a completion certificate.
- This provision is applicable only in cases where the owner of immovable property is an Individual or HUF. The law does not provide taxability if any other assessee has entered JDAs.
- A large number of developers work in a body corporate framework which currently does not have any express provision to deal with the taxability of JDAs.
- Thus, it is recommended that the government should bring specific provisions regarding the taxability of JDAs entered by assessees other than an Individual or HUF.

Expectation #7: Increasing the safe harbour limit in Sections 43CA, 50C and 56

- Currently, a safe harbour limit of 20 percent variation is allowed between the Stamp Duty Value (SDV) and the sales consideration for an immovable property without triggering any adverse consequences under the provisions of Sections 43CA, 50C and 56 of the Income Tax Act (as applicable).
- In certain states, there is generally a significant/considerable difference between the SDV rate and the actual sale consideration. Also, the delta of 20 percent of consideration is highly inadequate as SDV is determined per area and not per property. The circle rates may vary due to several reasons.
- While the government has time and again increased the limits, it is recommended that the delta of 20 percent be increased to at least 25 percent. Further, since this amendment is a rationalisation measure, it may be made applicable retrospectively from the date the provisions were inserted.

Expectation #8: Enhancement of limit for deduction under section 54EC

- Section 54EC provides for exemption on capital gains from the transfer of property (land or building or both) provided the capital gains is invested in specified bonds issued by National Highway Authority of India (NHAI) or Rural Electrification Corporation Limited (RECL).
- The exemption is subject to a limit of INR50 lakh. This limit of INR50 lakh was fixed with effect from 01 April 2007. With the general increase in inflation and interest rates, the present limit of INR50 lakh appears very insignificant compared with the increase in land prices and other incidental expenses in connection with real estate.
- Hence, it is recommended to increase the limit under section 54EC to INR 1 crore.

Expectation #9: Reintroduction of a 100 percent tax holiday for an affordable housing project

- Section 80-IBA of the Act provided 100 percent tax exemption to the developers of affordable housing projects. The benefit was available for projects approved before 31 March 2022 (sunset date).
- To address the growing housing shortage, especially for low-income and middle-income groups, reintroducing the 100 percent tax exemption under Section 80-IBA for affordable housing projects will incentivise developers to increase their focus on affordable housing. This will help achieve the government's Housing for All goal and alleviate pressure on urban housing markets.
- Extend the exemption for affordable housing projects with updated criteria, such as project completion timelines, sales price caps and increased floor area ratio (FAR) limits.

Expectation #10: Introduction of the tax consolidation regime

- In India, multiple subsidiary structures are prevalent to house businesses in separate entities under the parent company. Such structures are particularly common in the real estate sector, where each project is housed under a separate SPV.
- While such structures provide commercial ease, they result in various challenges from a tax perspective for both the taxpayer and tax department, such as:

  For the taxpayer:

  i) Practical challenges: Tax leakages, cash traps, refund of taxes withheld on interest and dividend payments, double taxation of income and inability to use tax attributes—impact on group ETR

  ii) Compliance challenges: Filing separate income tax returns, undertaking tax audits, withholding tax compliances and furnishing other tax related forms/applications/declarations for each of the group entities

  For the tax department: Administration costs to monitor and assess each entity for potential litigations or inconsistencies in filings, deposit of taxes, etc.

- In view of the same, a "Group Tax Consolidation Regime" can be introduced wherein group companies (comprising wholly owned subsidiaries or entities wherein majority or substantial stake or interest is held, including trusts and collaborations) are deemed to be one single entity for tax purposes. The regime could (among other things) enable the following:

  i) Consolidation of group tax filing: A group of wholly owned or majority-owned companies should be treated as a single entity for taxation purposes, and intra-group transactions should be ignored for return filing.

ii) Group taxation: Offsetting losses incurred by one or more group companies should be allowed against the profits of other companies in the group.

- The said arrangement in the form of a corporate tax regime for the group will prove beneficial for the taxpayer and department alike and will significantly reduce tax compliance and administration costs.
- Based on the principle of common control, tax provisions in major OECD countries disregard the tax implications of intra-group transactions. This also eliminates additional compliance burdens and costs.

Expectation #11: Introduction of dividend deployment deduction/exemption

- In a group structure comprising multiple layers, funds are typically repatriated by way of distribution of dividends.
- Currently, if dividend received by a company from its subsidiary is redistributed by it to its parent, a dividend distribution deduction under section 80M of the Act may be available to the company subject to fulfilment of certain conditions. This helps avoid double taxation of income and improves overall returns for the group.
- However, if a company (being the recipient of dividend income) redeploys the dividend in business expansion or other business activities, no deduction/exemption will be available to the recipient company, and the dividend so received will suffer tax in its hands.
- The introduction of an exemption/deduction in this context would promote the redeployment of funds in the country until a tax consolidation regime is introduced in the Income Tax Law.

Specific REITs related recommendations

Recommendation #1: Extension of benefit/safeguards available on migration to REITs structure

- Per the typical practice followed for "setting up of" or "migration" to a REITs structure, sponsor transfers their real estate assets/shares/ securities to the Trust in exchange for units.
- Currently, on this migration, the exchange of shares of SPVs (holding qualified real estate assets) in lieu of issuance of units of REIT is exempt from tax under Section 47(xvii)/Section 115JB of the Act at the time of migration and is deferred to at the time of sale of units of REIT.
- However, no exemption is provided from the other possible tax exposure on migration to the REIT structure. The sponsor may hold interest in real estate assets other than in the form of shareholding (such as direct ownership of residential property or rights or interest in immovable property or any security other than shares in SPVs). In the absence of a specific exemption, the transfer of these assets may suffer tax incidence in the hands of the sponsor at applicable rates.
- In addition to the above, in case SPVs have substantial business losses, the same may also lapse on account of a change in shareholding due to the transfer of shares of SPVs to the REIT in exchange for units per Section 79 of the Act.
- It is recommended that the purview of exemption on migration to REITs structure be extended to cover:

  i) All forms of contribution made on migration to the REITs structure rather than limiting it to the shares of SPVs.

  ii) Specific carve-out from the rigour of the provisions of Section 79 of the Act on migration to the REITs structure.

Recommendation #2: Re-classification of the distribution received by unitholders of REIT taxable as "Income from Other Sources (IFOS)" under Section 56(2)(xii) of the Act

- Vide Finance Act 2023, any sum received by a unit holder from a REIT [except in the nature of 10(23FC) and 10(23FCA)] income is not chargeable to tax under Section 115UA(2)] and shall be considered as "income from other sources" under section 56(2)(xii) of the Act. Where the sum received by the unitholders from REIT is towards redemption of units held, the sum received shall be reduced by the cost of acquisition of the units to the extent such cost does not exceed the sum received and excess, if any, would be taxed as IFOS.
- On the other hand, any sum received from sale of units of REIT is governed by the provisions of Section 45 and therefore, any gains derived from sale of REIT units, is taxed as capital gains in the hands of unitholder.

- The current provisions to tax the said gains under income from other sources under section 56(2)(xii) are not in line with the existing provisions of Section 45, where the gain on transfer of units is treated as capital gains. This results in differential tax treatment for the redemption and sale of units, though the underlying nature of the income is the same.
- For parity in taxability of similar incomes and to resolve the hardship, it is recommended that the current provision of taxing gains on redemption of units as "Income from other sources" under section 56(2)(xii) should be amended, and such income should be charged to tax under the head "Capital gains".

Recommendation #3: Clarification on availability of dividend exemption to unitholders of a REIT having Hold Co, which in turn holds SPVs

- Distribution of income as dividend by a REIT to unit holders continues to be taxable in the hands of the unitholder if the SPV had opted for the lower tax regime under Section 115BAA. In another scenario, where the SPV has not opted for such a lower tax regime, the income is exempt in the hands of unitholders.
- However, in a situation where SPV (under the old tax regime) is being held by a Hold Co (under the new lower tax regime) below REIT, it is unclear whether the dividend distributed by such old tax regime SPV via the Hold Co (under new lower tax regime) will qualify for the aforesaid exemption or not.
- The intent of the law is to provide an exemption to any dividend which has already suffered a higher corporate rate tax in the hands of SPV. Therefore, it is recommended that the benefit of dividend income exemption from dividend income in the hands of unitholders should be extended to the above scenario as well, wherein the Hold Co is just passing on the dividend received from SPV, which is under an old regime, regardless of the tax regime adopted by Hold Co.
- Further, in the case where Hold Co does not opt for the lower tax regime, then while the dividend received from the SPV may not be subject to tax under normal tax provisions on account of benefits provided under section 80M of the Act (subject to satisfaction of conditions). However, the dividend income in the hands of Hold Co shall still be tested for tax incidence under MAT provisions.
- Provision similar to Section 80M can be introduced for the MAT regime as well.

Recommendation #4: Relief from double taxation of dividend income

- Distribution of income as dividend by a REIT to investors/unit holders continues to be chargeable to tax in the hands of the unitholder if the SPV had opted for the lower tax regime under Section 115BAA. This leads to double taxation, where both the SPV and the unitholders suffer tax incidence at their respective ends.
- There is a need to remedy this issue as it acts as a disincentive for investing in REIT structures. Therefore, it is recommended that exemption in the hand of unitholders should be extended to dividend distribution received from SPVs which have opted for lower tax regime as well.

Indirect tax

Expectation #1: Increase in carpet area and monetary limit of affordable housing

- Currently, two conditions have been prescribed for the lower GST rate of 1 percent to apply to affordable housing units
  - i) sale value up to INR45 lakh; and
  - ii) carpet area of up to 90 sqm (in non-metropolitan cities/towns) or 60 sqm (in metropolitan cities)
- Considering the increase in prices of the inputs and the rising inflation, the government must review the monetary limit of INR45 lakh in the upcoming Budget.
- In order to achieve the objective of the "Housing for All" scheme, it is imperative that the monetary limit of INR45 lakh be increased. Further, a proper mechanism should be implemented to regularly review such thresholds.

Expectation #2: Reduction in GST rates applicable on inward supplies used for construction

- Currently, the inward supplies used in construction are taxable at a higher rate (works contract services: 18 percent, cement: 28 percent, RCC: 18 percent, Steel: 18 percent, etc.) without any input tax credit to the developer.
- Reducing the GST rates on inward supplies would help reduce the cost of apartments for homebuyers and, thus, provide impetus to the real estate sector.

Expectation #3: Exemption on leasehold rights

- Currently, exemption has been provided to long term lease of industrial plots by State Government Industrial Development Corporations or Undertakings, for industrial or financial activity subject to satisfaction of certain other conditions.
- It must be noted that a long-term lease is akin to the sale of land and has become an alternative to the sale of land. Accordingly, the government must provide a blanket exemption to the long-term lease of land irrespective of the class of service provider, purpose of the lease, etc.

Expectation #4: Input tax credit must be allowed in relation to construction of projects for commercial leasing

- Input tax credit on construction of projects developed for commercial leasing has been a contentious issue, travelling up to the Apex Court, which held that input tax credit must be allowed if the same qualifies as plant or machinery for the developer.
- Considering the decision of the Apex Court, the government must issue a clarification regarding such buildings as plant or machinery for developers.

Expectation #5: Exemption on development rights for construction of commercial properties for leasing

- At present, development rights granted for the construction of commercial properties intended for leasing are subject to GST, and the departmental authorities at the ground level are disputing the availment of ITC when the same is used for commercial leasing on which applicable GST is discharged.
- This results in a dual tax burden for developers, taxability on development rights and ITC disallowance.
- To alleviate this financial strain, the government should introduce an exemption on the transfer of development rights used for constructing commercial properties intended for leasing purposes.

Technology, Media, and Telecommunications

Peeyush Vaish
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Madhava Yathigiri
Partner

Expectations and policy recommendations

Expectation #1: Tax concessions for data centres

- Many multinational companies are setting up data centres in India, which are crucial in enabling digital services. These data centres provide data processing and storage capabilities, which have become increasingly important with the rise of mobile internet and cloud computing applications.
- Considering the critical role played by data centres in enabling digital services and also in supporting the "Digital India" vision of the Government, certain tax breaks for this industry may be considered—for instance, a tax holiday for a certain number of years or a concessional tax rate of 15 percent (akin to the concession provided under Section 115BAB to the manufacturing sector until 2024).
- Similar incentives provided to the software sector in the past significantly boosted investments and created large-scale employment opportunities. Tax concessions for the data centre industry will open the gates for foreign investments, boost employment in India and pave a new growth trajectory. In addition, the increase in the number of data centres in India would also indirectly support the efforts of the government to host Indian data within data centres located in India.

Expectation #2: Increase in scope of the benefit of carry forward of losses on amalgamation:

- The benefit of carry forward of losses and unabsorbed depreciation is available in the case of amalgamation of companies due to an "industrial undertaking."
- The term "industrial undertaking" is defined to mean any undertaking engaged (a) in the manufacturing or processing of goods, (b) in the manufacturing of computer software, (c) the business of generation or distribution of electricity or any other form of energy, (d) the business of providing telecommunication services, whether basic or cellular, including radio paging, domestic satellite service, a network of trunking, broadband network and internet services (e) mining, (f) the construction of ships, aircraft and railway systems.
- The benefit under Section 72A to carry forward loss and depreciation on amalgamation should be extended to include other sectors to encourage synergistic consolidations.
- Consolidating entities within an industry helps in rapid growth and generation of substantial employment opportunities. This will help make India a competitive country for foreign investment.

Expectation #3: Clarification regarding the taxation of income of non-resident telecom operators:

- Indian companies pay overseas operators for interconnectivity and bandwidth charges. Indian tax authorities have historically categorised these as royalties, thereby considering them to be taxable under Indian tax laws.
- Certain appellate authorities (including the Karnataka High Court in the case of Vodafone Idea Limited) have upheld the view of taxpayers that these do not constitute royalties as no right to use equipment is provided by non-resident telecom operators.

