THE UNION BUDGET 2025-26

Homi P. Ranina

FORUM
OF FREE ENTERPRISE

“Free Enterprise was born with man and shall survive as long as man survives”.

- A. D. Shroff
(1899-1965)
Founder-President
Forum of Free Enterprise

SHAILESH KAPADIA

(24-12-1949 – 19-10-1988)

Late Mr. Shailesh Kapadia, FCA, was a Chartered Accountant by profession and was a partner of M/s G.M. Kapadia & Co. and M/s Kapadia Associates, Chartered Accountants, Mumbai.

Shailesh qualified as a Chartered Accountant in 1974 after completing his Articles with M/s Dalal & Shah and M/s G.M. Kapadia & Co., Chartered Accountants, Mumbai. Shailesh had done his schooling at Scindia School, Gwalior and he graduated in Commerce from the Sydenham College of Commerce & Economics, Mumbai, in 1970.

Shailesh enjoyed the confidence of clients, colleagues and friends. He had a charming personality and was able to achieve almost every task allotted to him. In his short but dynamic professional career, spanning over fourteen years, Shailesh held important positions in various professional and public institutions.

Shailesh's leadership qualities came to the fore when he was the President of the Bombay Chartered Accountants' Society in the year 1982-83. During his tenure he successfully organized the Third Regional Conference at Mumbai.

Shailesh was member, Institute of Fiscal Studies, U.K.; member of the Law Committee and Vice-Chairman of the Direct Taxation Committee, Indian Merchants' Chamber. He was also a Director of several public companies in India and Trustee of various public Charitable Trusts.

He regularly contributed papers on diverse subjects of professional interest at refresher courses, seminars and conferences organised by professional bodies.

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A Blueprint to make India a Global Powerhouse

Homi P. Ranina*

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This booklet is based on his talk at a webinar arranged on 3rd February 2025..

The organizations involved were:

- Borivli Sanskrutik Kendra
- Federation of Indian Export Organizations
- Forum of Free Enterprise
- Ghatkopar Study Circle of WIRC (ICAI)
- Sydenham Institute of Management Studies, Research & Entrepreneurship Education (SIMSREE)
- The A. D. Shroff Memorial Trust
- World Trade Center, Bengaluru, Kochi and Chennai

A Blueprint to make India a Global Powerhouse

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The budget proposals announced by the Finance Minister on 1st February, 2025 build on the solid foundation that has been laid over the past eleven years. The proposals enunciate immediate measures with long term growth initiatives which will enable the economy to meet the geopolitical headwinds and challenges faced by every nation today. This is an inclusive budget which caters to all sections of society, including the youth, farmers, the middle class, and small and medium entrepreneurs who are the pillars of economic and social development.

The Finance Minister's proposals should be assessed in the context of the prevailing economic landscape it seeks to navigate.

The budget reflects a balanced approach between fiscal responsibility and economic stimulation. She has adhered to the path of fiscal consolidation by reducing the fiscal deficit to 4.4% of GDP for the financial year 2025-26. At the same time, the capital expenditure on critical projects is projected to rise to Rs.11.21 trillion to give a further boost to infrastructure development and job creation.

Manufacturing in India is an essential force multiplier to drive the economy. The measures to make import of capital goods cheaper by abolishing several tariffs and reducing customs duty are designed to streamline the inverted duty structures and lower the cost of manufacturing. This will significantly enhance the country's global competitiveness and enable the country to achieve the objective of 'Make in India'. Tailored financial solutions for medium, small and micro enterprises and initiatives for youth skilling are expected to enhance productivity and create more job opportunities, thereby contributing to robust consumption and overall societal development.

Consumption propelled Growth

The backdrop to the Budget exercise was that consumption spending has been weak in fiscal year 2024-25 and this slowdown needed to be addressed. Hence, the Finance Minister has put more money in the hands of the middle class by raising the tax free income threshold to Rs.12 lakhs (Rs.1.2 million). In addition, the salaried class will enjoy a higher standard deduction of Rs.75,000 and citizens over the age of 60 would be entitled to a higher exemption of Rs.1 lakh in respect of interest earned on bank deposits, making them eligible for tax free income upto Rs.13 lakhs (Rs. 1.3 million).

