BUDGET 2025 – FOR LOVE OF THE COMMON PEOPLE

Ms. Nirmala Sitharaman became the first Finance Minister of India to deliver the Union Budget speech for the eighth consecutive time. In a well-articulated 72-minute address, she presented a budget that, among other measures, provided relief to the often-overlooked salaried section. With the government now in its third term—this time as a coalition—and having presented a full budget just six months ago, expectations were measured. Nevertheless, the budget introduced a broad range of fiscal, monetary, policy, and regulatory reforms aimed at helping India navigate turbulent global economic conditions.

A powerful observation often heard is, "*The middle class is the backbone of any society; they bear the weight of the economy and its values, yet are often overlooked in the pursuit of wealth*." This time, however, Ms. Sitharaman did not overlook them. The showstopper of this year's budget is undoubtedly the tax relief for the middle class. In line with the theme of Sabka Vikas, the government has introduced initiatives that benefit not just farmers, economically disadvantaged regions, students, and women, but also underserved urban gig workers, MSMEs, startups, and the fund industry. The spirit of 'Make in India, for the World' also shines through, with significant incentives for the manufacturing sector, including reductions in Basic Customs Duty ('BCD') on essential unfinished goods and raw materials. Even the wealthy can breathe a sigh of relief, as the budget sidesteps the expected inheritance and wealth taxes, maintains the current capital gains tax rates, and refrains from introducing additional cess or super-rich taxes.

As always, the budget speech leaves us with several open questions. With tax reductions exceeding INR 1 trillion, how will this gap be addressed? Does this suggest reduced allocations for infrastructure, public health, and defence? Will the country's ambitious nuclear energy targets be realized, considering the minimum direct cost of USD 600 billion and the challenges involved? How effective will these measures be in addressing the declining rupee? Could the budget have done more to foster private investments and FDI? Lastly, did the focus on Bihar overshadow the needs of other states?

In summation, this budget can be seen as an articulate and well-crafted announcement, setting the stage for an expectant rollercoaster year for the Indian economy, shaped by critical elections, global uncertainties, declining exchange rates, and tempering public markets. But perhaps the real test will lie in the efficacy with which the measures announced today are implemented.

THE ECONOMIC OUTLOOK

The findings reported in the Economic Survey 2024-25 ('Economic Survey') deliver a sobering message: *in a world where globalization is no longer the buzzword, India needs to look inwards to deliver and sustain long-term growth and prosperity for its people.*

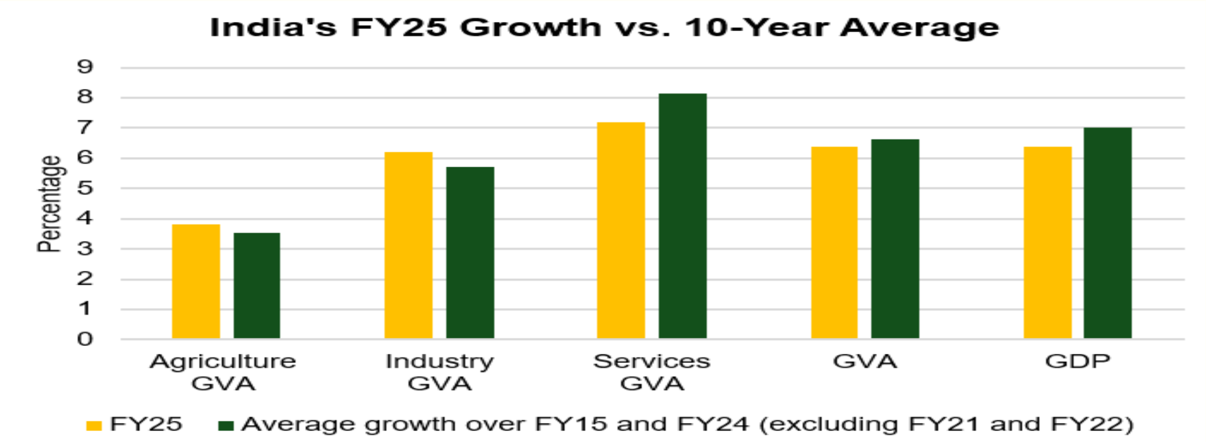
Global uncertainties on the rise

2024 was a dramatic year for global democracies. Traditionally left-leaning polities, such as Argentina and several EU-nations, have thrown up populist governments. With the recent change of guard in the U.S. presidency, it is evident that major economies are entering a phase of insularity, with significant implications for global trade and capital flows. The situation is exacerbated by the impact of potential trade wars and hostility amongst major power blocs globally; and critically for India, in the Asia-Pacific region. This presents a unique challenge to India's ability to sustain its capital accumulation through cross-border capital flows. Add to the mix the Red Dragon, and the challenge becomes even more daunting. With its lop-sided trade surplus vis-à-vis India and its dominance in supply chains, China remains an omnipresent threat for Indian policymakers' ability to balance long-term geopolitical considerations with near-term economic imperatives.