- However, tax authorities continued to litigate on this issue. Given the tendency of tax authorities to litigate despite judicial precedence, clarity on this issue (whether or not these payments are royalties) will reduce protracted litigation.
- This clarity will benefit the non-resident telecom operators by reducing their tax litigation in India and promoting tax certainty on a crucial industry issue.

Expectation #4: Clarity on taxation of software revenues of non-resident software sellers:

- Taxability of software revenues of non-resident sellers has been subject to litigation. Tax authorities have held that such revenue is royalty and thereby taxable in India. However, non-resident software sellers have asserted that software revenues are business income as they merely provide a limited user right without access to the source code. Hence, such revenue should not taxable in India in the absence of a Permanent Establishment (PE).
- The Supreme Court in the case of Engineering Analysis Centre of Excellence (P) Ltd. In 2021[1] ruled in favour of the software sellers. However, tax authorities continue to dispute the taxability of software revenues by differentiating facts from the ruling (especially in cases of software as a service revenue), illustratively in the cases of Amazon Web Services Inc.[2] and GoTo Technologies.[3]
- Further, the tax authorities also sought to review the Supreme Court's ruling in certain dismissed cases.
- Accordingly, the government must consider clarifying this issue to end continued litigation on the taxability of non-resident software sellers. The clarification should emphasize the need for tax authorities to determine the taxability of the software revenues based on the rights parted with, irrespective of the business model. The industry may greatly benefit from the certainty this clarification may provide.
- Separately, there is a broader definition of royalty under the domestic tax laws vis-à-vis the tax treaties (where the domestic tax law covers all license fees as royalties and treaties seek to tax software revenues as royalties only on transfer of copyright). Tax authorities have sought to tax software revenues by classifying them as royalty due to the broad definition (without considering the correct intent of the treaty provisions). Aligning these two definitions (per the tax treaties) can reduce litigation on this count.

Indirect tax

Expectations

Expectation #1: Exemption on GST TCS obligations on e-commerce operators on facilitation of zero-rated supplies (exports)

- E-commerce has transformed the way business is done in India. The e-commerce industry has directly affected MSMEs in India and has had a favourable cascading effect on other industries.
- Presently, per section 52 of the CGST Act, an e-commerce operator is required to collect GST TCS @ 1 percent of the net value of taxable supplies made through it by other suppliers where the consideration with respect to such supplies is to be collected by the operator. Taxable supplies exclude exempt, NIL rated supplies but include zero-rated supplies. Given this, essentially, even when there is no GST liability payable on zero-rated supplies under a LUT, the e-commerce operators are required to collect GST TCS without any separate GST collection by the suppliers. The supplier is required to subsequently claim a cash refund of such GST TCS collected by the e-commerce operator. This results in cash flow issues for exporters and increasing compliances for both the e-commerce operators and suppliers engaged in exports.
- The government should come forward with suitable amendments to exempt GST TCS obligations on e-commerce operators on facilitation of zero-rated supplies to help with the cash flow issues for exporters as well as facilitate ease of compliance.

[1] (2021) 125 taxmann.com 42 (Supreme Court)

[2] (2023) ITA Nos. 522 & 523 (Delhi Tribunal)

[3] (2022) ITA No. 1514 (Delhi Tribunal)

Expectation #2: Enhancing GST exemptions to strengthen the satellite launch sector

- The Indian space sector has emerged as a beacon of technological advancements and innovation. To provide impetus to the satellite launch sector, the CBIC, in July 2023, extended the GST exemption on satellite launch services provided by any person, including private organisations. The exemption was earlier available only to specified service providers, i.e., the Indian Space Research Organisation (ISRO), Antrix Corporation and New Space India Limited (NSIL). The exemption was intended to encourage start-ups and create a level playing field by helping private organisations offer competitive rates and financially relieve players.
- While the industry welcomed this exemption on output service, extending it to the satellite manufacturing sector for other critical components, such as satellites, ground systems and launch vehicles on the input side, would benefit the value chain. The exemption reduces GST on output activity but leaves input tax credit costs on goods and services procured for satellite launch services unaddressed, increasing the overall non-recoverable costs.

  The government should consider granting similar exemptions for procuring essential goods and services, including capital goods, used for satellite launch services. This would help lower GST input tax credit costs and ensure the intended benefits are realised throughout the supply chain.

Expectation #3: Legislative clarity on the taxability of permanent transfer of Intellectual Property Rights (IPR)/Intangibles

- Under GST law, permanent transfer of IPR/Intangibles is categorised as a supply of goods but lacks clarity for cross-border transactions involving such transfers.
- The permanent transfer of IPR/Intangibles from India to a person outside India may qualify as an export of goods. However, Section 2(5) of the IGST Act defines “export of goods” as requiring the physical movement of goods out of India. For IPR/Intangibles, physical movement is often not feasible, leading to disputes over the export benefit despite the transaction qualifying as an export of goods.
- Similarly, a permanent transfer of IPR/Intangibles from a foreign entity to a person in India qualifies as an import of goods. Section 5(1) of the IGST Act links the levy of IGST on imports to the Customs Tariff Act, which applies only to the physical clearance of goods. Though qualifying as goods, digital transfers of IPR/Intangibles are not subject to Customs duty, leading to GST demands under the reverse charge mechanism.
- The government should consider introducing enabling provisions to address this issue. One option could be notifying the “permanent transfer of IPRs/Intangibles” as notified goods for GST levy in the hands of the recipient in India under the reverse charge mechanism for cross-border supplies.
- For exports, the requirement for physical movement outside India should be substituted with proof of title transfer through an agreement to ensure compliance.

Expectation #4: Aligning classification and eligibility for concession under Notification No. 57/2017 dated 30 June 2017 for telecom products and equipment

- Notification No. 57/2017 grants concession to various telecom products and equipment. In some cases, the benefit of concessional duty is granted based on technology-related descriptions. To ensure that various stakeholders better understand such technology-related descriptions, the Central Board of Indirect Taxes (CBIC), in consultation with the Department of Telecommunication (DoT), issued a circular in 2023 specifying the identification of the products/equipment.
- However, the industry still faces interpretation issues related to coverage and eligibility. There is a need to suitably amend or issue clarifications to address the issues. For example:
  - Per the notification, Voice over Internet Protocol (VOIP) phones falling under HSN 8517 62 90/8517 69 90 are excluded from the purview of concessional duty benefit. However, there are judicial precedents where VOIP phones have been classified under different tariff entries, i.e., 8517 18. This has been causing undue hardship to the industry. Hence, the reference to VOIP should be removed from the specified entry in the said notification.
  - Carrier Ethernet (CE) switches are ineligible for the benefit of concessional duty. Typically, the difference between carrier and non-carrier Ethernet switches is determined based on the features and usage. Several times, Customs field formation also treats a non-CE switch as a CE switch, thereby making it ineligible for concessional duty benefit.

To address the said issue, CBIC should consider a certificate issued by a renowned agency/committee (such as the Telecommunication Engineering Committee) as a document based on which benefit under the notification can be granted to non-CE switches.

- Per the notification, multiple Input/Multiple Output (MIMO)/Long Term Evolution (LTE) products are ineligible for the benefit of concessional duty. MIMO/LTE-based technology is typically used in IT equipment, telecom, etc. The list provided in the circular is illustrative and inclusive in nature. As the list of MIMO/LTE products is not exhaustive, this may also lead to disputes on concessional benefits. Hence, CBIC should issue an exhaustive list so that there is no scope for dispute of an interpretational nature.

Transfer pricing

Expectation #1: Streamline the Advance Pricing Agreement (APA) and Mutual Agreement Procedure (MAP) regulations:

- With a view to resolving backlog and managing the load of new applications expected to be filed, the government should increase the bandwidth of the APA workforce.
- Most APA applications, which culminated into agreements, pertain to the service sector. A majority of these, in turn, are captive companies involved in software development and Business Process Outsourcing (BPO). Some of these companies are also involved in engineering design services, research and development services and Knowledge Process Outsourcing (KPO). In this context, the following recommendations can be considered:
  - For future applications, the government should release a standard readiness questionnaire on which APAs can speedily conclude with CBDT.
  - For applications already filed and currently pending with APA authorities, a list of standard data points should be released based on which pending APAs may be concluded speedily.
- Prescribe fixed timelines for closing APAs for transactions where a significant number of APAs have already been concluded (such as the provision of ITeS and software development services).
- Currently, an Indian company’s PE located outside India is subject to TP provisions in the country where the PE is located. In any dispute with the foreign country’s tax authority, such PE may have recourse MAP restoration as provided in the treaties between India and the other country. To provide forward-looking tax certainty for such PEs, the scope of the APA provisions should be widened to include recourse to bilateral APAs between India and the other countries where the PE is located.
- Enable Single-owner Limited Liability Companies (incorporated under the US laws) to claim the treaty benefits for APA/MAP applications.

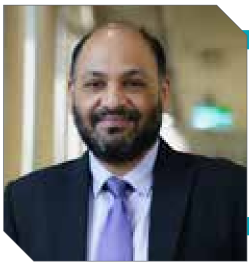
Expectation #2: Provide taxpayers with an adequate timeframe for responding to show-cause notices by prescribing a due date for the issue of show-cause notices during assessment proceedings

- In many instances, field officers issue show cause notices very close to the due date for completion of assessments. In such cases, taxpayers have a very short timeframe to respond to the show-cause notice. A due date should be provided in the Income-tax Act, by which field officers would be required to issue such show cause notices so that there is adequate time for the proper conclusion of proceedings.

Expectation #3: Streamline Master File requirements required to be filed under Rule 10DA with The Organisation for Economic Co-operation and Development (‘OECD’) standards

- With the introduction of BEPS Action Plan 13, countries worldwide adopted the three-tier documentation as a norm. Countries across the world have implemented Master File requirements and kept them in line with the recommendations made by the OECD. India, too, has predominantly adopted Master File in line with OECD’s recommendations, albeit with certain modifications/additional data points. The requirements of the Master File under Rule 10DA should be aligned with OECD standards, which would provide significant ease for MNEs in maintaining one consistent global Master File. Further, to ease the compliance burden, the requirement to file it in Form 3CEAA should be done away with, as filling out the Form is quite complex. Alternatively, taxpayers should be allowed to upload the documents in Word/Excel to show compliance with Master File regulations.

Education and skilling



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Current environment

The regulatory landscape for the education sector continues to evolve. Through regulatory changes, regulators are facilitating opportunities for stakeholders by taking measures to internationalise the education ecosystem, bring transparency and industry relevance and improve access to education for India's youth.

Some areas where regulatory stakeholder consultations have resulted in promulgation of regulations are:

- UGC Guidelines to facilitate the setting up foreign university campuses anywhere in India, which will further add to the impetus of internationalisation.
- An Institutional Development Plan (IDP) for higher education institutions, which provides a strategic roadmap for their functional and structural growth.
- Mandatory disclosures on institutions' websites provide much-needed transparency and allow students and parents to make well-informed decisions about admissions.
- Introduction of PM Vidyalaxmi scheme to provide financial support to meritorious students, thereby improving access to education and targeting to increase the Gross Enrolment Ratio (GER).

While NEP 2020 provides a broad framework and policy direction, its implementation on the ground and promptly is critical to the success of the sector. The National Research Foundation (NRF) operationalisation is one such initiative that would help enhance the research capabilities and the infrastructure required for undertaking research in the country. This is one of the most significant contributors to developing the nation's innovation landscape.

Expectations and policy recommendations

Expectation #1: Enable foreign investments and foreign currency loans

While 100 percent Foreign Direct Investment (FDI) is permitted in the sector under the automatic route, FDI is restricted for entities categorised as "trust" or "society" due to sectoral requirements. Similarly, raising foreign currency loans (at cheaper rates) is not enabled due to the "trust" or "society" nature of the borrowing entity.

- **Rationale**
  Educational institutions need to upgrade their infrastructure and adopt new and better technology solutions for programme delivery to improve student learning and engagement and remain relevant. Additionally, they need to continuously reskill their faculty and hire new instructors with skills relevant to the current educational landscape. These initiatives require Institutions to raise funds. Domestic banks do not consider lending to institutions favourably due to a lack of transparency in their entity structure of trust/society and related governance.
- **Measurable outcome**
  An amendment to the exchange control regulations should be made to allow foreign investments and the availing of foreign currency loans in trusts and societies running educational institutions. Union Budget 2021 recommended that

FDI and External Commercial Borrowing (ECB) for the educational sector will be enabled, but action is yet to be taken on the same.

Expectation #2: Expediting clearances for receipt of donations and grants from foreign sources

- **Rationale**
  The receipt of grants and donations from foreign sources is an important source of income for educational institutions, including those conducting joint research programmes with overseas institutions. However, such receipt requires prior permission or registration with the Ministry of Home Affairs, which is extremely time-consuming.

- **Measurable outcome**
  Timelines for obtaining clearances from the Ministry of Home Affairs must be clearly outlined, and the process should be streamlined.

Expectation #3: Introduce flexibility of receiving student fees in Indian Rupees by Foreign Education Institutions set up in GIFT City

- **Rationale**
  The IFSCA (Setting up and Operation of International Branch Campuses and Offshore Education Centres) Regulations, 2022 require the educational institution to undertake all transactions in foreign currency only, except for defraying administrative expenses.

  Students would also need to pay fees in foreign currency, and the conversion charges would add to the financial burden on students and parents.

- **Measurable outcome**
  Students should be exempt from paying their fees (academic, hostel and other similar payments) in INR.

  A similar exemption had been issued by RBI allowing units in IFSCA to conduct business in INR vide FEMA Notification No. 397/RB-2020, under the Foreign Exchange Management (International Financial Services Centre) (Amendment) Regulations, 2020.