Most economic analysts have missed the point that this measure of giving exemption for each individual would result in a family of four, income earning husband and wife and two retired parents who have income from investment of their past savings, to enjoy an aggregate tax free income of around Rs.50 lakhs (Rs.5 million) per annum.

The power of consumption unleashed will have a multiplier effect as it will result in demand for consumer goods and services, which in turn will enthuse industry to invest higher amount by way of capital expenditure in order to shore up the production of goods to meet the pent up demand of consumers. This will also result in more employment being generated not only in the manufacturing sector but also in the services sector like the hospitality industry. More money in the hands of the middle class will enable them to enjoy a higher standard of living, apart from increasing consumption of goods which will permit them to spend more money on travel and tourism.

There will also be a higher potential for savings, especially from the younger generation who are faced with uncertainties of job security with a lower interest rate regime in the next decade. With the increased pace of medical research and health consciousness being imbibed by an increasing number of people, life expectancy will increase, as a result of vast strides in finding cures for diseases, thanks to the advent of genomics. Hence, savings of disposable income will become a necessity to provide for old age, resulting in investments in Systematic Investment Plans (SIPs) and long term pension funds (NPS) for which a higher tax deduction is available under the new tax regime.

Income tax payers will also save a substantial amount in taxes because under the new tax regime, the 30% maximum marginal rate of tax will be applicable only on income over Rs.24 lakhs, whereas under the old tax regime prevailing at present the maximum marginal rate of 30% applies to income over Rs.15 lakhs. The tax saved on assessable income of Rs.24 lakhs will be Rs.1,10,000.

During the assessment year 2024-25, 87.5 million citizens filed income-tax returns. While they will continue to file the tax return disclosing their taxable income, it is estimated that 63 million will not have to pay any tax at all. The Government has foregone revenue of Rs.1 lakh crore (Rs.1 trillion). This loss of revenue may be partly made up by the increase in collection of the Goods and Services Tax as a result of the middle class spending a part of the tax saved on buying goods and services.

According to market analysts, India's retail trade stands at Rs.104 lakh crore (Rs. 104 trillion) which is six times what it was in the year 2000. Global brands are rushing to India to set up outlets not only in the metropolitan cities but even in Tier I and Tier II cities, as a sizeable number of middle class citizens are now located in the non-metros. The size of the Indian middle class is estimated at 225 million which is the population of England, Germany and France put together.

Despite the foregoing of personal income-tax revenue of Rs.1 lakh crore, personal income-tax which is expected to be collected during the fiscal year 2025-26 is Rs.14,38,000 crore, while the tax collected from corporates is expected to be Rs.10,82,000 crore. Thus, income-tax from individuals will exceed the tax collection from companies which is one of the first signs of a nation entering the league of developed countries. The collection of customs duty during the same fiscal year is estimated to be Rs.2,40,000 crore. This figure is arrived at after taking into account the reduction in import duties and tariffs which is bound to promote trade and make India an attractive player in the global supply chain.

Rationalization of present tax structure

The threshold limits for tax deducted at source and tax collected at source have been increased. Dividend income will be subject to the withholding tax only if the amount received by a shareholder from a company exceeds Rs.10,000. Likewise, income from mutual funds will be liable to tax at source where the amount is Rs.10,000 or more. For payments made to professionals, tax would be deductible at source only if the fees paid during the financial year is Rs.50,000 or more.

The annual value of two self-occupied residential properties would be exempt from tax, even if one of them is kept vacant for any reason whatsoever. This would encourage people to buy homes in other cities where they may go on vacation or which they may use after retirement. This will drive demand for properties in Tier II and Tier III cities of India and stimulate investment in residential real estate.

In order to encourage better tax compliance, the time limit to file an updated return has been extended to 48 months from the current 24 months from the end of the relevant assessment year. However, this will require payment of tax at a higher rate on the additional income disclosed in the updated return at the time of filing the tax return.