Domestic economy remains resilient

The Reserve Bank of India's ('RBI') latest bi-monthly Consumer Confidence Survey ('CCS'), released on 6 December 2024[1], indicated a decline in consumers' perception of their current well-being. However, optimism about the future remained strong, reflecting an overall aspirational outlook on India's growth trajectory.

The Economic Survey reports that in the financial year ('FY') 2024-25, the Indian economy demonstrated steady growth, and the Gross Domestic Product ('GDP') grew by 6.7% in Q1 of the FY 24-25 and 5.4% in Q2 FY 24-25 resulting in a 6.0% growth for the first half of the FY. The gross GDP growth for FY 24-25 is projected to 6.4%.



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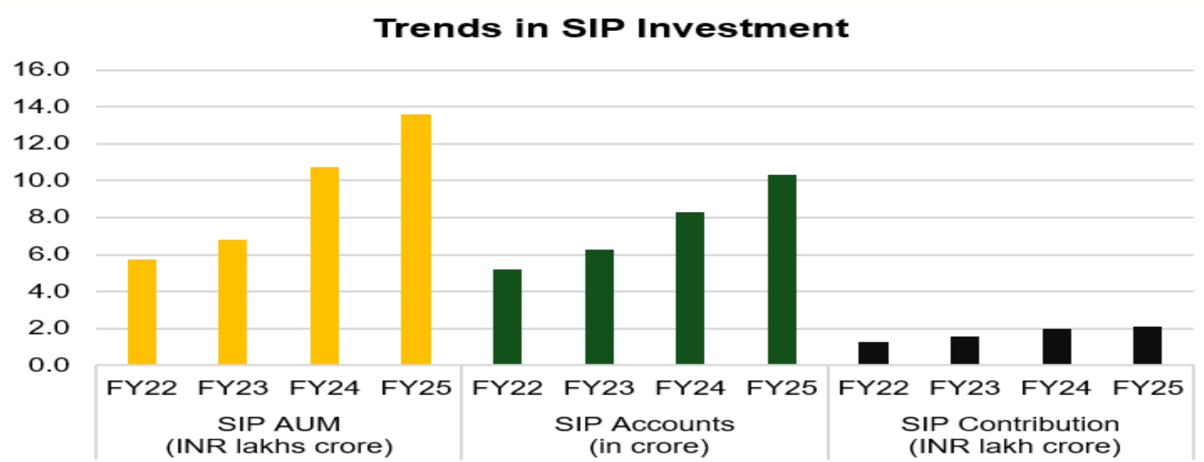
GDP growth has been helped along by an increase in private consumption, supported by both agriculture and services. However, the manufacturing sector faced pressures *inter alia* due to weak global demand and disruption in supply chains. While retail inflation has softened from 5.4% in FY 23-24 to 4.9% between April and December 2024, the Economic Survey notes that India has seen an increase in food prices, as noted in the increase in the Consumer Food Price Index ('CFPI') from 7.5% in the previous fiscal to 8.4% in the present fiscal year. This affects not just the poor but also the

[1] https://www.rbi.org.in/scripts/BimonthlyPublications.aspx?head=Consumer%20Confidence%20Survey%20-%20Bi-monthly

[2] Statement 13, First Advance Estimates, released by Ministry of Statistics and Programme Implementation

aspirational consumers, reducing their liquidity. This is depicted in the Economic Survey's findings on moderation in the growth of personal loans, driven by moderation of disbursements towards vehicle and housing loans, as well as an increase in lending rates and the imposition of increased capital requirements for unsecured lending by the RBI[3]. The Economic Survey, however, notes that consumers are increasingly turning to capital markets for long-term wealth creation and financial planning.



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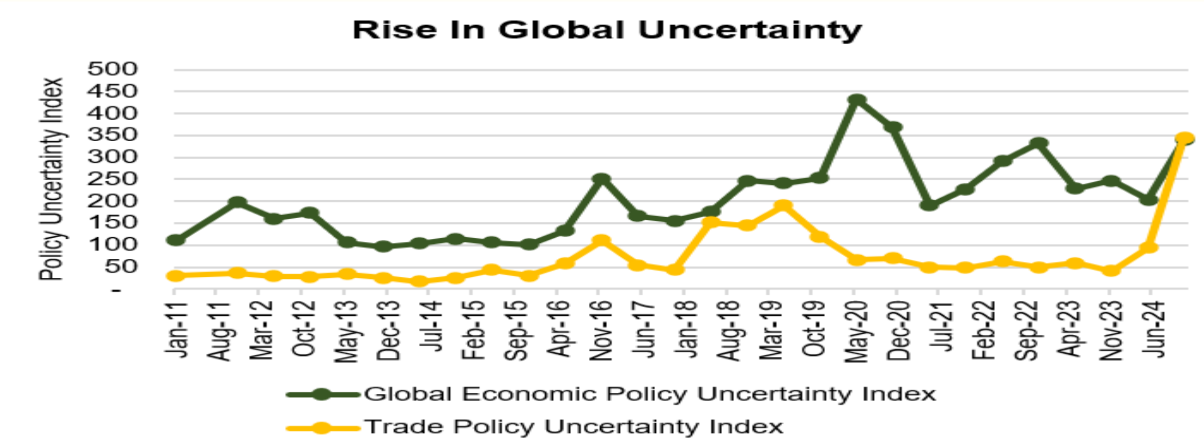
However, the Economic Survey also points out that there remain significant concerns in sustaining high positive sentiments amongst retail investors in India who are yet to face any significant market corrections post the pandemic-era.