  This would ease the financial burden on the students/parents on account of foreign exchange conversion charges.

Other policy recommendations and expected impact/outcome

Recommendation #1:

A fast-track process for the application and grant of patents for educational institutions should be introduced. Grant of patents is a sign of innovation. With reduced timelines for the application process and its grant, it will lead to higher research and development in the country.

Recommendation #2:

Minimum area requirements for the set up of higher educational institutions should be done away with, and a lease-based model (as opposed to ownership of land) should be introduced. This could help reduce the capital requirements for new institutions, considering the constraints posed by the lack of funds in the higher education ecosystem coupled with prioritising the fund's allocation towards improving infrastructure, hiring quality faculty, enhancing the student experience and launching new-age industry-relevant programmes.

Recommendation #3:

Removal of the validity period of the certificate of registration by GIFT City to Foreign Education Institutions. Educational institutions are set up on a strategic and long-term basis. The process for renewal every 5 years causes administrative inconvenience.

Direct tax

Current environment

On the direct tax front, the education/not-for-profit space has seen increased vigilance with restrictive provisions introduced under various Acts, such as the Income Tax Act, 1961 (IT Act). For example, provisions introduced for specified violations and enabling provisions to tax income do not comply with prescribed exemption provisions.

This has led to an increased compliance burden on taxpayers. The additional compliance requirements enable simpler and more comprehensive processes while ensuring adequate monitoring/oversight.

Expectations and policy recommendations

Expectation #1: ExpClarification in relation to the meaning of the term “education” for purposes of Sections 11 and 10(23C)

- **Rationale**

  In October 2022, the Hon’ble Supreme Court (SC), in the case of **New Noble Education Society [TS-809-SC-2022],** interpreted the term “education” in a restrictive manner by ruling that the IT Act provides for “imparting formal, scholastic learning” as a meaning to the word “education” under the definition of “Charitable Purpose” under Section 2(15).

  In the progressive world, educational institutions are expected to educate, teach and train people in various skills to help them compete with similar experts worldwide and increase their employability. This move will ensure the availability of a skilled workforce for futuristic technologies, high-end manufacturing and research and help build the nation’s capacity.

- **Measurable outcome**

  In light of the current dynamic environment and changes in social and economic conditions, the scope of the word “education” should be broadened to include systematic dissemination of knowledge (through regular classes, attendance requirements and enforcement of discipline) and training in specialised subjects.

Expectation #2: Clarification in relation to the merger of charitable trusts/institutions vide Section 12AC

- **Rationale**

  Budget 2024 introduced Section 12AC pertaining to the merger of trusts/institutions having the same/similar objects and fulfilling other prescribed conditions. The said section exempts the application of prescribed provisions on tax on accreted income of trusts (i.e., Chapter XII-EB) in case the merger satisfies prescribed conditions. However, certain aspects are pending to be clarified/prescribed rules pending to be issued.

- **Measurable outcome**

  Clarifications in relation to the following aspects to be introduced:

  - Meaning of “same/similar objects” to be clarified to interpret in a broader sense;
  - Clarification that merger of trusts/institutions registered under two regimes [i.e., one trust registered u/s 10(23C) and one registered u/s 12AB] shall be possible;
  - In case the two trusts qualify as “related parties” in terms of Section 13(3), implications on consideration, if any, on merger; valuation of assets/liabilities, etc;
  - Clarification on interplay with Section 115TD of the IT Act;
  - Impact on 5-year limits in case of accumulation of income/application from the loan, borrowings/application from corpus, etc;
  - Clarification in relation to subsuming any pending litigation/assessments of the two entities, etc.

Expectation #3: Amendments in Section 13(3)

- **Rationale**

  Provisions of Section 13(1)(c) r.w. Sections 13(2) and 13(3) seek to tax any income of the charitable trust/institution that is applied for the benefit of “specified persons”. Essentially, any transactions not undertaken on an arms’ length/reasonable basis, such as excessive consideration paid to or inadequate consideration received from a “specified person,” is considered a benefit to such specified person.

  Section 13(3) includes within its ambit the author/founder/trustee/substantial contributor/any relative or concern of the said persons as “specified persons”.

Amendment in relation to the substantial contribution

- A person who has contributed an amount exceeding INR50,000 qualifies as a "specified person" in terms of Section 13(3). It is pertinent to note that the limit of INR50,000 was last amended by the Finance Act 1994 (whereby the erstwhile limit of INR25,000 was revised). Considering the current economic growth and rupee value, the limit of INR50,000 is commonly met even in the case of one-off donations. Given that the limit has remained unchanged for the past ~ 20 years, it is advisable to revise it to align with the current economic scenario.
- Apart from the above, the clause is silent on whether the monetary limit (currently INR50,000) is to be tested once or yearly.

Amendment in relation to substantial interest in a concern

- Any concern in which the prescribed persons have a "substantial interest" shall also be considered as a "specified person" of the Trust in terms of Section 13(3) of the IT Act.
- "Substantial interest" is defined as beneficial ownership of shares, carrying voting power of 26 percent or more in the case of a company, and entitlement to 26 percent or more of profits in case of any other concern.
- The definition of "specified persons" is very widely worded and already includes relatives of the prescribed persons. Further, Trusts face a practical challenge in tracing such concerns/obtaining the required information from each of the prescribed persons. Accordingly, it shall be considered to increase the limit of 26 percent to cover only those concerns whereby prescribed persons have a majority/controlling stake.

- **Measurable outcome**

  Amendment in relation to substantial contribution: Considering the current economic scenario, the current limit of INR50,000 should be increased to a higher amount, say INR10 lakh. Further, it should be clarified that the monetary limit is to be tested on a yearly basis (as against a one-time basis).

  Amendment in relation to substantial interest in a concern: Considering the widely worded definition of "substantial interest" and the practical challenge in tracing such concerns, the limit of 26 percent should be revised to a higher limit, say 51 percent.

  Apart from the above, it shall be clarified that any transactions between two charitable institutions having similar objects shall not fall within the ambit of the above Section 13(1)(c) r.w. 13(3), since the ultimate objective is charitable and the ultimate benefit shall be for the general public as against any "specified person".

Expectation #4: Clarification in relation to tax implications/incentives to foreign universities

- **Rationale**

  At present, regulations have been introduced in relation to the manner/procedure to be followed by foreign universities/ educational institutions for setting up International Branch Campuses (IBC)/Offshore Educational Centre (OEC) (including relevant conditions to be satisfied).

- **Measurable outcome**

  Certain key clarifications ought to be provided from a tax perspective, as mentioned below:

  - Most foreign universities get perpetual tax exemption in their home countries. Hence, a similar perpetual tax exemption ought to be provided to incentivise the top universities to set up under IFSCA. A perpetual tax holiday would be more attractive and at par with the tax exemptions in the home country. Section 80LA, which currently provides a tax holiday for 10 years, may be amended to this effect to provide the perpetual exemption, subject to the satisfaction of condition as may be laid down.
  - Foreign players may find it helpful if clarifications were provided that prescribed transactions/interactions by the IBC/OEC in India shall not result in a Significant Economic Presence (SEP) and consequent business connection.

Other recommendations and expected impact/outcome

- With respect to charitable trusts registered under the IT Act, the provisions of Section 11(1)(a) operate to exempt the income applied to charitable purposes in India.

  The provisions of Section 11(1)(c) embargo the exemption with respect to any income applied outside India unless that income is applied for international welfare in which India is interested and requisite approval is obtained from the Board.

  In some situations, certain income may be remitted outside India for charitable objects/purposes in India. For instance, availing services from non-residents in relation to charitable operations conducted in India.

  In this regard, it may be clarified that any income remitted outside India for application to charitable purposes within India shall qualify for the exemption u/s 11(1)(a) above and ought not to fall within the ambit of Section 11(1)(c).

- Generally, per the conditions laid down in the registration order/approval order u/s 12AB and 80G (i.e., Form 10AC), the charitable institution is required to obtain prior approval or intimation of the Commissioner of Income Tax (CIT) in case of change in its objects/rules and regulations or in case of transfer of any asset by the charitable institution.

  Currently, the procedure to obtain prior approval/intimation of the CIT is an offline process, which may be time-consuming and involve subjectivity. In this regard, an online procedure may be introduced to seek the aforesaid prior approval/prior intimation for change in objects/rules and regulations or in case of asset transfer.

- Charitable institutions having obtained prescribed approval u/s 80G are required to file a statement of donation in Form 10BD on or before 31 May of the next financial year. Correspondingly, they are required to issue donation certificates in Form 10BE (auto-generated post-filing of Form 10BD) on or before 31 May of the next financial year (i.e., same due date as Form 10BD). In this regard, considering that the Form 10BE certificates are auto-generated only post-filing of Form 10BD, it may be considered to amend the due date for issuance of Form 10BE to 15 June of the next financial year (similar to 15 days time limit in case of Form 16/16A certificates generated post-filing of TDS returns).

Indirect Tax

Current environment

Taxing the education sector remains challenging, as achieving a balanced approach is complicated by uncertainties regarding the distinction between core and ancillary education. Numerous questions continue to arise about the definition of education, what constitutes an educational institution, and the place of supply for education-related services, among other concerns.

Some areas where stakeholder consultations have resulted in clarity in regulations are:

- Affiliation services provided by universities to colleges have been declared as taxable @ 18 percent
- Affiliation services provided to schools by Central or State education boards or councils, or other similar bodies, regardless of their names, have been declared as taxable @ 18 percent
- Accreditation services provided by Central or State boards (including the National Board of Examination) to an institution or to a professional to authorise them to provide their respective services have been declared as taxable @ 18 percent

Expectations and policy recommendations

Expectation #1: Issue clarification on the place of supply applicable for exam administration services

- **Rationale**

  With the fast-paced commercialisation of the education sector, several Indian entities collaborate with foreign entities to provide private coaching or conduct various exams in India. While the services are availed by students in India (in the form of test centres/coaching centres) however, the contractual arrangement flows between the Indian entity and the foreign entity. Generally, in such scenarios, the foreign entity appoints the Indian entity to conduct exams in India, for which the latter receives consideration from the foreign entity. However, the exams are conducted at test centres based in India, leading to doubt about the place of supply for such services.

- **Measurable outcome**

  A clarification should be issued to specify the place of supply for such scenarios where exams are being conducted in India, but the contractual agreement is executed between the Indian entity and the foreign entity, wherein the Indian entity is the supplier and the foreign entity is the recipient of such services.

Expectation #2: Issue clarification on the scope of "services relating to admission to, or conduct of examination" so as to determine the taxability of services ancillary to the education sector

- **Rationale**

  Various services are ancillary to the education sector, such as organising a venue for conducting tests, appointing an invigilator, grading and issuing exam results. However, the taxability of such ancillary services remains a question as there is no clear guideline as to what services are covered in the exemption notification entry "services relating to admission to or conduct of examination."

- **Measurable outcome**

  A clarification should be issued to specify what services are covered under "services relating to admission to, or conduct of examination". This would help businesses to take appropriate positions from a tax perspective.

Global Capability Centers

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Global business tax

Expectations and policy recommendations

Expectation #1: Tax breaks for data centres

- Several multinational companies are establishing their data centres in India, which play a key role in enabling digital services. These data centres provide data processing and storage capabilities, which have become increasingly important with the rise of mobile internet and cloud computing applications.
- Considering the critical role played by data centres in enabling digital services and also supporting the "Digital India" vision of the government, certain tax breaks for this industry may be considered, for instance, a tax holiday for a certain number of years or a concessional tax rate of 15 percent (akin to the concession provided under Section 115BAB to the entities in the manufacturing sector which are set up after 1 April 2019 and have started manufacturing by 31 March 2024).
- Similar incentives provided to the software sector in the past significantly boosted investments and created large-scale employment opportunities. If provided to the data centre industry, tax concessions will give further impetus to the growth of foreign investments and employment in India and pave a new growth trajectory.
- In addition, the increase in the number of data centres in India would also indirectly support the efforts of the government to host Indian data within data centres located in India.

Expectation # 2: Tax breaks for GCCs in India

- Several multinational groups are establishing GCCs in India. The growth of GCCs has been particularly rapid post-2019, with ~75–80 GCCs being set up every year. In addition, GCCs in India generate ~US$65 billion in revenue and employ ~1.9 million people. Further, GCCs are now not merely back offices but drivers of innovation in their business groups.
- Considering this, the government may evaluate providing certain tax breaks for GCCs, such as a tax holiday for a certain number of years or a concessional tax rate of 15 percent (akin to the concession provided under Section 115BAB to the entities in the manufacturing sector that are set up after 1 April 2019 and have started manufacturing by 31 March 2024).

Expectation # 3: Clarity on non-applicability of section 28(iv) with respect to free-of-cost equipment received by Indian software development centres

- India has many software development centres of foreign corporations. These software development centres develop a part of the software programme, which is integrated into the corporation's products, such as televisions, printers, servers and gaming devices.
- These software development centres in India receive hardware/computer supplies from foreign corporations on a free-of-cost/loaned basis to facilitate testing of the software developed in India. Such hardware always belongs to the foreign corporation and is sent to the Indian entity for the limited purposes of testing and is either (i) destroyed, (ii) scrapped or (iii) returned by the Indian entity.

- Tax authorities in India tend to tax the value of such hardware as a benefit or perquisite received during business. In doing so, the tax authorities argue/contend that consideration to the Indian software development centres is being discharged partly through free-of-cost assets, which is not the case. While this argument of the tax authorities has been negated in certain rulings, such as the Sandisk[1] and Samsung[2] rulings of the Bangalore Tribunal, tax authorities continue to widely litigate this issue.
- Accordingly, a clarification may be issued by the government to provide that such hardware received for testing purposes does not constitute a benefit/ perquisite for the Indian software development centre, particularly in cases where the margins of the Indian entity have been tested under the Transfer Pricing (TP) provisions.