New tax legislation

A new Income Tax Bill has been introduced in Parliament to replace the existing Income-tax Act, 1961 which currently comprises of 819 sections. The Bill has brought down the number of sections to 536. The proposed law is shorter and simpler as it does away with obsolete provisions, around 900 Provisos and close to 1,200 Explanations. It whittles down redundancies and simplifies language for the benefit of both tax payers and administrators. The new law which has been referred to the Select Committee of Parliament is likely to come into effect from 1st April 2026.

The bill leaves the tax policy stable without tinkering with it. No significant changes have been made in the substantive provisions of the present law. Some provisions have been rationalized to make the law simpler to comprehend. To illustrate, some deductions and exemptions under the head 'Salaries' which are presently spread over the Income-tax Act, 1961 and the Income-tax Rules, 1962, have been clubbed together in the proposed law under one section, making it easier to compute the tax liability.

Simplifying processes, reducing compliance burden and focusing on certainty and clarity will go a long way in accelerating economic growth and attracting foreign direct investment. The Bill proposes the introduction of a Tax Payer's Charter which seeks to respect privacy of tax payers, maintain confidentiality, provide for timely decisions where appeals are filed, and hold tax authorities accountable in specified circumstances. Once the new Act comes into force, it is hoped that there will be a freeze on amendments introduced through annual Finance Bills for at least five years.

Customs Duty rationalization

A significant revamp in the customs duty structure has been proposed, including a reduction in the number of slabs, changes to quantum of levy on multiple goods and simplification of procedures. This will also ensure flexibility of tariffs to align with changing global trade realities. The revamp is based on a simplified eight slab tariff structure, a single surcharge on customs duties, and a strict two-year window for customs authorities to finalize assessments.

To the list of exempted capital goods, 35 additional capital goods have been added for electric vehicle battery manufacturing and 28 additional capital goods for mobile phone battery manufacturing. This will boost the domestic manufacture of lithium-ion batteries. The reforms are expected to reduce customs disputes which have been a major hurdle to attracting foreign investments and provide tax certainty with predictable customs rates.

The waiver of penalty on voluntary declaration of material facts and paying the duty with interest will incentivize businesses to voluntarily regularize past errors. According to the Finance Minister, India will no longer be high on tariffs and the changes proposed will support the Government's 'Make in India' initiative and position the country as a global manufacturing hub.

Agriculture and Rural Development

A new programme in partnership with State Governments has been initiated to cover one hundred backward districts with the object of enhancing agricultural productivity, improve irrigation facilities, and facilitate availability of long term and short term credit to farmers. Under this scheme, post-harvest storage facilities will be developed and cultivators will be encouraged to go in for crop diversification and sustainable agricultural practices. A national mission is being set up for cultivating edible oilseeds to reduce imports of edible oil and increase the disposable income of farmers.

Likewise, concerted efforts are being made to achieve self-sufficiency in pulses. Farmers have already increased the cultivated area by 50% as the Government has arranged for procurement of the harvest at remunerative prices. Based on this success, it is now proposed to encourage farmers to focus on production of tur, urad and masoor dals. Again, this will generate additional purchasing power in the hands of the rural masses.

A comprehensive programme has also been announced in this year’s budget proposals to promote production, supplies and processing of vegetables and fruits. A special Board is to be established to promote production, processing, value addition, and marketing of makhana. Farmers are to be given training for this purpose and the benefits of all relevant Government schemes will be made available to them. A new mission is to be launched for producing high yielding seeds by strengthening the research ecosystem and targeting development of seeds which are pest resistant and climate resilient.

To unlock the untapped potential of the marine sector, it is proposed to set up a framework for sustainable harnessing of fisheries from the high seas. Currently, seafood exports have reached a figure of Rs.60,000 crore (Rs.600 billion) making India the second largest in fish production and aquaculture.

The rural sector has been given due emphasis. Several initiatives have been announced which will address under employment in agriculture through skilling and technology. The rural economy will be invigorated by providing opportunities for rural women, marginal and small farmers, and landless families. All the schemes for which large financial allocations have been made convey a deeper message that policy action is strategically aligned to holistic rural development and income augmentation.

Incentives for industrial growth and foreign investments

The setting up of the National Manufacturing Mission will encourage greater domestic production. Almost every multinational is looking at India for setting up Global Capability Centres (GCCs) to take advantage of the large pool of skilled and talented technicians, in the background of the digital infrastructure which India has established.