<u>Focus on capital inflows</u>

The Economic Survey notes significant headwinds in global trade and economic policies. Mirroring the increasing insularity of major economies, it also notes an increase in global policy uncertainties around economic and trade policies.



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[3] RBI notification, 'Regulatory measures towards consumer credit and bank credit to NBFCs', dated 16 November 2023

[4] Report of Association of Mutual Funds Industry (AMFI), available at https://www.amfiindia.com/mutual-fund

[5] Websites of Global Economic Policy Uncertainty (GEPU) Index and Trade Policy Uncertainty (TPU) Index

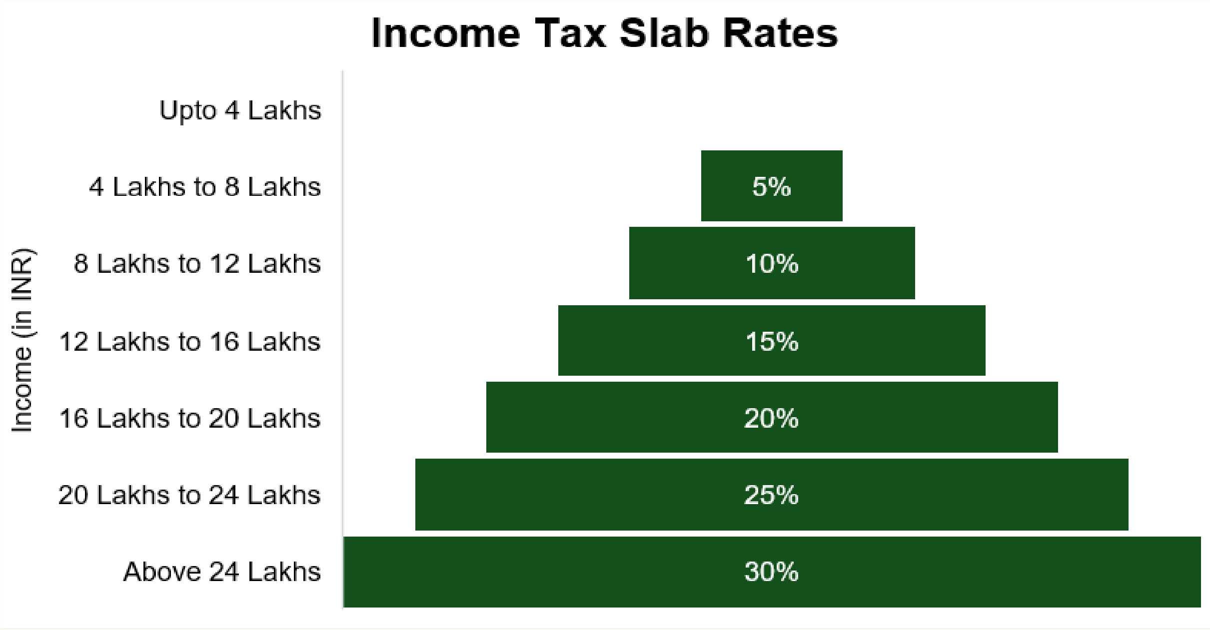
Foreign direct investment ('FDI'), which is crucial for long-term capital accumulation for India, saw a year-on-year increase of 17.9%; however, the gross inflows still remain significantly below levels seen in FY22. Coupled with an increase in capital repatriations by 33.2% year-on-year, following a 51.5% increase in the previous fiscal year, it appears that capital accumulation from foreign sources is stagnating. Similarly, foreign portfolio investors ('FPIs') were net buyers in the Indian equity market for a brief mid quarter of the year; however, this trend reversed in the later period of 2024. This reversal has been attributed to slowing earnings growth, high valuations, and geopolitical tensions.

DIRECT TAX PROPOSALS

Against the above backdrop, the finance minister presented her budget proposals, signalling the government's priorities for the upcoming fiscal year. Notably, the announcement that a draft of a new, simplified income tax code will be presented to Parliament in a week underscores the government's commitment to tax reform.

Key Changes in Personal Income Taxation

The Budget proposes a new structure of slab rates that substantially reduces taxes for the Indian middle class.



For taxpayers with income above INR 50 million, the surcharge on their tax has been reduced to 25% (from the earlier applicable rate of 37%).