Global employer services

Expectations and policy recommendations

Expectation #4: Bengaluru to be considered a metro city for the purpose of 10(13A)

- Bengaluru is recognised as one of the fastest-growing cities in the world, creating numerous employment opportunities. Given its size, economic significance and the rising cost of living compared with other cities, it is essential to grant Bengaluru the status of a metro city. In light of this, Rule 2A(c) of the Income Tax Rules, 1962, should be amended to include Bengaluru as a metro city, enabling employees to benefit from a 50 percent deduction on House Rent Allowance (HRA).

Expectation #5: Rationalising car perquisite valuation rules for Electric Vehicles (EVs)

- Income tax rules provide the valuation of motor car benefits, where the employer reimburses running and maintenance expenses. The valuation principles consider the cubic capacity of the engine to determine the perquisite value and typically cover only conventional fuel cars. No separate criteria have been laid out with respect to EVs.
- With the government's push for EVs and the increasing availability of infrastructure facilities such as fast charging stations in public places such as metro stations, the usage of EVs is rising. Therefore, the government could consider suitably amending Rule 3 to bring in the valuation mechanism for hybrid and EV maintenance (recharging batteries in lieu of fuel) and criteria based on battery capacity (besides the engine capacity). Such a change in the valuation mechanism would bring clarity and promote the use of EVs for a greener future.

Expectation #6: Relief from double taxation on employer's contribution to certain retirals, including interest

- Currently, the employer's contribution to certain retirals exceeding INR7.5 lakh, along with any interest earned, is taxable in the contribution year.
- PF accumulation withdrawn before completing 5 years of continuous services is taxable. Similarly, superannuation withdrawals in circumstances other than the ones covered by Section 10(13) are considered taxable. However, there is no specific exemption regarding PF/superannuation amount, which has already been considered for taxation due to the aforesaid legislation.
- It is recommended that there should be a specific provision in the Act to provide exemption at the time of withdrawal in respect of contributions/accretions which are already taxed under section 17(2)(vii)/(viia)

Expectation #7 Extending relief for deduction under section 80TTA to bank deposits

- Section 80TTA allows individuals to deduct up to INR 10,000 for interest earned on savings bank accounts held with banks, post offices and cooperative societies engaged in banking activities. It is likely that individuals would also park some of their deposits in term deposits to fetch better returns.
- It is recommended that interest on all types of bank deposits (including term deposits) should be included within the scope of section 80TTA. Further, the limit should be increased from INR10,000 to INR50,000.

[1] IT(TP)A No. 301/Bang/2022

[2] 2024] 168 taxmann.com 106 (Bangalore - Trib.) - Samsung

Transfer pricing

Expectation #8: Increase the threshold for applicability of Safe Harbour Rules (SHRs)

The current SHRs apply only to companies with eligible international transactions for software development/ITeS/contract R&D related to software development up to INR200 crore. This low threshold leaves out even mid-sized companies from the option to apply for SHRs. Given the competitive nature of the industry, the rate of profit margins is not observed to be usually higher merely because a company is bigger in terms of annual revenues. Therefore, there is a requirement to either abolish or significantly increase the current eligibility threshold for SHRs.

Expectation # 9: Rationalisation of Safe Harbour Rates.

The current safe harbour margins are to be rationalised to make these more taxpayer-friendly and in alignment with current industry trends. Under the following two service categories, based on an analysis undertaken, SHRs proposed margins could potentially look like:

- For ITeS and KPO: 12 percent–14 percent;
- For IT services, including contract R&D (i.e., eliminate the distinction between software development and R&D in software development): 14 percent–15 percent

This will also align the markups more closely with the margins of GCCs than those of competitor countries like those in Eastern Europe and Southeast Asia.

Expectation #10: Speedy Unilateral APA conclusion

Renewal applications are treated at par with new applications, and the benefit of priority and previous review of the concluded initial APA is not available to such applications. As a result, it also takes a lot of time to conclude renewal applications. The government should recognise that renewal applications already have the advantage of earlier site visits, verification of the facts and compliance with post-APA conclusions. Accordingly, there is a need to introduce a mechanism for filtration and conclusion of renewal cases that involve simple rollover of the existing APA with no or minimal change in facts and circumstances. Further, the government can consider introducing an objective/quantitative approach, such as indicative financial yardsticks for resolving routine cases, rather than a subjective approach and detailed case-based analysis. This may help with quicker decision-making and faster resolutions. This can be coupled with standard readiness questionnaires for specific industries.

Expectation #11: Waiver of interest under Section 234B and 234C of the Act, post signing of the APA.

Section 234B of the Act imposes interest when advance tax payments fall short by more than 10 percent of the assessed or returned tax. Similarly, Section 234C of the Act mandates interest charges when advance tax instalments are below the specified percentage of taxes due on returned income. However, in APA cases, which take an uncertainly elongated period for conclusion, these interest provisions should be waived since taxpayers cannot reasonably estimate their income to be eventually negotiated and determined for such year(s), nor are they obligated to pay advance tax on such enhanced income.

Expectation #12: TP audits to be in abeyance during the APA process.

Companies are subjected to regular TP audits when APA is under negotiation. These audits are undertaken even for years and are sought to be covered under an APA. In conclusion of APA, taxpayers are required to file modified returns of income for the past years covered under APA. Taxpayers may also be subject to interest on differential tax payments for past years. Thus, all pending litigation for past years covered in the APA are withdrawn post-conclusion of APA, making this year's audit and litigation proceedings futile. The government may allow keeping the audit for the years covered in the APA in abeyance until the conclusion of the APA.

Expectation #13: Allowance of treaty benefits to US Single-Member Limited Liability Company (LLC):

Due to the differences in treaty interpretation, the Indian Competent Authority does not consider a US single-member LLC to be a “person” and a “resident” under Articles 3 and 4, respectively, of the India-US tax treaty. Due to this, a Single-Member LLC, which is a common corporate structure in the US, is not allowed to claim the benefits of the India-US tax treaty in India. Hence, a US single-member LLC is not allowed to apply for a Bilateral APA or MAP in India. This results in hardship and double taxation for US MNEs with such corporate structures. The government may allow such single-member LLCs to apply for a MAP and/or Bilateral APA and alleviate this hardship.

Expectation #14: Aligning Country-by-Country (CbC) threshold with OECD guidance

Section 286 of the Income Tax Act, read with rule 10DB(6) of the Income Tax Rules, provides for a threshold of INR6400 crore for a multinational group to be liable to file the CbC report. However, per the OECD, in BEPS Action 13, an MNE group is liable to file a CbC report if its aggregate consolidated revenue exceeds €750 million. As India TP law prescribes the threshold in INR, Non-resident multi-national enterprises are required to do a currency conversion to evaluate the requirement to file a CbC per Indian law. Due to this conversion and constant currency fluctuations, some MNE groups breach the local threshold of INR6400 crore. In contrast, they remain under the global limit of €750 million, which creates an additional compliance burden in India.

The government should amend the Rules to align with the OECD threshold of €750 million.

Indirect tax

Expectation #15: Clarity on allowance of GST credit on expenditure incurred on civil works and construction of immovable property

- Setting up new GCCs or expanding their footprint primarily involves expenditure on civil works and equipment. With the ruling of the Hon'ble Supreme Court in the case of M/s Safari Retreats, many taxpayers are re-assessing the ITC eligibility of past transactions. Necessary clarification on the coverage and time limit waiver is required on the availability of ITC on goods and services procured in relation to construction of immovable property covering past periods.

Expectation #16: Improvement in refund mechanisms

- GCCs are eligible to claim a refund of accumulated ITC as they are primarily engaged in the export of services. Various taxpayers face challenges as their refunds get denied by the authorities on various grounds, for example, if they act as intermediaries between the service recipient and the end customers of such service recipient. While the government has issued clarifications on this, instructions should be issued to strictly follow the same and allow the taxpayer to benefit. Faster and more efficient refund processes would help in managing working capital and cash flow. Improvements in GST refund mechanisms, particularly for export-oriented services in which GCCs are involved, help reduce the working capital crunch.

Expectation #17: Enabling payment of tax under the reverse charge mechanism using the credit available in the Electronic Credit Ledger

- GCC demands a highly skilled workforce, which may include a secondment workforce. This would attract tax to be paid under the reverse charge mechanism. Although the tax paid under the reverse charge mechanism is available as an Input Tax Credit (ITC), it must be paid in cash, which creates challenges related to working capital. The discharge of tax only in cash for reverse charge transactions should be relaxed for GCCs, and the taxpayer should be allowed to use the input tax credit to make such payments. This would help create a better working capital situation.

Life Sciences and Healthcare

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Current environment

The Indian pharmaceutical industry has come a long way from producing a few affordable generic medicines to being the pharmaceutical and vaccine manufacturing hub for the world. India exports pharmaceutical products to over 200 countries, covers 50 percent of Africa and 40 percent generic demand of the United States and supplies 25 percent of the UK's medicine requirements. As the third-largest global producer of drugs by volume and fourteenth by value, India produces over 60,000 brands across 60 therapeutic categories and more than 500 APIs. With a strong emphasis on biopharmaceuticals and biosimilars, Indian companies have not only made healthcare more accessible globally but have also established themselves as trusted collaborators in improving global healthcare systems.

The Government of India has taken several measures to boost innovation and growth in the sector with increased funding and infrastructure investments, particularly in cell and gene therapies. For instance, the Scheme for Promotion of Research and Innovation in the Pharma MedTech Sector (PRIP) was launched to bolster research and innovation capabilities. This scheme aims to facilitate cutting-edge research in the pharmaceutical and medical technology sectors with a total outlay of INR5,000 crore (about US$604.5 million) approved from 2023–2028. These developments are expected to create a more dynamic and collaborative research environment in India.

Despite this promising growth trajectory and push from the government, crucial levers of change must be addressed to realise its potential over the coming years due to several challenges being faced by the industry, such as lack of sufficient investments towards R&D, the need for advanced testing facilities, intellectual property protection and lack of incentives for industry-wide investment. Considering the above, some key asks and recommendations are captured below:

Expectations and policy recommendations

Expectation #1: Streamline the existing regulatory framework through a "one regulator" approach

- Multiple regulators regulate several licenses and compliances for both pharmaceuticals and the medical devices sector in India. For instance, a drug license is required for each state, separately for each category; a central license is also required for clinical trials and new drug approvals. Similarly, in the case of certain categories of drugs/medical treatments, additional approvals from PESO, the Atomic Energy Regulatory Board, may be required. For Pharma and Medical Devices policies, the nodal agency is the Department of Pharmaceuticals.
- Due to the multiplicity of regulatory processes and regulators, undertaking operations becomes complex and time-consuming. In addition, the practices adopted by different regulators for licensing and enforcement vary in each state.

- Considering the above, the government should consider forming a single regulatory authority each for pharmaceuticals and medical devices with experts from across the sectors on board. This would not only promote ease of doing business through a streamlined regulatory framework but also boost investments in the sector.

Expectation #2: Introduction of a policy on refurbished medical devices to streamline its import in India

- The medical device industry is facing challenges pertaining to the timely approval of licenses of refurbished/ pre-owned medical devices for import/sale within the country.
- This is due to the absence of a clear regulatory framework for refurbished/reused medical equipment in India, which has severely impacted patients in under-served communities. This situation has deprived them of access to cost-effective medical equipment and has also led to significant financial losses for the medical devices industry.
- To address these challenges, the government could release a new policy on refurbished/reused medical devices with specific provisions that ensure the safety and efficacy of the equipment. Some of the key provisions for consideration include:
  - Requirement for a minimum shelf-life of 5 years for the refurbished equipment for which responsibility lies with the Original Equipment Manufacturer (OEM) or the authorised representative
  - Certification of the refurbished medical equipment by a certified Chartered Engineer from a recognised notified body
  - Responsibility for preventive maintenance and servicing by OEM or their authorised representative
  - Responsibility for Post Market Surveillance (PMS) and reporting by OEM or their authorised representative
  - Regulators approve the refurbished product of the International Medical Device Regulators Forum (IMDRF) management committee (Australia, Brazil, Canada, China, European Union, Japan, Russia, Singapore, South Korea, United Kingdom and the United States of America)
  - Undertaking to be given by OEM or their authorised representative for the adherence to the provisions

Expectation #3: Offer additional incentives to promote investments in research and development and promote domestic manufacturing of pharmaceutical products in India

- Currently, most government research grants are limited to institutions and academic centres, with few exceptions for private companies. The Department of Pharmaceuticals could introduce similar provisions for research grants, financial incentives and funding support to encourage private Contract Research Organisations (CROs) to participate in early discovery and clinical research in India.
- Additionally, to encourage greater participation by foreign companies in the public procurement process (Public Procurement (Make in India) Order 2017) and to promote increased local value addition/manufacturing in India, the government of India could consider providing preferential treatment to the companies who are participating in the PRIP Scheme and Production Linked Incentive (PLI) Scheme. In addition, the concept of offsets could be introduced while computing the local content. Hence, value addition can be considered on a composite basis.
- This would not only encourage companies to proactively participate in PRIP and PLI with a longer-term vision of enhanced market access but would also provide a much-needed push to the government's Make in India vision of becoming a global manufacturing hub.

Expectation #4: Reform the Intellectual Property Landscape in India by further reducing patent approval timelines

- The government has recognised the need to reduce the pendency time for patent approvals, currently averaging 50 months, which is higher than the global average.
- By targeting a reduction to approximately 30 months, the government aims to align India's IP framework more closely with global standards, enhancing its appeal to international pharmaceutical companies.
- Furthermore, implementing Patent Term Extension (PTE) and Data Exclusivity (DE) provisions is expected to provide additional incentives for pharmaceutical companies to invest in innovative drug development.