Currently, over one crore registered MSMEs employ 7.5 crore people who are responsible for 36% of production in India. MSMEs are responsible for 45% of total export of industrial goods. To encourage these entrepreneurs, the credit guarantee cover is being enhanced from Rs.5 crore to Rs.10 crore for micro and small enterprises and from Rs.10 crore to Rs.20 crore for startups. Successful MSMEs with a good track record will be provided term loans upto Rs.20 crore.

A new scheme is being launched for women who are first time entrepreneurs. Online capacity building is being organized to promote their managerial skills. To enhance the productivity, quality and competitiveness of India's leather sector, a new scheme is to be launched which will support design capacity, component manufacturing of non-leather quality footwear. The Government expects that this will facilitate creation of jobs for 22 lakh persons and generate turnover of Rs. 4 lakh crore.

It is proposed to extend the presumptive taxation regime to non-resident entities which provide services for electronics manufacturing by a resident company. Under this regime which will become effective from the financial year 2025-26, 25% of the total amount received by non-residents for rendering services will be deemed to be their taxable profit. Tax at the applicable rate on such presumed income would be payable by the non-resident entity. This will provide clarity and certainty for foreign companies which are associated with the electronics manufacturing sector.

A National Action Plan has been proposed for making India a global hub for production of high quality and innovative toys. National Institute of Food Technology is to be established which will provide a strong fillip to food processing activities. The scheme is meant to enhance income for farmers through value addition to their produce in order to promote climate friendly development. This will improve the ecosystem for solar TV cells, EV batteries, motors and controllers, and high voltage transmission equipment.

The proposal to allocate Rs.20,000 crore (Rs.200 billion) for the Nuclear energy mission and to engage the private sector in setting up five indigenously developed five modular nuclear reactors is a path breaking step. The aim is to develop 100 gigawatts of nuclear energy by 2047 which will make this sector attractive to overseas investment and private sector participation.

There is a clear focus on clean energy technology, including the production of solar cells and wind turbines. The distinct intent is to involve all stakeholders from micro suppliers to industrial conglomerates to integrate with global supply chains by increasing India's domestic manufacturing footprint and building resilience with sustainability.

It is exciting to see the Government focusing on building India's AI capabilities. Digital innovations have the potential to transform industry by reducing manufacturing costs and enhancing the efficiency of its manufacturing apparatus. Further, there are clear efforts made by the Government to streamline regulatory framework and rationalize tariff structures, to achieve the objective of "Ease of doing business".

Raising the foreign direct investment limit for the insurance sector from 74% to 100% will ensure that the benefits of insurance will percolate throughout India. This will enable capital infusion through foreign direct investment and promote market penetration which will enhance insurance coverage across demographics.

The liberalized proposals, both fiscal and commercial, for the International Financial Services Centre are strategic moves to enhance financial stability and attract overseas investments. There will be no tax on participatory notes issued by funds located in the International Financial Services Centre. Likewise, proceeds received on life insurance policies issued by an IFSC insurance intermediary office would be completely exempt from tax.

Export Thrust

According to the data released by the Commerce Department, export of goods fell by 2.4% to U.S. $ 36.4 billion in January this year. The fall in overall exports was on account of reduced exports of petrol and diesel which came down to U.S. $ 3.5 billion. However, export of non-oil goods like electronics and engineering products increased by 14.5% to U.S. $ 32.9 billion. The good news is that the export of services increased by 24% to U.S. $ 38.8 billion in January.

For the first ten months of this financial year, the aggregate export of goods and services is U.S. $ 683 billion. According to the Government, it is expected that by the end of this financial year, namely, 31st March 2025, the export of goods and services will touch U.S. $ 800 billion. An Export Promotion Mission is being set up which will enable exporters easy access to export credit, cross border factoring support and give facilities to micro, small and medium enterprises to tackle non-tariff measures in overseas markets.

A digital public infrastructure platform called BharatTradeNet (BTN) will be set up as a unified platform for trade documentation and financing solutions. This platform will be designed in line with international practices. Support by the Government is to be provided to Indian manufacturers to develop capacities to foster integration with global supply chains.