Combined effect of new slab rates and increased rebate: A rebate is a tax relief provided by the government, allowing eligible taxpayers to reduce their tax liability by a specified amount. Essentially, it acts as a deduction from the total tax payable, ensuring that qualifying individuals or businesses pay a lower amount or, in some cases, no tax at all. Rebate is now available for total income up to INR 1.2 million.

To understand this with the help of an example, if an individual's total income is INR 1.2 million, they would normally have to pay about INR 60,000 as tax based on the slab rates. However, since the government provides a rebate for incomes up to INR 1.2 million, this entire tax amount would be waived. As a result, the individual would not have to pay any income tax.

Rationalisation of limits for certain perquisites: Perquisites are certain benefits or amenities received by a taxpayer in consideration of their employment. They are valued and taxed as salary income.
The Budget proposes to empower the Government to periodically update the limits on the gross income of employees used to calculate perquisites as these limits were set 20 to 30 years ago and do not reflect the current standard of living and economic conditions.

Key Changes and Measures impacting Investors and Funds

While last year foreign investors remained cautious of increasing allocations to India focused funds amid dry powder and other concerns, this year's budget has proposed unlocking of fresh domestic, government backed capital across different sectors in the form of fund-of-funds ('FoF'). New allocation of INR 100 billion has been proposed for start-ups by the FoF and the scope of eligible investees is also proposed to be widened. Additionally, a deep-tech focused FoF (for an unspecified amount) has been announced for next generation start-ups. We should also see version 2.0 of the Special Window for Affordable and Mid-Income Housing ('SWAMIH') fund with a corpus of INR 150 billion and a blended finance facility with contribution from the government, banks and private investors.

While SWAMIH fund is set up as an Alternative Investment Fund ('AIF'), the FoF for start-ups and the deep tech focused FoF may not be structured as such. Legal structure of FoFs would invariably impact the fund-raising process for the investee funds owing to different regulatory constraints and flexibilities available to AIFs versus those funds which are governed by their own special statutes.

We have outlined the tax-related changes relevant to investors and funds below:

	Current regime	Proposed change
Exemption for Sovereign Wealth Funds (SWFs) & Pension Funds (PFs)	Exemption from tax is available to certain SWFs and PFs on income from dividends, interest, long-term capital gains, or other specified incomes arising from their investments in India till 31 March 2025.	The Budget proposes to: (a) extend the benefit of this exemption to SWFs and PFs by 5 more years by extending the investment deadline to 31 March 2030; (b) ensures that long term capital gains remain exempt from tax even if they are classified as short-term capital gains under other provisions of the Income-tax law.
Securities held by Investment Funds to be classified as Capital Assets	Securities held by a Foreign Institutional Investor ('FII') are classified as capital assets and therefore gains earned on their transfer are taxed as 'capital gains'	To provide clarity, it is proposed that securities held by Investment Funds will be treated as capital assets, and any income from their

	Current regime	Proposed change
	and not 'business income'. However, there was still some ambiguity regarding whether income from transfer of securities held by Cat I or Cat II AIFs (Investment Funds) was to be considered as capital gains or business income.	transfer will be considered and taxed as capital gains.
Rationalization of Capital Gains Tax Rate for Non-Residents	Certain kinds of long-term capital gains (namely, on the transfer of listed equity shares, equity-oriented fund units, or business trust units) are currently taxed at 12.5%, as specified by the previous budget (FY 24-25). However, a lower tax rate of 10% was applicable to FIIs on long-term capital gains not related to the above assets.	To ensure parity and rationalize the capital gains tax rate structure, it is proposed to increase the capital gains tax rate for FIIs to 12.5% on long-term capital gains from securities other than listed equity shares, equity-oriented fund units, or business trust units.

<u>Expansion of Tax Incentives to Units in International Financial Services Centres</u>

The International Financial Services Centre ('IFSC') in GIFT City, Gujarat, has been setup with the expectation that it plays a pivotal role in establishing India as a global financial hub by providing a conducive regulatory framework, tax incentives, and state-of-the-art infrastructure. To further encourage operations from IFSC, the Budget extends tax exemptions for eligible Units until 31 March 2030 and proposes key changes, as outlined below:

	Current position	Proposed change
Exemption on Life Insurance Proceeds	Exemption is restricted if the annual premium exceeds INR 0.25 million (Unit Linked Insurance Plans) or INR 0.5 million (other policies).	No threshold restriction for life insurance policy issued by IFSC insurance intermediary office. This is being done to provide parity to non-residents availing life insurance from insurance offices in IFSC vis-a-vis other foreign jurisdictions.
Leasing Business Exemption	Non-residents or IFSC units engaged in the business of aircraft leasing are exempt from capital gains tax on transfers of equity shares of domestic companies engaged in aircraft leasing and from dividends paid by IFSC units in the same business.	The exemption is being extended to ship leasing units in IFSC, covering capital gains and dividends, similar to the provisions for aircraft leasing. The idea is to bring ship leasing business on parity with aircraft leasing given the similar business models.
Deemed Dividend	For the purposes of tax law, dividends include certain payments (such as loans	Any advance or loan between two group entities, where one is a Finance Unit in an

