DIRECT TAX

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Changes in the Finance Bill 2025 as passed by Lok Sabha

The Finance Bill 2025 presented as part of the Union Budget was passed by the Lok Sabha with amendments on March 25, 2025. Key highlights of the amendments vis-à-vis the original Bill as presented, are summarized hereunder:

Basis	**Proposals in Original Bill**	**Amended Provisions**
Equalization levy	Finance Bill 2025 proposed that income from specified services chargeable to Equalization Levy will not include income that is taxable as royalty or fees for technical services under the Income-tax Act or any agreements notified by the Central Government under Section 159.	Phasing out of the Equalization Levy on online ads and e-commerce supplies. • Levy will be fully withdrawn for e-commerce and online ads from 01-04-2025. • Section 10(50) will cease to apply from the AY 2026-27.

Section 44BBD	Clause 11 of the Finance Bill 2025 proposed insertion of Section 44BBD. This section provides special provisions for computing the profits of non-residents engaged in setting up electronics manufacturing facilities or providing electronic goods in India. Additionally, it empowers the Board to prescribe conditions for resident companies involved in such activities.	Impact of proviso to Section 44BBD(2) is as under: • **No disallowance under Section 44DA** Deductions on account of "any expenditure or allowance that is **not wholly or exclusively incurred for the business of such PE or fixed place** of profession in India; or amount paid by the PE to its head office or to any of its other offices" will not be disallowed for royalty/FTS income taxed under Section 44BBD" • **Concessional Tax Rate not available. It depends upon** the presence of **PE** and the nature of income, viz: • Business income with PE: Taxed as per applicable rates under section 44BBD. • Business income without PE: Not taxable in India (Article 7 of relevant DTAA). • Royalty/FTS with PE: Taxed as per applicable rates under section 44BBD. • Royalty/FTS without PE: Taxed as per applicable rates under section 44BBD. • Royalty/FTS with no business: Presumptive scheme will not apply. Taxes will be computed under Section 115A r.w. DTAA.

Block Assessment	Clause 49 of the Bill amends Section 158BE of the Income-tax Act: • Sub-section (1): The block assessment order under Section 158BC must be passed within 12 months from the end of the quarter in which the last search/ requisition authorization was executed (instead of from the end of the month). • Sub-section (3): For Section 158BD cases, the order must be passed within 12 months from the end of the quarter in which the notice under Section 158BC was issued to the other person. • These changes apply from 1st February 2025. • Sub-section (4): The exclusion period for court-ordered stays on assessment proceedings will be clarified for start and end dates. (Effective Date of amendment: 1st April 2025).	Chapter XIV-B covers assessment in search cases for undisclosed income after 01-09-2024. The Finance Bill substitutes "total income" with "total undisclosed income" in the following provisions: • Section 158BA, Section 158BB, Section 158BA(1) & (7), Section 158BB(1), (3) & (5). A new subsection 158BB(1A) has been inserted to exclude certain income. • Changes in sub-section (1) of Sections 158BC,158BE, 158BFA to align with the new term, and • Section 113. **Key Amendments in Finance Bill with effect from 01-09-24:** • **Undisclosed Income Computation:** • Section 158BB revised for direct computation of undisclosed income (sum of declared and AO-determined). • Sub-section 1A excludes disclosed income. • **Income for Non-mandatory Filers:** • Section 158BB(1A)(d) has been inserted which adds criteria for non-residents and NRIs with tax-deducted income. • **Return Filing Extension:** • Section 158BC(1)(a) allows an additional 30-day extension for return filing if audit is required.

		• **Omission of Section 158BI:** • Section 158BI (exempting pre-01-09-2024 search cases) is removed, aligning with proceedings undertaken up to 2003.
Section 143(1)(a)	The Finance Bill 2025 proposes that, from the assessment year 2025-26 onwards, the Income Tax Department shall compare and match the current year's Income Tax Return (ITR) with the ITR of the preceding assessment year. This comparison shall be conducted to identify any inconsistencies or irregularities in the current year's return, ensuring accuracy and compliance in the filing process.	**Adjustment for Inconsistencies in ITRs –** Section 143(1)(a) • The Finance Bill **introduces a new sub-clause (iia)** allowing adjustments for inconsistencies between the current ITR and prior year returns. "(iia) any such inconsistency in the return, with respect to the information in the return of any preceding previous year, as may be prescribed;" • Inconsistencies may include mismatches in income, deductions, exemptions, capital gains, or discrepancies in financial records across different years.
Section 2(14)	The Finance Bill 2025 amends Section 2(14) of the Income Tax Act to: • Include securities held by investment funds under Section 115UB, alongside Foreign Institutional Investors (FIIs). • Apply to unit-linked insurance policies (ULIPs) where exemption under Section 10(10D) doesn't apply due to specific provisos.	The Finance Bill 2025 amends the definition of "capital asset" under Section 2(14) which now includes: • **Securities held by investment funds** governed under Section 115UB and invested according to SEBI regulations. • **Investments made under the IFSCA Act, 2019** (International Financial Services Centers Authority Act).