Education

Five National Centres of Excellence are to be set up for skilling with global expertise and partnerships. The partnership will cover curriculum design and training of teachers. At present, 1.35 lakh students are enrolled in the 23 IITs in India. Five new IITs which have been started recently will provide education to another 6,500 students. A Centre of Excellence in Artificial Intelligence for the education sector is to be set up. It is further proposed to add 10,000 seats in medical colleges and hospitals, with the ultimate goal of adding 75,000 seats in the next five years.

New Age technologies

An amount of Rs.20,000 crore has been earmarked to implement private sector driven research, development and innovation initiatives. A Deep Tech Fund of Funds is to be set up to catalyze the next generation startups. Technological research in IITs is to be promoted through 10,000 fellowships. A National

Geospatial Mission will develop foundational geospatial information and data. This Mission will facilitate urban planning and design of infrastructure projects. To promote food and nutritional security, a second Gene Bank with one million germplasam lines is to be set up.

The nuclear energy sector has been given due emphasis in this year's budget proposals. It is proposed to develop 100 gigawatts (GW) of nuclear energy by 2047. This will make the country's nuclear sector attractive for foreign investment and private sector participation. Atleast five indigenously developed small modular reactors will be made operational by 2033.

An outlay of Rs.20,000 crore has been provided for research and development pertaining to Small Modular Reactors which will offer cost effective and scalable energy solutions. This will contribute significantly to reducing the country's dependence on fossil fuels. Given that nuclear energy is a critical strategic sector, strong Government presence will continue but several parts of the sector will be opened up for private participation. In short, ramping up nuclear power will be a significant element in India's plan to drastically reduce its carbon footprint and achieve net zero goal by 2070.

Regulatory Reforms

The Government has signaled its intent to push regulatory reforms and shift towards trust based governance. Excessive red tape has long been a drag on India's entrepreneurial energy. Streamlining approvals and reducing compliance burdens will help to unlock productivity and accelerate innovation.

A high level committee for regulatory reforms is to be set up for a review of all non-financial sector regulations, certifications, licences and permissions. The committee will make recommendations within a year to suggest transformational measures to enhance ease of doing business, especially in matters of inspections and compliances. For the development of the financial sector, a mechanism will be set up to evaluate the impact of current financial regulations and subsidiary instructions.

The International Monetary Fund has emphasized the need for pursuing agricultural, land and judicial reforms. It has further exhorted the Government to reduce the public sector footprint in credit markets and implement expeditiously climate policies. Further, it has been suggested that there should be more trade deals going beyond bilateral agreements.

Conclusion

India's structural reforms present a distinct economic growth path for the next two decades. The budget sets the stage for India's continued rise as a high growth, export oriented, technology driven economy. The Finance Minister's speech is a bold and proactive statement that lays down a vision and roadmap to make India a global powerhouse.

The Budget 2025-26 underscores the Government's commitment to fostering inclusive growth through strategic investments in infrastructure, digital innovation and green technologies. It aims to stimulate agricultural and industrial productivity, reduce public debt and fiscal deficit and ensure a sustainable and prosperous future for millions of under privileged citizens.

India is on the cusp of an exciting growth journey despite challenges posed by the realignment of global economic priorities. India's annual growth rate of 6.5% to 7% will be propelled by Development, Demography, Digitization and Democracy. This is a historic moment in the Nation's history with India poised to add as much to the global GDP by 2030 as the entire European Union. The budget proposals provide the blueprint for the country to establish its place as a global leader having the third largest economy in the world by 2030.

The views expressed in this booklet are not necessarily those of the Forum of Free Enterprise.

"People must come to accept private enterprise not as a necessary evil, but as an affirmative good".

- Eugene Black
Former President,
World Bank
(1949-1962)

FORUM
OF FREE ENTERPRISE

The Forum of Free Enterprise is a non-political and non-partisan organisation started in 1956, to educate public opinion in India on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems through booklets, meetings, and other means as befit a democratic society.

In recent years the Forum has also been focusing on the youth with a view to developing good and well-informed citizenship. A number of youth activities including elocution contests and leadership training camps are organised every year towards this goal.

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