	Current position	Proposed change
	or advances) made to shareholders with at least 10% voting power or substantial interest, even if these payments aren't in the form of a regular profit distribution. However, this applies only to the extent that the company has accumulated profits, and it excludes loans or advances given in the ordinary course of business.	IFSC for treasury activities and the parent entity is listed outside India, will not be considered a dividend for tax purposes.
Exemption to IFSC Fund Managers	The activity of an eligible fund manager on behalf of an eligible investment fund does not automatically create a 'business connection' in India, provided certain conditions are met. If these conditions are not met, the activity may be considered a 'business connection' in India, and the income of the fund manager would become taxable in India. A key condition for exemption is that Indian residents' participation in the fund, directly or indirectly, must not exceed 5% of the fund's total corpus.	**Rationalization of the condition:** ➢ The aggregate participation or investment of Indian residents in the fund will now be assessed twice every year. ➢ If the condition is not met on either of these days, the fund will have a four-month window to satisfy it. ➢ Other conditions for an eligible investment fund are relaxed if its IFSC-based fund manager begins operations by 31 March 2030.
Exemption for Non-Residents	The income of a non-resident from transferring certain forward contracts or offshore / over-the-counter derivatives instruments or distribution of income on offshore derivatives entered into with an <u>offshore banking unit of an IFSC</u> is exempt from tax in India.	This exemption now extends to income from certain forward contracts or offshore / over-the-counter derivative instruments or distribution of income on offshore derivatives entered into with an <u>IFSC Foreign Portfolio Investor ('FPI') Unit as well</u>.
Tax-Neutral Relocation Regime	A transfer of shares, units, or interests held in a foreign fund during its relocation to a resultant fund in an IFSC is tax-neutral, provided that the resultant fund is registered as a Category I, II, or III AIF under SEBI Regulations and it meets specific conditions.	The Budget proposes to extend the benefit of this tax-neutral relocation to a situation where the foreign fund relocates to a resultant fund established as a certified retail scheme or Exchange Traded Fund (ETF) in an IFSC.

<u>Introduction of multi-year block assessments for Transfer Pricing</u>

Indian transfer pricing ('TP') regulations apply to international transactions[6] between related parties and mandate the calculation of an arm's length price ('ALP') based on internationally accepted transfer pricing methods.

[6] And certain 'specified domestic transactions'

Under the current system, the tax officer makes a reference to the transfer pricing officer ('TPO') in all cases involving related party transactions and asks the TPO to calculate the ALP. This exercise takes place for every tax year and usually results in the same kind of transactions between the same related parties becoming a repeated subject matter of the annual assessment orders and ensuing litigation - thus increasing costs and administrative burden for both the taxpayer and the tax authorities.

In a move that will be appreciated by all parties concerned and will promote tax certainty, the Budget proposes to make this TP assessment exercise a multi-year one on the option of the taxpayer. Under the new regime, once a reference has been made to the TPO by the tax officer and ALP has been determined for an identified related party transaction, the same will hold true for the next 2 (two) consecutive tax years for a similar transaction. Of course, if there are any new / different related party transactions for which such an election has not been made, then the determination of ALP for them shall be done afresh in the succeeding years.

TP litigation accounts for a significant chunk of tax litigation in India and studies have shown that a considerable proportion of these TP related disputes relate to the same issues being litigated across tax years. This move to a multi-year approach for TP assessments should go a long way towards ameliorating this situation.

<u>Expansion of scope of TP Safe Harbour Rules</u>

In order to provide certainty to taxpayers engaged in related party transactions, Indian tax law prescribes certain circumstances in which the transfer price declared by the taxpayer in certain eligible related party transactions shall be accepted by the Indian tax authorities.

As part of a slew of measures intended to promote ease of doing business in India, the finance minister in her Budget Speech referred to a proposed expansion of the scope of these Safe Harbour Rules in order to reduce TP litigation.

This change will most likely be brought about by amending the relevant provision(s) in the Income Tax Rules, 1962.

<u>Rationalisation of provisions related to Tax Deducted at Source (TDS) and Tax Collected at Source ('TCS')</u>

- **Rationalisation of TDS/TCS rates:** The threshold limit for the applicability of TDS on various payments has been increased to reduce the compliance burden on taxpayers for deducting and discharging TDS. Additionally, the TDS rate for payments related to investments in a securitization trust, which was previously 25% for individuals/HUF and 30% for others, is now proposed to be reduced to 10%.

- **Abolition of TCS on the Sale of Certain Goods**: Under the existing TCS provisions, a seller is required to collect tax at 0.1% on consideration exceeding INR 5 million in an FY. However, if TDS is also applicable to the same transaction, TDS provisions take precedence.This required sellers to verify whether buyers had complied with TDS, leading to administrative challenges. Further, there was some ambiguity on whether TCS was applicable on the sale of unlisted shares and securities.