Direct Tax

Expectation #1: Extension of sunset date for qualifying for concessional tax rate on income of new manufacturing domestic companies

- The Taxation Laws (Amendment) Act, 2019, inter-alia, inserted section 115BAB in the Act to provide that new manufacturing domestic companies set up on or after 1 October 2019 commence manufacturing or production by 31 March 2023 provided that these companies do not avail of any specified incentive or deductions; they may opt to pay tax at a concessional rate of 15 percent.
- The Finance Act, 2022, extended the time for commencing manufacturing or production to 31 March 2024.
- Considering that the government promotes companies to “Make in India”, the time limit for commencing manufacturing or production could be further extended to 31 March 2026.

Expectation #2: Modification of sub-section(2)(b) of section 115BAB

- Section 115BAB provides a concessional tax rate of 15 percent to the company engaged in the business of manufacturing or production of any article or thing and research in relation to, or distribution of, such article or thing manufactured or produced by it.
- Considering that the government intends to promote research, innovation and development in India, we expect companies involved only in research-related activities to be included for concessional tax rate under section 115BAB and not be restricted to only research in relation to articles/things manufactured or produced by the company.

Expectation #3: Extension of the sunset clause for Section 194LC

- As of 1 July 2023, the concessional tax rate for interest income on borrowings in foreign currency is 5 percent. This has significantly provided a viable and attractive avenue for Indian businesses to raise funds, thus helping India maintain momentum in economic growth over the years.
- The sunset period could be extended for borrowings by way of loan in foreign currency up to 31 March 2026; this would support the vision of “Make in India”.

Expectation #4 Clarification on product samples and low-brand value items

- Per explanation 1 to section 37, expenditure incurred for any purpose that is an offence or prohibited by any law is not allowable as a deduction. CBDT Circular no. 5 of 2012 (CBDT Circular) requires disallowance of expenditure incurred by pharmaceutical companies (in view of Explanation to section 37(1) of the Act) in providing “freebies” to doctors in violation of the MCI Regulations.
- Explanation to section 37 of the Act, clarifying that expenditure would be disallowed to the extent it represents a benefit or perquisite and acceptance of which results in violation of any law, rule, regulation and guideline governing conduct, etc., of the recipient.
- According to CBDT circular no. 18 of 2022 (Question No. 4), section 194R is applicable to free samples. Further, the per person INR20,000 threshold under section 194R is practically too low as some medical samples cost more than INR20,000 per sample.
- As the distribution of samples is a business practice and required for marketing purposes, the distribution of free product samples (up to a permissible threshold with certain conditions aligning with UCPMP policy along with criteria mentioned therein) be allowed as a deduction under section 37 as well as not be subject to withholding provision under section 194R.
- As MCI regulations do not provide a penalty for accepting gifts of value below INR1,000, specific brand reminders, as mentioned in UCPMP policy and up to INR1,000 per item given as part of marketing activity, can be allowed as a deduction under section 37.

Expectation #5 Reintroduction of weighted deduction under section 35(2AB)

- For a company engaged in biotechnology or any manufacturing or production business (excluding certain articles), a weighted deduction was allowed on the expenditure incurred on scientific research (other than the cost of any land or building) on an in-house research and development facility as approved by the DSIR.
- To promote research, innovation and development in India, a weighted deduction for expenditure on R&D could be reintroduced. The reintroduction should also include the service sector and innovation/significant process improvements undertaken during service delivery.

  Further, eligibility for the weighted deduction could be extended to companies that have opted for the new tax regime. The new regime entitles companies to a lower tax rate of 25.17 percent, as most companies are covered by this rate.

Expectation #6 Explanation 3(ii) under section 37 to be clarified

- Explanation 3(ii) to section 37 of the Act states that expenditure would be disallowed to the extent it represents a benefit or perquisite given and acceptance of which results in violation of any law, rule, regulation and guideline governing conduct, etc. of the recipient.
- Term guidelines can create ambiguity with regard to its scope. Therefore, this explanation could be defined and specific in its scope, or there could be a notification specifying the laws, rules, etc., covered within this section.

Indirect Tax

Expectation #1: Eligibility of Input Tax Credit (ITC) availed by the pharmaceutical companies on payments made to medical practitioners

- The Indian Medical Council (Professional Conduct, Etiquette and Ethics) Regulations, 2002 (MCI Regulations) prohibit medical practitioners from accepting payments from pharmaceutical and allied health sector industries. Recently, an amendment under Income tax provisions was made to disallow such expenses incurred by pharmaceutical companies in violation of MCI regulations.
- The amendments in the MCI regulations, along with the recent corresponding changes in the income tax provisions, have also impacted the eligibility of ITC availed by the pharmaceutical companies for such payments made to medical practitioners
- The GST authorities are issuing summons to all pharma companies alleging that since the expenses are disallowed as a business expenditure under the Income Tax law, the same is construed to be used for non-business purposes. As a result, ITCs are not allowed under the GST provisions, even though the GST law does not impose any such restrictions.
- The government can issue clarifications to allow ITC on such eligible business expenditures incurred on medical practitioners, which are essential for the industry at large and help alleviate unnecessary litigations and uncertainties.

Expectation #2: Bring GST rate on APIs at par with the formulations

- Presently, APIs attract a higher GST rate of 18 percent vis-à-vis formulations, which attract a lower rate (12 percent/5 percent), accumulating credit for the pharma industry. Significant expenses on capital goods also add to the accumulation of credit.
- While GST law refunds accumulated ITC for addressing this issue, the possibility of inordinate delay cannot be ruled out.
- The government could align the GST rate for APIs with the lower rate for pharma formulations. In other words, the GST rate across the supply chain for the pharma industry can be at the lower rate of 12 percent to effectively address the issue of credit accumulation, impact on working capital and inordinate delays in obtaining refunds.

Expectation #3: ITC reversal on physician samples and expired good

- GST law provides that ITC on goods lost, stolen, destroyed, written off or disposed of by way of gifts or free samples is required to be reversed. A literal interpretation of this provision in the pharma industry leads to adverse consequences, such as in the case of physician samples.

- Making samples available to physicians is a time-tested and established industry practice; therefore, such transactions should not fall within the ambit of the restriction.
- Similar is the issue with mandatory destruction of expired drugs/medicines. Since this is a statutory requirement, it does not need to entail any adverse GST consequences in the form of a reversal of ITC.
- The government may prioritise these issues, providing long-awaited relief to the pharmaceutical industry.

Expectation #4: GST applicability on the post-supply discount offered by the supplier to contracting parties based on financial credit note

- Circular No. 92/11/2019-GST, dated 7 March 2019, was issued relating to the treatment of sales promotion schemes, which provides clarity that financial credit notes can be issued for secondary discounts.
- Despite the circular, tax authorities are raising concerns stating that any discount offered by the supplier after the supply has been affected can be treated as consideration for any additional activity/promotional campaign to be undertaken by the dealer, and therefore, such post facto payments to be made by the supplier to the distributor, can qualify as a forward supply of services by the dealer/distributor to the supplier and thereby subject to GST.
- The government can issue a suitable clarification as follows:
  - Post-supply discounts manufacturers provide to distributors through financial credit notes are not qualified as forward supply.
  - Reinforcing the acceptance of financial credit notes for all types of discounts in the supply chain to avoid unnecessary litigation.

Identified Themes

Technology stack/digital infrastructure

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Current environment

India's technology stack and digital infrastructure have undergone a paradigm shift in the past 10 years. Backed by the Government of India's sustained impetus towards digitisation, several governance operations have been automated and simplified to improve the ease of doing business in India. In this context, two critical areas of transformation stand out—service delivery to citizens and tax administration.

Service delivery

- By configuring and enabling the India Stack and associated initiatives, the government has built a robust digital public infrastructure that has simplified and eased service delivery for citizens. The infrastructure has also reduced the cost of critical operations, such as opening bank accounts, digital payments, targeted delivery of subsidies and identity and document verification.
- In addition to facilitating ease of governance in India, the approach to digital public infrastructure is poised to be "exported" to other regions beyond India. Article 56 of the G20 New Delhi Leaders' declaration testifies to this.
- India has also launched the PAN 2.0 initiative to address issues currently faced by taxpayers and ITD, as well as the scattered PAN ecosystem, managed through multiple portals. This initiative aims to resolve inconsistencies in PAN data across different ITD applications, which result in duplicities, higher turnaround time in service delivery and data availability due to legacy systems, etc. The PAN 2.0 Project intends to offer improved and streamlined service delivery to taxpayers using e-Governance, enabling near real-time issuance/correction of PAN in digital mode, service delivery through a unified portal, online paperless ecosystem, single source of truth, prevention of duplicate and fraudulent PAN, API based data exchange for PAN validation for business entities, etc.

Tax administration

- Communication with taxpayers has been streamlined with paperless correspondence, faceless assessments and appeals and structured tax portals. The tax administration focuses on digitising compliance and increasing the tax base and collections.
- The tax administration has been proactive in introducing technology and automation in tax, acting as a booster for taxpayers to adopt technology for compliance and reporting. This has made their internal processes more efficient. With the growth of the Indian economy and its tremendous potential, the government may consider the next phase of technology reforms. Some of these are discussed below.

Expectations

Expectation #1: Unified digital infrastructure to use filings under different regulations to reduce multiple reporting and reconciliation of the same/similar data

- Taxpayers are required to do multiple filings/reporting under different legislation, such as tax laws (direct and indirect), company law and foreign exchange regulations. The same/similar type of data is often filed with different authorities under aforesaid laws.
- The government may consider streamlining and unifying digital infrastructure so that data filed under one legislation/ with one authority is automatically used for reporting under different legislation. For example, (1) financial data (balance sheet and profit and loss statement) that needs to be mentioned in the Income Tax Return Form can be sourced directly from filings under company law; (2) GST data in clause 44 of Form 3CD (Tax Audit Report) can be sourced from GST returns.
- In the long term, information required by tax and regulatory authorities could be centralised. Each authority can pull relevant data from the data pack shared by taxpayers. The Standard Audit File for Tax (SAF-T) discussed below could be a good starting point for initially centralising tax requirements (income tax and indirect taxes). This will save taxpayers from multiple filings of identical/similar data. The move will ensure consistency in reporting data to the authorities from a regulator's standpoint.

Expectation #2: Standard Audit File for Tax (SAF-T)

- At present, the tax auditor is responsible for the primary level of data collation/check of the tax attributes of a taxpayer during tax audits. Taxpayers typically use different ERP systems to maintain books of account. Often, taxpayers manually extract data and provide it to tax auditors for validation. Further, during assessments by the tax administration, taxpayers collate and submit the data, which tax officers then evaluate. These are also manual processes. Often, the same data is sought by administrators responsible for different pieces of legislation, such as income tax and indirect taxes. In this process, the possibility of inadvertent errors, delays and inconsistencies in reporting and data verification cannot be ruled out.
- The tax administration may consider introducing SAF-T, a global OECD standard adopted by many European countries for both direct and indirect taxes. SAF-T involves creating a data file containing business accounting transactions in a standardised format. This benefits taxpayers as the data submission process to tax authorities can be automated. From the tax administration perspective, a SAF-T file could significantly enhance and automate the tax audit process on a near real-time basis, with the least interference for taxpayers.
- The implementation of SAF-T will boost tax digitalisation to a higher level and significantly reduce the time and effort of tax administration and taxpayers.

Expectation #3: New Digital Public Infrastructure and open networks

India’s commitment to creating and enabling Digital Public Infrastructure (DPI) not only unlocks innovation but also has the potential to transform structural problems in several sectors. In line with the previous Budget announcements that provided the direction for sectors including agriculture and health, the creation of Digital Public Infrastructure (DPI) can boost the nascent DPI/Digital Public Goods (DPG) ecosystem in India. Some focus areas could be:

- Geo-spatial analytics: In recognition of the diverse geographical and infrastructural challenges across India and the vision set in the Indian Space Policy, 2023, a Budget announcement for an open network for geospatial analytics could unlock innovation in the space economy. This would act as a catalyst for several focus segments, such as urban planning, agricultural practices, disaster preparedness and transportation, with an emphasis on tailoring solutions for the unique needs of different regions.

- Purple economy: Specific initiatives targeting differently abled citizens can go a long way in ushering in a new era of inclusive governance and realise the untapped potential of the purple economy. Earmarking funds for a DPI-led approach for research and development in healthcare and assistive technologies and training programmes suited to integrate the differently abled population into the workforce will help unlock untapped resource potential.
- Online dispute resolution: Resource allocation for a phased rollout of an open network for online dispute resolution, beginning with small commercial disputes, may further unlock innovation in the sector. Recognising the diversity of India's legal landscape, the focus should be on piloting these systems in select high-demand sectors and expanding their scope gradually. This can reduce the burden on the Indian judicial system and trigger a fast-tracked resolution mechanism.

Policy recommendations and expected impact/outcome

- With the enactment of the Digital Personal Data Protection Act, 2023, India has entered a new era of data economy. Several provisions in the Act will need guidelines and rules for operational clarity and seamless implementation. Framing and notifying the industry of rules will be beneficial.