	These amendments will take effect from 1st April 2026 for the assessment year 2026-2027 and beyond.	This ensures that securities and investments governed by SEBI or IFSCA regulations will now be treated as capital assets, affecting their taxation and capital gains treatment.
Section 9A	The Finance Bill 2025 amends Section 9A to: • Check the 5% participation limit by Indian residents in an eligible investment fund on 1st April and 1st October. If exceeded, compliance must be met within four months. • Extend the deadline for IFSC fund managers to start operations from 31st March 2024 to 31st March 2030. • Specify that the government may not relax the 5% participation condition in clause (c). These amendments will take effect from 1st April 2025.	The Finance Bill has amended clause (c) to remove the words "or indirectly”. It excludes indirect participation by Indian residents through foreign funds from the 5% threshold limit. Only direct participation will now count towards the limit.
Section 10(4D)	Section 10(4D) exempts certain income of a specified Fund. A “specified fund” is defined under clause (c) of Explanation to Section 10(4D). The Finance (No. 2) Act 2024 expanded the definition of 'specified fund' to include funds granted certification as a retail scheme	The Finance Bill 2025 amends Section 10(4D) by removing the requirement for additional conditions under the Income-tax Act for retail schemes and ETFs. These funds will now only need to comply with the IFSC (Fund Management) Regulations, 2022 and the conditions specified in Section 10(4D)(c)(i).

	or an Exchange Traded Fund (ETF), subject to conditions that such scheme or fund is regulated under the IFSC Authority (Fund Management) Regulations, 2022, made under the IFSC Authority Act, 2019 and satisfies such conditions, as may be prescribed.	
Section 10(4E)	The proposed amendment to Section 10(4E) extends the existing exemption for income from transfers of certain derivatives and distributions on offshore derivative instruments with an IFSC offshore banking unit to include Foreign Portfolio Investors (FPIs) that are units of an IFSC.	The Finance Bill 2025 amends Section 10(4E) to extend the exemption to include the distribution of income on OTC (**Over the counter**) derivatives.
Section 10(10D)	The eighth proviso of Section 10(10D) is updated to exclude the application of the fourth, fifth, sixth, and seventh provisos for sums received: • On the death of a person. • Under a life insurance policy issued by an IFSC insurance intermediary office, including any bonus allocated. The term "IFSC insurance intermediary office" is defined in the International Financial Services Centers Authority (Insurance Intermediary) Regulations, 2021.	The Finance Bill 2025 extends the exemption under Section 10(10D) for life insurance policies to include policies issued by an IFSC insurance office, covering both the policy amount and bonuses. It also removes the term “intermediary” from the provision. This extension applies to policies that meet the existing exemption criteria, such as those for dependents with disabilities, keyman insurance, and high-premium policies.

Section 47(viiad)	Clause (viiad) exempts the transfer of shares, units, or interests in a relocation from capital gains tax under Section 45. The Explanation to the clause defines "resultant fund". The proposed substitution clarifies that a "resultant fund" is a fund established in India within an IFSC under Section 80LA and granted: • SEBI or IFSC Authority registration as a Category I, II, or III Alternative Investment Fund. • Certification as a retail scheme or ETF under Section 10(4D) conditions.	The Finance Bill 2025 amends Section 47(viiad) to **include retail funds and ETFs as resultant funds for tax-neutral relocation, aligning them with AIFs.** These funds no longer need to qualify as "specified funds" under Section 10(4D), as long as theyare regulated under the IFSC (Fund Management) Regulations, 2022. This ensures the relocation of foreign funds to IFSC-based retail funds and ETFs is tax-neutral.

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