To facilitate ease of doing business and to simplify compliance, the Budget proposes to remove the applicability of TCS on such sale of goods from 1 April 2025. This change should put to rest the debate on the applicability of TCS on sale of unlisted shares and securities and further ease M&A transactions. However, it is pertinent to note that a withholding obligation shall continue to apply at the rate of 0.1% on payments exceeding INR 5 million in any tax year to a resident seller for the purchase of goods (including unlisted shares and securities) as long as the buyer's turnover exceeds INR 100 million in the previous FY.

- **Deletion of Provisions for Higher TDS/TCS Rates on Non-Filers**: Currently, TDS and TCS provisions require tax deduction or collection at a higher rate if the payment recipient (in case of TDS) or payor (in case of TCS) is a non-filer of income tax returns.

  To ease the burden on taxpayers in verifying the filing status of the counterparties, it is proposed to remove these provisions from the Act.

<u>Other Key Changes in the Income-tax law</u>

- **Extension of Tax Benefits to Start-ups:** An eligible start-up can claim a 100% deduction on business profits for 3 consecutive tax years out of 10 tax years, provided it is incorporated by 31 March 2025. The Budget proposes to extend the benefit for an additional 5 years, making it available to eligible start-ups incorporated before 1 April 2030.

- **Change in Taxation of Business Trusts**: Real Estate Investment Trust ('REITs') and Infrastructure Investment Trusts ('InVITs') (collectively, Business Trusts) benefit from pass-through taxation on income such as interest, dividends, and rent, which is taxed in the hands of unit holders, unless exempt. Apart from the pass-through income mentioned above, the total income of Business Trusts is typically taxed at the maximum marginal tax rate, with exceptions for certain capital gains. However, these exceptions did not include long-term capital gains from equity shares, equity-oriented funds, and business trust units which were therefore being taxed in the hands of the Business Trusts at the maximum marginal tax rate.

  In order to rationalize this situation, the Budget proposes such long-term gains to be included in the exceptions, meaning therefore that the applicable tax rate for such income will be based on the specific tax rate rather than the maximum marginal tax rate.

- **Presumptive taxation of Non-Residents in Electronics Manufacturing:** A presumptive taxation regime has been introduced for non-residents providing services or technology to electronics manufacturing facilities. Under this regime, the income of such non-residents is calculated as 25% of their total receipts (thus amounting to an effective tax rate of less than 10%).This measure is aligned with the Government's policy objective of promoting electronics manufacturing in India and seeks to attract foreign talent in the sector through a simplified tax regime.

- **Harmonization of Significant Economic Presence ('SEP') rules with the concept of Business Connection under Indian tax law:** While income of a non-resident taxpayer from a 'business connection' in India is generally deemed to accrue in India and thus liable to tax in India, an exception exists for non-residents whose income arises solely from purchasing goods in India for the purposes of export. The introduction of SEP, however, expanded the scope of 'business connection', potentially catching transactions involving purchase of goods by non-resident taxpayers for exports within its ambit.

  To address concerns regarding the mismatch between 'business connection' and SEP on this point, the Budget proposes to amend the SEP definition to explicitly exclude such transactions, ensuring that non-resident taxpayers engaged solely in purchase of goods for export are not subject to tax in India.

- **Clarification on the taxability of Unit Linked Investment Plan ('ULIPs') redemption income:** While life insurance policy proceeds are exempt from taxation (as long as certain conditions are satisfied), ULIPs, due to their nature as both an investment and insurance product, are excluded from this exemption if the annual premium payable for them exceeds INR 0.25 million. In order to rationalize the tax treatment of amounts received on the redemption of ULIPs, the Budget clarifies that ULIPs which are not exempt specifically, will be treated as capital assets, and their redemption will be subject to capital gains tax. Additionally, if securities transaction tax is paid on such redemption, the ULIP will be considered as a unit of an equity-oriented fund and capital gains on their redemption shall be taxed accordingly.

- **Rationalization of Time Limit for Imposing Penalties:** The time limit for imposing penalties has been streamlined. Currently, the tax law prescribes multiple timelines for imposing penalties in different cases. To simplify this, it is proposed that any penalty order must be passed within 6 months from the end of the quarter in which the related proceedings are concluded, or the appeal order is received by the tax authorities.

- **Clarification on Loss Carryforward in Amalgamation:** Under the current tax law, accumulated losses and unabsorbed depreciation in cases of amalgamation or business reorganization can be carried forward and set off for up to eight years from the year in which the loss was first computed. Some taxpayers interpreted "first computed" as post-amalgamation, effectively allowing a fresh eight-year period and thus an evergreening of the carry-forward benefit. To address this, the law has been clarified to specify that the eight-year period is to be calculated from the year the loss was first computed by the "original predecessor entity".