Space

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Current environment

- The year 2023 showcased the bright future of the space sector, highlighted by ISRO's successful missions to the sun and the moon. The private sector experienced unprecedented investments, while India strengthened international collaborations through key agreements such as the US-India Initiative on Critical and Emerging Technology (iCET) and the Artemis Accords. As we look ahead, 2024 is poised to build on this momentum and drive even more progress in the field.
- First and foremost, the budgetary allotment for the Department of Space in the Union Budget, 2024 was increased by 18 percent, which saw a spur of activities and announcements by ISRO on the deep-space exploration front, including:[1]
  - The Chandrayaan-4 mission, which aims to develop and demonstrate key technologies required for returning to Earth after a successful lunar landing, collecting samples from the moon, and retrieving them, has been approved with an outlay of INR2104.06 crore.
  - The Venus Orbiter Mission (VOM), which aims to improve our understanding of the planet's surface, subsurface, atmospheric processes and the Sun's influence on its atmosphere, has been approved with an outlay of INR1,246 crore.
  - The Gaganyaan mission has been expanded to include precursor missions for the construction of the Bharatiya Antariksh Station (BAS-I), additional hardware and an additional uncrewed mission, raising the total budget to INR11,170 crore.
  - All the above have been envisioned to be developed in collaboration with the industry and academia, creating a very robust space exploration and scientific ecosystem in the country.
- The budget also announced the creation of a Venture Capital Fund (VCF) of INR1,000 crore to be invested by the Government of India in 40 start-ups over 5 years to spur growth and innovation. The overall guidelines for the scheme have also been unveiled, which has maintained the overall investment momentum of the sector amid global moderation in private investments.[2]

[1] https://pib.gov.in/PressNoteDetails.aspx?NoteId=153184&ModuleId=3&reg=3&lang=1
[2] https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2068155

- In addition to codifying the administrative allocation of spectrum for satellite communication in The Telecommunication Act, 2023, the government of India has reaffirmed its position, bringing regulatory certainty.[3] In this regard, TRAI is expected to provide its recommendations to the Department of Telecommunications (DoT) regarding the proposed regulations for spectrum allocation in satellite communications.
- In line with the vision and strategy under the Indian Space Policy 2023, the Union Cabinet has eased the Foreign Direct Investment (FDI) policy in the space sector by liberalising entry routes and providing clarity for FDI in satellites, launch vehicles and associated systems or subsystems. This includes the creation of Spaceports for launching and receiving Spacecraft and manufacturing space-related components and systems.[4] Under the amended FDI policy, 100 percent FDI is allowed in the space sector, subject to government approval beyond 49 percent/74 percent, as provided below.

Table 1 : FDI Guidelines for the space sector from

Sector/Activity	Sectoral cap	Entry route*
Space sector		
Satellite manufacturing and operation	100 percent	**Up to 74 percent:** Automatic route **Beyond 74 percent:** Government route
Satellite data products		
Ground segment and user segment		
Launch vehicles and associated systems or subsystems	100 percent	**Up to 49 percent:** Automatic route **Beyond 49 percent:** Government route
Creation of spaceports for launching and receiving spacecraft		
Manufacturing of components and systems/sub-systems for satellites, ground segment and user segment	100 percent	**Up to 100 percent:** Automatic
The investee shall be subject to sectoral guidelines issued by the Department of Space (DoS) occasionally. ** In case of investment from land bordering country, government approval will also need to be obtained for the same*		

Source: Press Information Bureau[4]

The liberalised entry routes under the amended policy aim to attract potential investors to invest in Indian companies in the space sector.

- Further, the Indian National Space Promotion and Authorisation Centre (IN-SPACe) issued the Norms, Guidelines and Procedures (NGP) in 2024 to implement the Space Policy with respect to authorisation of space activities. The NGP authorises space activities from IN-SPACe by adhering to criteria for granting the authorisation and necessary conditions/guidelines.
- Although not formally announced, initiatives targeting global markets for Indian start-ups in regions such as the Middle East and North Africa (MENA), South America, Eastern Europe and Southeast Asia are boosting the sector.[5]
- On the technology development front of the private sector, the year also saw another Indian Non-Government Entity (NGE) successfully test and demonstrate a sub-orbital launch vehicle, which was the world's first rocket with single-piece 3D printed engine and India's first semi-cryogenic engine-powered test rocket.[6]
- As the space sector continues to evolve, it serves as a beacon of India's commitment to exploration, innovation and self-reliance. The path ahead is challenging and thrilling, with immense potential waiting to be harnessed. In the following segment, we delve deeper into critical economic and policy imperatives and recommendations that could propel India's space industry to even greater heights.

[3] https://economictimes.indiatimes.com/industry/telecom/telecom-news/india-to-allot-satellite-internet-spectrum-via-administrative-method/articleshow/114254508.cms?from=mdr

[4] https://pib.gov.in/PressReleasePage.aspx?PRID=2007876

[5] https://knnindia.co.in/news/newsdetails/sectors/start-up/india-eyes-overseas-expansion-for-space-startups

[6] https://economictimes.indiatimes.com/tech/startups/agnikul-carries-out-successful-sub-orbital-test-flight-of-agnibaan-rocket/articleshow/110560545.cms?from=mdr#google_vignette

Expectations

Expectation #1:

While the Indian Space Policy, 2023 and the associated Norms, Guidelines and Procedures, 2024 to the Indian Space Policy, 2024, communicated the government's vision for the sector and provided procedural certainties, the industry feels that the possibility of a policy being non-justiciable in a court of law does not augur well for the sector. This is because challenges around international and national obligations and liabilities and enforcement of standards can be conclusively answered only in the form of legislation. Hence, the early enactment of the much-anticipated Space Activities Act may be optimal for the ecosystem.

Expectation #2:

The industry widely acknowledged GST exemption provided on satellite launch services.[7] However, the exemption can be extended to other critical components of satellites, ground systems and launch vehicles to benefit the sector's value chain. Further, while such exemption reduces GST cost on output activity of satellite launch services, the impact of the input tax credit on procuring goods and services should also be analysed. This adds to the cost of providing service. Thus, a similar exemption should be provided for the procurement of key goods and services (including capital goods) by businesses for the purpose of satellite launch services. This will help reduce the GST input tax credit costs, and the supply chain will enjoy the intended benefit.

Expectation #3:

Specific customs duty exemption and concessions on imported goods/equipment/machinery used to manufacture notified goods under the Import of Goods at Concessional Rate of Duty scheme (IGCR) should be considered for the sector.

Expectation #4:

Further, to enhance India's competitiveness in the global space sector, it would be essential to streamline the Special Chemicals, Organisms, Materials, Equipment and Technologies (SCOMET) license process. Despite having ready products, such as reaction wheels, and sufficient production capacity, Indian companies are losing market opportunities for export. Currently, the procedure takes 3–4 months and requires repeated permissions for every invoice, even for repeat purchases by developed nations. India can adopt a more efficient approach by introducing a blanket license mechanism to allow exports to pre-approved countries for dual-use applications. This would reduce administrative delays and enable Indian manufacturers to meet short-notice demands, levelling the playing field with Western competitors. The modernisation of export rules is crucial for the private sector to integrate into global supply chains and establish a robust presence in the international space market.

Expectation #5:

The planned establishment of space industrial parks across multiple states has sparked interest from diverse non-governmental entities, including established corporations and innovative start-ups eager to make significant greenfield investments. To further catalyse this momentum, it is crucial to consider targeted fiscal incentives such as tax exemptions, tax holidays or accelerated depreciation for entities directly or indirectly involved in space sector activities. Additionally, the government could introduce a concessional tax rate of 15 percent for companies engaged in distributing satellite capacity or manufacturing or R&D specific to the space sector, fostering a competitive environment for growth.

Expectation #6:

To align with the growing reliance on satellite communication in driving digital transformation, bridging connectivity gaps and advancing space-based technologies, it is imperative to extend International Financial Services Centre (IFSC) benefits to entities involved in distributing satellite capacity. These incentives, including tax and regulatory reliefs, would attract global investments, promote innovation and position India as a strategic hub for satellite communication services. By using the advantages of IFSCs, India could foster growth in this critical sector while strengthening its role in the global space economy.

[7] https://www.businesstoday.in/latest/in-focus/story/gst-exemption-to-private-satellite-launch-service-firms-a-huge-financial-incentive-to-boost-growth-industry-389459-2023-07-12

Expectation #7:

Payments to Indian companies providing satellite services currently attract a withholding tax rate of 10 percent under Section 194J of the Income-tax Act, 1961. However, for entities operating under a distribution model, where satellite capacity is distributed within India, the effective income tax on profits often falls below this rate due to arm's length profit margins ranging between 5–10 percent. Similarly, service providers using owned or leased satellites typically experience lower effective income tax rates during the initial operational phases. To ensure efficient working capital management and avoid unnecessary capital lock-ups, it is recommended to reduce the withholding tax rate to 2 percent on payments made to Indian satellite service providers.

Expectation #8:

The space industry is inherently capital-intensive, requiring substantial funding for projects such as R&D, satellite manufacturing and the development of satellite launch and ground infrastructure. To enable Indian companies to access cost-effective foreign funding for these large-scale initiatives, the tax rate on interest from foreign borrowings should be reduced to 5 percent. This measure would enhance the availability of affordable financing, accelerating the execution of critical space projects and driving long-term growth in the sector.

Expectation #9:

As self-reliance has been one of the key objectives behind opening the sector for private participation, it is important to ensure the journey towards self-reliance is focused on each value chain segment. To that extent, it may be time to consider a dedicated Production Linked Incentive (PLI) scheme to manufacture space-grade components, much like the dedicated PLI scheme for drones and drone components.[8] This will help incentivise domestic production under the "Make in India" campaign and attract investment by providing financial incentives to manufacturers based on their output.

Expectation #10:

As the space sector matures, the space economy's size and composition should be regularly measured. Most mature space-faring nations, such as the US, the UK and the EU, have annual exercises to scientifically measure and quantify the space economy. ISRO has completed its exercise of estimating the socio-economic impact[9] of the Indian space sector. In addition to making the findings public, an annual exercise anchored by the competent authority within the government to measure and disclose the size of the space economy will enable quick and hassle-free investment decisions by the government, private and international stakeholders.

Policy recommendations

Recommendation #1:

Provisioning spectrum for several satellite applications, viz., remote sensing and communications, is mission-critical for the sector. With Indian enterprises gearing up to meet global demands, adherence to global standards both nationally and internationally is important for innovating in India. Hence, a long-term commitment from the government to provisioning spectrum for satellite applications in India is needed. Sustained efforts at international forums to maintain global standards and a level playing field for countries will be critical.

Recommendation #2:

To streamline processes and attract international investment, the government should implement a single-window clearance system for In-Space authorisation and Foreign Direct Investment (FDI) approvals. This initiative would significantly expedite the approval process for overseas satellite operators, enabling them to commence operations in alignment with the Space Policy, 2023.

[8] https://pib.gov.in/PressReleasePage.aspx?PRID=1913565#:~:text=For%20this%20scheme%2C%20the%20PLI,of%20drone%20and%20drone%20 components.'s

[9] https://economictimes.indiatimes.com/news/economy/finance/usd-13-billion-investments-in-space-sector-added-usd-60-billion-to-indias-gdp-report/articleshow/112745272.cms?from=mdr

Recommendation #3:

Currently, payments to overseas satellite service providers for satellite capacity require approval from the Ministry of Information and Broadcasting, a process often marked by delays. Introducing a more efficient mechanism, such as a one-time approval per payee, would eliminate the need for repetitive authorisations for each payment, reducing administrative bottlenecks and promoting ease of doing business.

Recommendation #4:

In alignment with practices in the telecom sector, satellite service providers may be required to remit a one-time licence or spectrum fee to secure rights to deliver satellite services in India, along with an annual licence fee based on revenue. Under the current framework, as applied to telecom entities, one-time licence or spectrum fees are amortised over the typical licence tenure of 10 to 20 years. Additionally, a Supreme Court ruling has classified annual licence fees as akin to a one-time fee, necessitating their amortisation over the remaining licence period. This delayed cost deduction has resulted in elevated tax liabilities for service providers. For the satellite sector, a more balanced and sector-specific approach is recommended. Allowing a 25 percent depreciation rate for a one-time licence or spectrum fees, similar to that applied to intangible assets, and recognising annual revenue-based licence fees as deductible revenue expenditure would optimise the tax impact. This reform would reduce taxable profits and provide a much-needed economic impetus, enabling satellite service providers to allocate resources more efficiently and support sectoral growth.

Recommendation #5:

Even in the NewSpace era, where private-sector efforts will complement national space agencies and public-sector efforts, the nature of space-based applications and services makes governments a critical consumer/customer to the sector: As space technologies find applications in governance areas, such as agriculture, disaster management, infrastructure planning and development monitoring, urban development and remote area connectivity, the government's commitment to adopt and consume NewSpace solutions will catalyse adoption and innovation in the sector. In line with the above:

- A Digital Public Infrastructure (DPI) and Digital Public Goods (DPG) approach for Earth observation-based geospatial analytics and insights can unlock value and innovation for several stakeholders well beyond the space sector. In line with previous budget announcements to create DPI for sectors, including agriculture, a budget announcement for a DPI/DPG for earth observation will pave the way for democratising access to space technology.
- The nascent private space ecosystem has advocated for adoption and demand-related challenges. To that extent, as governance operations and service delivery stand to benefit greatly through the adoption of space-based applications and services, it is time to consider a mission mode approach for the adoption of space technologies within governments across the country, perhaps a National Earth Observation Mission.

Sustainability and Climate

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Current environment

Since the announcement of Budget 2024, India has witnessed developments in its pursuit of sustainability and climate resilience. These advancements reflect the country's steadfast commitment to achieving net-zero carbon emissions by 2070 while fostering sustainable development. From new policies and programmes promoting renewable energy and energy transition pathways to innovations in climate-resilient agriculture and carbon credit trading mechanisms, these efforts underscore India's focus on balancing growth with environmental sustainability. Below are a few instances highlighting the nation's progress in this space.