- **No Notional Rent on Self-Occupied Properties – Simplification of Conditions:** No notional rent income is calculated for a taxpayer if the property is occupied for personal residence or if the taxpayer cannot occupy it due to employment, business, or profession at another location.The proposed change simplifies this by removing the specific conditions of non-occupation due to employment, business, or profession, such that no notional rent will be computed if the taxpayer cannot occupy the property for any reason.

- **Rising Compliance Burden on Crypto Exchanges:** Finance Act, 2022 introduced a 30% tax on transfer of 'virtual digital assets' (including crypto assets). The Budget now proposes to place a compliance burden on certain reporting entities that must provide details about crypto asset transactions within the time limit prescribed under the Income-tax law. These yet to be listed reported entities (which will probably include crypto-exchanges) shall now be required to provide prescribed details about crypto asset transactions within the time limits prescribed by the Income-tax law.

- **Extension of Time Limit for Filing Updated Tax Returns:** The updated tax return allows taxpayers to voluntarily include any income that was missed when filing the original or revised return. In response to taxpayer feedback, the Budget proposes to extend the timeline for filing the updated return from the current 36 months to 60 months, starting from the end of the relevant FY.

INDIRECT TAX PROPOSALS

Rationalisation of Customs Tariff Structure

As part of a thorough review of the customs rate structure announced in last year's Budget, several measures to streamline the customs tariff structure have been proposed. The Budget proposes to remove seven additional tariff rates. This will leave only eight tariff rates, (including the zero rate), thus simplifying the tariff structure and providing further impetus to trade efficiency. To keep the disruption from this to a minimum, appropriate cess shall be levied to largely maintain the effective incidence of customs duty on most items. However, some items may benefit from a marginal reduction in duty. Additionally, the Budget seeks to ensure that not more than 1 cess or surcharge is levied per item. Thus, the Social Welfare Surcharge will not be applied on 82 tariff lines that are already subject to a cess.

Introduction of a time limit to complete Provisional Assessments for Customs Cases

Under the current system, there is no time limit prescribed under law for the customs authorities to finalize a provisional assessment leading to long drawn-out proceedings which cost time and money for the taxpayer. In a move targeted towards promoting tax certainty and ease of doing business, the Budget proposes to introduce a 2-year limit (extendable by 1 year) for the finalization of provisional assessments under the Customs Act.

BCD Exemptions on Certain Minerals and EV Components

In a move aimed towards boosting the electric vehicle ('EV') segment (among others), the Budget proposes to exempt 35 additional capital goods used for EV battery manufacturing from BCD. This exemption also extends to 28 additional capital goods used for mobile phone battery manufacturing. In alignment with the Government's policy objectives, BCD exemption is also proposed for lithium-ion batteries, lead, zinc and 12 critical minerals. Finally, acknowledging the significance of life-saving drugs to India's populace, the Budget proposes to provide BCD exemption to 36 new life-saving drugs and medicines.

Exemption from GST for supply of goods warehoused in a Special Economic Zone ('SEZ') / Free Trade Warehousing Zone ('FTWZ')

The Budget proposes that the supply of goods warehoused in an SEZ or FTWZ to any party before export clearance or to the Domestic Tariff Area (i.e., an area within India which is outside the SEZ and where standard customs duties and tax laws apply) will neither be considered a supply of goods nor services and thus shall not be liable to GST. This change further simplifies and rationalizes the GST regime as applicable to SEZs.

Mandatory pre-deposit for GST Appeals

Under the current system, in disputes regarding any penalty imposed on the Taxpayer for violation of the GST Law, in order to file an appeal before the Appellate Authority, the Taxpayer needs to deposit 25% of the penalty amount. To reduce hardship and ease cash flow burdens on the Taxpayer, the Budget proposes to reduce this deposit requirement to 10% of the penalty amount. This reduction shall apply only in those cases where only a penalty has been imposed on the Taxpayer (and not a demand of tax).

REGULATORY, LEGAL AND OTHER KEY ANNOUNCEMENTS

Enhanced FDI limits for Insurers

The enhancement of the sectoral limit for foreign investments in insurance companies under the automatic route was also announced in the budget speech. Per the announcement, insurance companies should be able to accept foreign investments up to 100% of the share capital, up from 74%. As with the previous round of FDI relaxations, the enhanced foreign investment limits will be available subject to the investee insurance companies investing the entire premium in India. The current guardrails and conditionalities associated with foreign investment in the sector will also be reviewed and simplified.

The policy objectives of the government and the Insurance Regulatory and Development Authority of India ('IRDAI') includes the enhancement of insurance penetration – which stands at 3.7%, far lower than the global average of 7% (source: Economic Survey). It is expected that foreign investors may be able to bring in more sophisticated risk underwriting processes while also driving innovation in the sector.