Increased investment in renewable energy

Focused programmes, such as the PM Surya Ghar Muft Bijli Yojana, have been launched to empower 1 crore households with free electricity up to 300 units monthly through rooftop solar installations. The scheme has garnered significant interest with over 1.28 crore registrations and 14 lakh applications. It offers 60 percent subsidies for systems up to 2kW and 40 percent for systems between 2 to 3kW, capped at 3kW, which translates to subsidies of up to INR78,000.[1] Complementing this, the government has expanded the list of exempted capital goods for manufacturing solar panels and cells, extending customs duty exemptions on essential inputs, such as silicon wafers, flat copper wires and EVA, until March 2026. However, exemptions for solar glass, tinned copper and components for wind and renewable energy systems expired in September 2024, signalling a need to revisit and amplify such incentives.[2]

Energy transition pathways

NITI Aayog is framing guidelines for India's energy transition, balancing employment, growth and environmental sustainability. A policy document is expected as part of the FY25 budget.[3] Key initiatives include NTPC Green Energy Limited's

[1] https://www.india.gov.in/spotlight/pm-surya-ghar-muft-bijli-yojana
[2] https://www.nextias.com/ca/editorial-analysis/11-11-2024/small-modular-reactors-paving-indias-path-to-clean-energy
[3] https://www.livemint.com/industry/energy/niti-aayog-to-release-report-on-energy-transition-by-early-2025-says-official-11728993571116.html

planned investment of INR80,000 crore in Maharashtra for green hydrogen, ammonia and methanol projects, alongside 2 GW of pumped storage and up to 5 GW of renewable energy projects, aligning with its target of 60 GW renewable capacity by 2032. Complementing these efforts, Research & Development (R&D) on Small Modular Reactors is advancing at the Bhabha Atomic Research Centre in Mumbai, with the Bharat Small Reactor initiative aiming to enhance safety and efficiency. India plans to deploy 40–50 Small Modular Reactors (SMRs) to replace captive thermal power plants, supported by government-private sector collaborations for R&D in emerging nuclear technologies.[4] The government had also announced that it would develop a "climate finance taxonomy" to enhance the availability of capital for climate adaptation and mitigation.[5]

India is also laying the groundwork for its Carbon Credit Trading Scheme (CCTS), with a detailed blueprint unveiled in August 2024 to guide industries in managing CO2 and industrial gases. The scheme is set to launch in FY2026–27, marking a critical step in regulating emissions for hard-to-abate industries and enabling carbon credit trading.[6]

In 2023, the government of India launched the National Green Hydrogen Mission (NGHM) to establish India as a global hub for producing, using and exporting Green Hydrogen (GH) and its derivatives and developing indigenous manufacturing capabilities. The Union Cabinet had approved a capital outlay of INR197.44 billion (~US$2.3 billion) for the mission. The government introduced incentive schemes under the Strategic Interventions for Green Hydrogen Transition (SIGHT) programme to further incentivise the supply chain and provide direct financial incentives for electrolyser manufacturing and GH production in India.

Emphasis on sustainable agricultural practices

The government has released 109 weather-resilient, high-yielding and bio-fortified seed varieties through ICAR-affiliated institutes, distributing these breeder seeds to state seed corporations, Krishi Vigyan Kendras and other state institutions for farming purposes.[7] About one crore farmers are being introduced to natural farming practices, which are supported by certification, branding and 10,000 bio-input resource centres.[8] A comprehensive review of agricultural research is underway to boost productivity and develop climate-resilient crop varieties. Additionally, the government is working with states to integrate six crore farmers and their land into a digital registry, using kharif crop survey data to improve crop management and yields. The Namo Drone Didi Scheme, with an INR500 crore allocation, offers an 80 percent subsidy for women-led Self-Help Groups (SHGs) to purchase drones, supported by loans from the Agricultural Infrastructure Fund and skill training via 1,000 new industrial training institutes. Further modernisation is encouraged through the Jan Vishwas Bill 2.0, designed to attract Foreign Direct Investment (FDI) in agriculture and enhance technology adoption and R&D initiatives.[9]

Focused efforts on mitigating water scarcity

As of October 2024, the Jal Jeevan Mission has successfully provided tap water connections to over 15.19 crore rural households, accounting for 78.58 percent of all rural households in India. This progress underscores the nation's commitment to balancing economic growth with environmental stewardship.

As India continues its journey towards sustainability and climate resilience, the developments outlined in the budget highlight the nation's commitment to balancing growth with environmental stewardship. Moving forward, expectations for the 2025 Union Budget may focus on deepening support for renewable energy, advancing energy transition initiatives and strengthening climate-resilient agricultural practices. By building on the foundation laid this year, the next budget has the potential to accelerate progress towards India's net-zero goals and reinforce its position as a leader in sustainable development.

[4] https://www.nextias.com/ca/editorial-analysis/11-11-2024/small-modular-reactors-paving-indias-path-to-clean-energy

[5] https://indianexpress.com/article/explained/everyday-explainers/climate-finance-taxonomy-9470655/

[6] https://www.spglobal.com/commodityinsights/en/market-insights/blogs/energy-transition/112124-charting-the-future-of-indias-carbon-market#:~:text=In%20August%2C%20India%20unveiled%20a,credits%20becoming%20tradable%20shortly%20thereafter.

[7] https://www.financialexpress.com/business/industry/pm-releases-109-weather-resistant-crop-varieties/3579981/

[8] https://www.businesstoday.in/union-budget/story/budget-2024-natural-farming-high-yielding-crops-fm-sitharamans-mega-announcement-for-agri-sector-438302-2024-07-23

[9] https://www.hindustantimes.com/ht-insight/economy/agriculture-for-a-resilient-future-101725091504615.html

Expectations

Expectation#1: Renewable energy

- **Specific measures**
  1. Enhanced focus on consumer awareness and strengthening vendor network across different states to ensure quality installation of rooftop solar panels under the PM Surya Ghar Yojana (Source Rajnish).
  2. Clarifying the financial structure for rooftop solar installations may help increase adoption. Financial assistance or low-interest loans for rooftop solar installation costs may ease the financial burden.[10,11]
  3. Upgrading the National Solar Portal will help reduce technical glitches and improve project implementation.[12]
  4. More support could be directed towards enhancing the green transportation network, focusing on accelerating the Faster Adoption and Manufacturing (FAME) of (Hybrid and Electric Vehicles) III programme. This could promote electric mobility and sustainable urban transit systems.[13]
  5. Need for targeted training programmes and capability development initiatives to address the talent gap in renewable energy sectors, such as solar, wind and green hydrogen.[14]
  6. Extend customs duty concessions on the import of Battery Energy Storage Systems (BESS) under the Project Import Scheme.
- **Measurable outcome**

  These measures will result in higher renewable energy capacity, reduced carbon emissions and greater adoption of electric mobility, helping India meet its sustainable energy and environmental goals.

- **Rationale**
  1. Financial assistance or low-interest loans could address the high upfront costs of rooftop solar installations, making them more accessible to households and accelerating adoption across India.[15,16]
  2. Enhanced funding for the Ministry of New and Renewable Energy (MNRE) could accelerate renewable energy infrastructure deployment, supporting India's low-carbon transition and energy security. Strengthening the FAME III programme could increase electric vehicle adoption, leading to lower carbon emissions and cleaner air in cities.[17]
  3. Allocating resources to upgrade the solar infrastructure platform could resolve technical glitches, speed up rooftop installation and reduce financial losses caused by system inefficiencies.[18]
  4. With rising demand for solar PV, wind turbine technicians and operators in production and storage, an estimated 1.7 million jobs could be added in the renewable energy sector. However, there is a significant shortage of skilled workers, creating a barrier to the efficient implementation and growth of renewable energy projects.[19]
  5. With the rising demand for renewable energy storage, BESS is becoming increasingly relevant to ensure the optimum usage of renewable energy sources. BESS consists of various items that attract different customs duty rates. In case the same can be specifically brought under the Project Import Scheme with a 5 percent customs duty, it will not only address the issues surrounding the classification of BESS but will also provide impetus to renewable energy conservation.

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[10] https://energy.economictimes.indiatimes.com/news/renewable/budget-2024-25-and-the-future-of-energy-transition-in-india/112030823

[11] https://www.ndtvprofit.com/economy-finance/biz-solar-study

[12] https://energy.economictimes.indiatimes.com/news/renewable/budget-2024-25-and-the-future-of-energy-transition-in-india/112030823

[13] (https://www.cnbctv18.com/business/finance/budget-2024-25-energy-security-agricultural-resilience-sustainable-economy-shailesh-tyagi-19450240.htm/amp

[14] https://www.energetica-india.net/articles/powering-indias-green-economy-with-job-growth-salaries-and-skill-development

[15] https://www.ndtvprofit.com/economy-finance/biz-solar-study

[16] https://energy.economictimes.indiatimes.com/news/renewable/budget-2024-25-and-the-future-of-energy-transition-in-india/112030823

[17] https://www.cnbctv18.com/business/finance/budget-2024-25-energy-security-agricultural-resilience-sustainable-economy-shailesh-tyagi-19450240.htm/amp

[18] https://energy.economictimes.indiatimes.com/news/renewable/budget-2024-25-and-the-future-of-energy-transition-in-india/112030823

[19] https://www.energetica-india.net/articles/powering-indias-green-economy-with-job-growth-salaries-and-skill-development

Expectation #2: Enhancing air quality

- **Specific measure:** It may be beneficial to review and strengthen the National Clean Air Programme (NCAP) by introducing stricter enforcement measures, real-time monitoring systems and enhanced industry emission standards. Further, expanding its scope to include peri-urban and rural areas could address the gap in pollution control.[20,21]
- **Measurable outcome:** Significant reduction in PM2.5 and PM10 levels, meeting both NAAQS and World Health Organisation's (WHO) guidelines, leading to improved air quality and health benefits.
- **Rationale:** Due to accelerated development, especially in major cities, India struggles to meet the benchmark for air quality that was supposed to be met in 2024; air pollution levels exceed the National Ambient Air Quality Standards (NAAQS) for PM2.5 and PM10 levels, and these pollutants also surpass the WHO's air quality guidelines. This indicates a significant gap in air quality management and the need for enhanced measures to reduce particulate pollution and meet both national and international standards.[22]

Expectation #3: Green financing

- **Specific measure**
    1. The creation of a unified system for climate finance may help streamline regulations and reduce compliance challenges. This could be complemented by a system to track and allocate climate-related spending.[23]
    2. Incentives, such as interest support for green projects and deposits, could be introduced. Additionally, supporting green debt securities[24] through tax incentives could attract investment.
    3. Interest income and capital gains arising from the transfer/redemption of green debt securities may be tax-exempt or taxed at a concessional rate.
    4. To ensure certainty, the definition of "green debt securities" for income tax benefits may be aligned with the regulatory definition issued by the Securities and Exchange Board of India (SEBI).
    5. Tax exemption may be non-discriminatory and allowed to all investors in such bonds, irrespective of whether (i) the bonds are issued under the FDI window, Foreign Portfolio Investment (FPI) route or the External Commercial Borrowing (ECB) option, etc., or (ii) the bonds are issued by an Indian issuer or a financier, such as a Bank/Non-Banking Financial Company (NBFC)/Housing Finance Companies (HFC) etc., or (iii) the bonds are listed or unlisted
    6. Non-resident investors whose income consists solely of tax-exempt income may be granted dispensation from tax reporting compliance.
    7. Issuers may be exempt from the applicability of thin-capitalisation rules, allowing the interest costs on green debt securities to be tax-deductible.
- **Measurable outcome**
    1. A robust and transparent climate finance ecosystem accelerates the country's transition to renewable energy, strengthens green infrastructure and contributes to long-term environmental goals.
    2. The sustainable finance market in India is expected to reach US$125 billion by 2026, driven by private equity and venture capital firms, at a 5-year CAGR of 46 percent, per research agencies.
- **Rationale**
    1. According to SEBI's data on green debt securities, between June 2017 and March 2024, 20 Indian corporates issued green bonds worth INR6,128 crore (~US$0.73 billion). Mobilising resources for green infrastructure will reduce the economy's carbon intensity.
    2. Cumulative investments of US$10.1 trillion will be required to meet India's net-zero goals by 2070. Green finance being allocated to such climate mitigation measures accounts for only about 25 percent of total investments.[25]
    3. Streamlined regulations, credible data and incentives for green investments will attract more funding and interest in sustainable projects, ensure better resource allocation and improve transparency.
    4. Tax incentives for such instruments will enhance the attractiveness in terms of added Basis Points (BPS) of yield to investors while at the same time rationalising the cost of finance for borrowers in India. It can be a cost-efficient tool

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[20] https://www.downtoearth.org.in/pollution/national-clean-air-programme-missed-2024-target-to-push-back-pollution-study-shows-93848

[21] https://idronline.org/article/environment/indias-national-clean-air-programme-continues-to-miss-the-mark

[22] https://www.downtoearth.org.in/pollution/national-clean-air-programme-missed-2024-target-to-push-back-pollution-study-shows-93848

[23] https://www.ndtvprofit.com/opinion/budget-2024-misses-financing-the-green-for-viksit-bharat

[24] https://www.orfonline.org/expert-speak/green-bonds-financing-the-renewable-era)

[25] https://www.orfonline.org/research/a-roadmap-for-green-and-transition-finance-in-india

to boost investment in the sector with a relatively low impact on public finances, helping reduce the interest cost of financing for borrowers.

5. Several jurisdictions, such as Brazil, the USA and Malaysia, already offer tax incentives to expand their local green bond markets.