The proposal in the budget speech echoes the positions suggested in the proposed amendments to the Insurance Act, 1938 which were released by the Department of Financial Services, Ministry of Finance, in November 2024, for public comment. While neither the budget speech nor the proposed amendments clarify in detail the contour of the conditionalities that might apply to fully foreign owned insurers, the requirement to invest the entire premium in India does appears to be indicative of what they may look like. The current foreign investment policy as also the Indian Insurance Companies (Foreign Investment) Rules, 2015 already prescribe specific guardrails and governance measures for insurers having above

49% foreign ownership. What additional guardrails are prescribed pursuant to the new amendments remains to be seen. It would also be interesting to see whether the regulators bring in any amendments to make it conducive for private equity and financial investors to invest up to 100%.

Fast-Track Mergers to be made Faster

The announcement for the enhancement of the scope of fast-track mergers and streamlining of procedure is a key step in increasing the ease of doing business, in enabling entrepreneurs and investors in startups and small companies to structure transactions in a time-efficient and cost-effective manner. This should help augment shareholder value maximisation and spur merger and consolidations amongst India's burgeoning start-up and MSME enterprises.

Fast track mergers are governed under Section 233 of the (Indian) Companies Act, 2013. The existing law permits fast track mergers, without the intervention of the National Company Law Tribunal, between (i) a holding company and its wholly-owned subsidiary, (ii) two or more small companies, and (iii) two or more start-up companies or one or more start-up companies with one or more small companies. We look forward to see how the scope is to be expanded, and any procedural efficiencies, including in terms of the procurement of stakeholder approvals, etc. would be good to see.

Ease of doing business

While a host of measures have been announced for the benefit of MSME enterprises, including the introduction of additional avenues for credit and policies to increase manufacturing in key strategic sectors and promote global capability centres in tier-2 cities in India, what stands out is the stated commitment to actively move towards a light-touch regulatory framework for businesses. If Indian regulators do indeed shift to a standard-based approach to regulations, as opposed to a rules and compliance-oriented one, it would indeed help easing the compliance burden on businesses, while also making entrepreneurs and business operators responsible for ensuring better governance standards in the way business is done in India.

The Economic Survey identifies key areas where reforms may be forthcoming, as indicated in the table below:

Approach to reform	Description	Status
Reduce compliance burden	Reduce administrative costs incurred by businesses to demonstrate adherence to laws.	Already pursued in Phase 1 of EoDB
Streamline systems, processes and information	Modify processes for business government interactions to remove redundancies, simplify process flow, and increase transparency and accountability of government services.	
Digitise systems, processes and information	Establish digital means of interacting with businesses to improve efficiency.	
Provide incentives	Extend special benefits to key sectors or clusters of businesses.	

Approach to reform	Description	Status
Liberalise standards and controls	Minimise controls that distort markets, adopt a 'minimum necessary, maximum feasible' approach to setting regulations	This may be pursued in Phase 2 of EoDB
Set legal safeguards for enforcement	Ensure adherence to due process norms to encourage a facts-based resolution of disputes	
Reduce tariffs and fees	Minimise or remove mandated charges inflating utility costs	
Use risk-based regulation	Tailor legal norms to the risk profile of businesses, involve third parties in enforcement	

Source[7]

It is also encouraging to note the government's stated intent of revisiting bilateral investment treaties to explore a balanced approach between the government's priorities to 'first develop India' and securing an investor-friendly framework.

Infrastructure development

In line with the government's stated objective of Viksit Bharat by 2047, the Budget has proposed substantial allocations towards the development of tangible infrastructure, including urban development projects, affordable housing, logistics and shipping. Also announced were proposed reforms for DISCOMs and clean energy in the nature of small nuclear energy projects. The proposal to further streamline the Central KYC-registry should also be significant in augmenting India's digital public infrastructure, thereby aiding in faster KYC checks and loan disbursals.

Development of human capital

As highlighted in the Economic Survey, the government continues its efforts to enable the Indian workforce to upskill to deal with technological advances, while also ensuring that young citizens are made future-ready. With the rise of artificial intelligence and associated automation of jobs and roles, ensuring that the workforce is appropriately skilled is of utmost importance. Announcements involving the setting up of innovation labs in schools and additional centres of excellence in higher institutions is a signal of intent by the government in this sector. Additionally, the government has also announced expansion of admissions in medical colleges, with 10,000 additional seats to be added in medical colleges and hospitals in the next year, and a total of 75,000 seats in the next 5 years. Similarly, the government has also announced infrastructure development for new IITs to expand overall capacity.
While there was no mention of the implementation of the labour codes, the government announced the introduction of welfare measures for workers in the informal sector and an expanded social security net for gig workers by providing them identity cards and registration with the e-Shram portal (which is the online portal through which workers can access various government schemes and benefits). It would be good to understand what benefits shall be extended to gig workers.

[7] Table V.2, List of potential approaches for reforming laws affecting businesses, Chapter V: Medium term outlook: deregulation drives growth, Economic Survery, 2024-25, available at https://www.indiabudget.gov.in/economicsurvey/