Expectation #4: Sustainable Aviation Fuel (SAF)

- **Specific measures**
  1. Facilitate the adoption of SAF by establishing enforceable targets that can revised annually. SAF production could also be supported by formalising feedstock supply chains and easing/streamlining regulatory processes to obtain necessary permits and approvals.[26]
  2. Establish biomass storage banks to collect and store agricultural residues.[27]
  3. Increased transparency across policies and timelines for expanding biofuel initiatives, including the phased blending of Compressed Biogas (CBG) in vehicles and households.[28]
- **Measurable outcome**

  Encouraging SAF production will help achieve a 1–2 percent SAF blend in aviation fuel by 2027 and establish a reliable supply chain to meet these targets. This will also reduce aviation emissions by about 5–10 percent by 2030.[29]
- **Rationale**
  1. Biomass storage banks will facilitate energy production and incentivise biofuel development.[30]
  2. Biofuels will be crucial for India to reduce its dependence on imported oil, cut emissions and support rural economies using agricultural residues. This will help diversify the energy mix and contribute to achieving net-zero emissions.[31] In the case of CBG, clear policies will be crucial to meeting the government's mandatory CBG Blending Obligation (CBO) from FY26 onwards. With targets of 1 percent in FY26, 3 percent in FY27 and 4 percent in FY28, defined timelines will address infrastructure challenges, scale up production and ensure a steady supply.[32]
  3. Clear targets and other supportive measures/policies will help provide the aviation industry with a clear pathway to meet sustainability goals and achieve decarbonisation targets. Formalising feedstock supply chains and easing regulatory processes will ensure a consistent and scalable supply of raw materials for SAF production and reduce delays to facilitate quicker adoption.[33]

Expectation #5: Carbon market

- **Specific measures**
  1. Development of an overarching institutional framework to govern and regulate the market or provide a unified framework for credit generation, trading and export.[34]
  2. The development of verification standards that are aligned with internationally recognised frameworks, such as Verra and Gold Standard, could be explored. Emphasis could also be placed on developing real-time data-sharing platforms.[35]
  3. Financial incentives, such as tax reliefs and subsidies, could be considered for small projects to reduce entry barriers for MSMEs and enable broader participation.[36]
  4. Concessional tax, such as section 115BBG, may be broad-based to include income earned from the transfer of Voluntary Emission Reductions (VERs) or Renewable Energy Certificates (RECs).
  5. For taxpayers engaged in trading carbon credits, an alternate net basis of taxation (instead of the 10 percent taxation on a gross basis under section 115BBG) may be considered.

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[26] Green wings India's SAF revolution in the making by Deloitte

[27] https://energy.economictimes.indiatimes.com/news/renewable/budget-2024-25-and-the-future-of-energy-transition-in-india/112030823

[28] https://www.cnbctv18.com/business/finance/budget-2024-25-energy-security-agricultural-resilience-sustainable-economy-shailesh-tyagi-19450240.htm/amp

[29] Ibid

[30] https://www.ieabioenergy.com/wp-content/uploads/2013/10/Good-Practice-Guideines-Bioenergy-Project-Development-and-Biomass-Supply.pdf

[31] https://www.iea.org/commentaries/india-could-triple-its-biofuel-use-and-accelerate-global-deployment

[32] https://www.thehindubusinessline.com/economy/govt-announces-mandatory-blending-of-bio-gas-in-cng-piped-gas-for-households/article67572996.ece

[33] Green wings India's SAF revolution in the making by Deloitte

[34] https://www.hindustantimes.com/ht-insight/climate-change/reforms-to-supercharge-indias-carbon-credit-export-potential-101730003243045.html

[35] Ibid

[36] Ibid

6. Clarify the zero-rating status on the sale of carbon credits to overseas companies where money is received in convertible foreign exchange.

- **Measurable outcome**
  1. A robust carbon credit mechanism will bring greater transparency,[37] participation and help India meet its global targets on carbon emissions reduction and achieving net zero emissions by 2070.
  2. This will also align with the government's plans to develop an indigenous carbon market in India under the recently notified Carbon Trading Scheme 2023, aimed at decarbonising the Indian economy by pricing the Greenhouse Gas emissions through the trading of carbon credit certificates.

- **Rationale**
  1. The absence of a unified governance structure in India's carbon credit market may lead to confusion and inefficiencies. A regulatory body/committee will help smoothen operations and help win investor confidence.[38]
  2. Non-standardised verification processes or the absence of accessible data-sharing platforms may result in varying credit quality, hinder trust and create opportunities for fraud or corruption.[39,40]
  3. The high costs involved prevent small holders/-scale projects from engaging in the carbon credit market, reducing inclusivity and market diversity.[41]
  4. Currently, the domestic income tax law provides a beneficial provision (under section 115BBG) for the taxation of income arising from the transfer of carbon credits, which is validated by the United Nations Framework on Climate Change (UNFCC). However, there are no similar provisions for Renewable Energy Certificates (RECs) or Voluntary Emission Reduction (VER) certificates, which are not expressly validated by the UNFCC.
  5. Prior to the introduction of section 115BBG, extensive litigation was before Courts/Tax Tribunals in India regarding the taxation of carbon certificates—essentially on the characterisation between business and capital receipts. This has led to uncertainty in the taxation of carbon credits and protracted litigation.
  6. While the introduction of section 115BBG has helped settle the tax position around the taxability of the UNFCC-validated certificates, the taxability of other voluntary certificates, such as RECs or VERs, which are not specifically validated by the UNFCC, remains uncertain.
  7. Zero rating status on the sale of carbon credits to overseas buyers will (i) bring certainty to export status from a GST and Customs standpoint and (ii) enable exporters to claim a refund of input taxes incurred in earning such credits.

Expectation #6: Green Hydrogen (GH)

- **Specific measures**
  1. Prioritise the deployment of additional funds in research and infrastructure and scale up production capacities to strengthen the National Green Hydrogen Mission (NGHM) further.[42]
  2. Explore demand-side mandates encouraging industries, such as vehicle manufacturing, to use green steel produced with green hydrogen.[43,44]
  3. Offer targeted subsidies aimed towards GH production and capacity-building for wind energy, particularly offshore projects.[45]
  4. Indirect taxes
     a. Provide an upfront exemption from the basic customs duty of 40 percent on the import of solar modules, with
        - **Specified end-use condition:** An exemption to be available only for solar power plants being set up to supply electricity exclusively to GH projects.
        - **End date of exemption:** This exemption shall not apply to imports made after 31 March 2026.

     b. Provide the benefit of Project Import with a concessional basic customs duty of 7.5 percent on "solar power plants or solar power projects, being set up for the supply of electricity exclusively to a GH project."

     c. Clarify whether a standalone renewable energy plant (solar and wind) can be set up in an SEZ or as an EOU and supply power to a GH plant located in the same or a different SEZ or EOU.

[37] https://www.weforum.org/stories/2023/10/why-transparency-is-key-to-scaling-carbon-removal/
[38] https://documents1.worldbank.org/curated/en/
[39] https://tracextech.com/verified-carbon-credits/
[40] https://www.frost.com/growth-opportunity-news/transparency-and-carbon-credits-lack-of-trust-hindering-growth-in-the-market/
[41] https://www.sciencedirect.com/science/article/pii/S0190052824000373
[42] https://www.cnbctv18.com/business/finance/budget-2024-25-energy-security-agricultural-resilience-sustainable-economy-shailesh-tyagi-19450240.htm/amp
[43] https://www.india-briefing.com/news/india-strives-for-cost-effective-green-hydrogen-production-30876.html
[44] https://www3.weforum.org/docs/WEF_Green_Hydrogen_Enabling_Measures_Roadmap_for_Adoption_in_India_2024.pdf
[45] https://energy.economictimes.indiatimes.com/news/renewable/budget-2024-25-and-the-future-of-energy-transition-in-india/112030823

   d. Clarify whether a renewable energy power plant set up as a standalone SEZ unit for power supply to another SEZ unit is entitled to all the taxes/duty benefits available under Section 26 of the SEZ Act.
   e. Provide a duty benefit on import/local procurement of equipment for solar and wind captive power plants to be set up as an EOU as part of an integrated GH project under Notification no 52-2003-Customs/FTP.
5. Income tax
   a. Clarify that the "business of manufacture or production of any article or thing" for eligibility to the corporate tax rate of 15 percent (plus surcharge and cess) under section 115BAB of the Income-tax Act, 1961, includes the production of GH and hydrogen derivatives, such as urea and ammonia.
   b. Considering the government's plan to achieve an installed renewable energy capacity of 500 GW and a GH production capacity of 5 MMT per annum by 2030, the current sunset date of 31 March 2024 to commence manufacturing or production may be extended to 31 March 2027, specifically for GH and hydrogen derivatives projects.

- **Measurable outcome**
  India could achieve its sustainability ambitions with support from the National Green Hydrogen Mission, which targets the production of 5 million metric tonnes of GH annually by 2030, with an associated renewable energy capacity addition of about 125 GW by the same year. Given the country's potential, experts suggest that India could produce up to 10 million metric tonnes per year by 2030.[46]
- **Rationale**
  1. GH will be crucial for India's energy transition and industrial transformation, helping the country reach its net-zero emissions goal by 2070. Made through water electrolysis powered by renewable energy, green hydrogen and its by-products can significantly reduce emissions.[47]
  2. Offers a promising solution to decarbonise challenging sectors, such as industry and transport, which face significant technical and socio-economic barriers. While limited solutions exist for these "hard-to-abate' sectors, GH and its derivatives can play a key role by serving as a clean energy source.[48]
  3. The NGHM intends to ensure the availability of renewable energy for GH projects at the "least possible costs." In producing GH, the costs of electrolysers and input renewable energy are the two major components, in addition to capital costs and enabling infrastructure. Currently, GH hovers around INR300 per kilogram; reducing these costs will be vital for widescale adoption.
  4. On the indirect tax front, the government has levied a customs duty of 44 percent (including basic customs duty and cess) on the import of solar modules, effective from 1 April 2022, which has led to an increase in the overall project cost of solar power generation.
  5. Given the existing tax framework, it is difficult for GH developers to source/generate solar power at viable costs, which will be critical for achieving cost efficiencies in the production of GH.

Expectation #7: Climate adaptation efforts

- **Specific measures**
  1. Additional funding for agricultural R&D to develop climate-resilient crop varieties and promote climate-smart farming practices could be explored. The focus could be on creating drought-tolerant, flood-resistant and high-yielding crop varieties tailored to specific regional climates.[49]
  2. Prioritising investment in digital tools and technologies to help farmers adopt climate-smart practices, such as precision farming and soil health management.[50]
  3. More investments towards nature-based solutions, including afforestation projects, wetland restoration and coastal protection efforts to mitigate climate risks.[51]
  4. Building disaster risk resilience by allocating funds for better infrastructure in cities that can withstand extreme weather events, including flood control systems, rainwater harvesting and green building technologies/updating building codes.[52]

[46] https://www3.weforum.org/docs/WEF_Green_Hydrogen_Enabling_Measures_Roadmap_for_Adoption_in_India_2024.pdf
[47] Ibid
[48] https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2024/Jul/IRENA_Green_hydrogen_strategy_design_2024.pdf
[49] https://www.orfonline.org/expert-speak/budget-2024-through-a-climate-lens-potential-hits-and-a-few-misses
[50] https://alliancebioversityciat.org/stories/simple-ways-boost-benefits-climate-smart-agriculture
[51] https://www.orfonline.org/expert-speak/budget-2024-through-a-climate-lens-potential-hits-and-a-few-misses
[52] Ibid

- **Measurable outcome**
  Increased funding for resilient agriculture and technology will enhance sector productivity, improve income levels and ensure food security. Similarly, strengthened urban resilience will minimise the impact of extreme weather to improve nature and community resilience. Nature-based solutions (NbS) can provide up to 30 percent of the mitigation needed to limit global warming to 1.5°C above pre-industrial levels by 2030.[53]

- **Rationale**
  1. Focusing on disaster risk resilience will enhance agricultural productivity and increase climate resilience. It will also help ensure that urban areas are more resilient to climate-induced disasters, such as floods, heat waves, and water shortages.
  2. Nature-based solutions have proven to be cost-effective and provide long-term protection against climate impacts while enhancing biodiversity. [54,55,56,57]
  3. Precision farming and investing in digital technologies will help increase farmers' adaptive capacity, risk management and long-term planning.[58,59,60]
  4. Increased investment in R&D will help increase crop productivity, develop varieties that can withstand climate change and ensure food security.[61,62]

Policy recommendations

Recommendation #1

- **Details:** Increase funding for MGNREGS/other similar schemes or policies to focus on soil health, water conservation and reforestation to build climate resilience. The focus could also be given to expanding crop insurance coverage, particularly in vulnerable regions prone to floods and droughts, to help farmers adapt to climate impacts and reduce their financial vulnerability.[63]
- **Expected impact:** Conducive policies help reduce farmers' financial risks, improve their capacity to adapt to climate impacts and bring economic stability.

Recommendation #2

- **Details:** Reintroduction of the 15 percent concessional corporate tax rate for new manufacturing companies.[64]
- **Expected impact:** The continuation of this scheme could help India become a global manufacturing hub by reducing reliance on imports and promoting self-sufficiency. It will also be particularly beneficial for companies involved in generating GH and other renewable power sources, encouraging further investments.

Recommendation #3

- **Details:** Policy push towards the commercialisation of sustainable and advanced biofuels in India. This could focus on regulations, incentives such as Viability Gap Funding, subsidies and blending mandates. While India has begun using SAF, the commercial viability of SAF production remains a challenge to its successful commercialisation in the country. Drawing from the successful commercialisation of SAF in other countries, India could adopt similar policies to accelerate SAF adoption.[65]
- **Expected impact:** Accelerating the commercialisation of sustainable and advanced biofuels in India can transform the aviation sector by reducing carbon emissions and reliance on fossil fuels, driving the country towards energy security and climate leadership. India's National Biofuels Coordination Committee aims to achieve a 1 percent blend of SAF with jet fuel by 2027 and 2 percent by 2028.[66]

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[53] https://www.weforum.org/stories/2023/08/voluntary-carbon-markets-nature-based-solutions-climate/
[54] https://www.orfonline.org/expert-speak/budget-2024-through-a-climate-lens-potential-hits-and-a-few-misses
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