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Tax Flash News

26 March 2025

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Revision to the direct tax amendments proposed by the Union Budget 2025

Background

The amendments proposed to the Income-tax Act, 1961 by the Finance Bill, 2025 (the Bill) have been further modified and revised by Notice of Amendments tabled in the Lok Sabha.[1]

This Flash News captures the proposed significant revised amendments.

Presumptive taxation scheme

The Bill had introduced a presumptive taxation scheme for non-residents engaged in the business of providing services or technology to a resident company establishing/ operating an electronics manufacturing facility/ connected facility for manufacturing electronic products in India under the government notified scheme.

Under the revised amendments, the scope of the above presumptive taxation scheme has been expanded to include income in the nature of royalties or fees for technical services otherwise taxable on gross basis

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[1] KPMG Flash News on India Union Budget 2025-26 can be accessed at India Union Budget 2025-26

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Equalisation levy on online advertisement

The revised amendments abolished the equalisation levy applicable on non-resident at 6 per cent of the amount of consideration for online advertisement, provision for digital advertising space etc. provided on or after 1 April 2025.

Investment fund

The Bill treated securities held by the Investment Fund (Category-I and Category-II AIF) and invested in accordance with SEBI regulations as capital assets and income arising from transfer of such security would be taxable as capital gains. The revised amendment has extended this treatment to securities held by the Investment Fund and invested in accordance with IFSCA Act, 2019[2].

For an eligible fund manager in India (IFSC / otherwise) not to constitute business connection in India of an eligible investment fund (EIF) who is not a person resident in India, the condition of aggregate participation or investment in the EIF by person resident in India, not to exceed five per cent of the corpus of the fund, has been restricted by the revised amendments to only direct participation of persons resident in India.

International Financial Services Centre (IFSC)

Currently, a retail scheme or exchange traded fund (ETF) set-up in IFSC qualifies as a Specified Fund for the purposes of tax exemption, if they satisfy the prescribed conditions. The revised amendments provide that the retail scheme / ETF in IFSC would qualify as a Specified Fund for tax exemption, if they fulfil conditions laid down in IFSCA Fund Management Regulations (no separate conditions to be fulfilled).

The Bill proposed to extend the tax neutrality available on relocation of offshore fund / original fund to IFSC, to cases where the resultant fund in IFSC is set up or relocated as a Retail Scheme or Exchange Traded Fund and which satisfied the prescribed conditions. The revised amendments have done away with the criteria of fulfilling the separate condition for this benefit if the resultant fund fulfils the conditions laid down in IFSCA Fund Management Regulations.

[2] The International Financial Services Centres Authority Act, 2019

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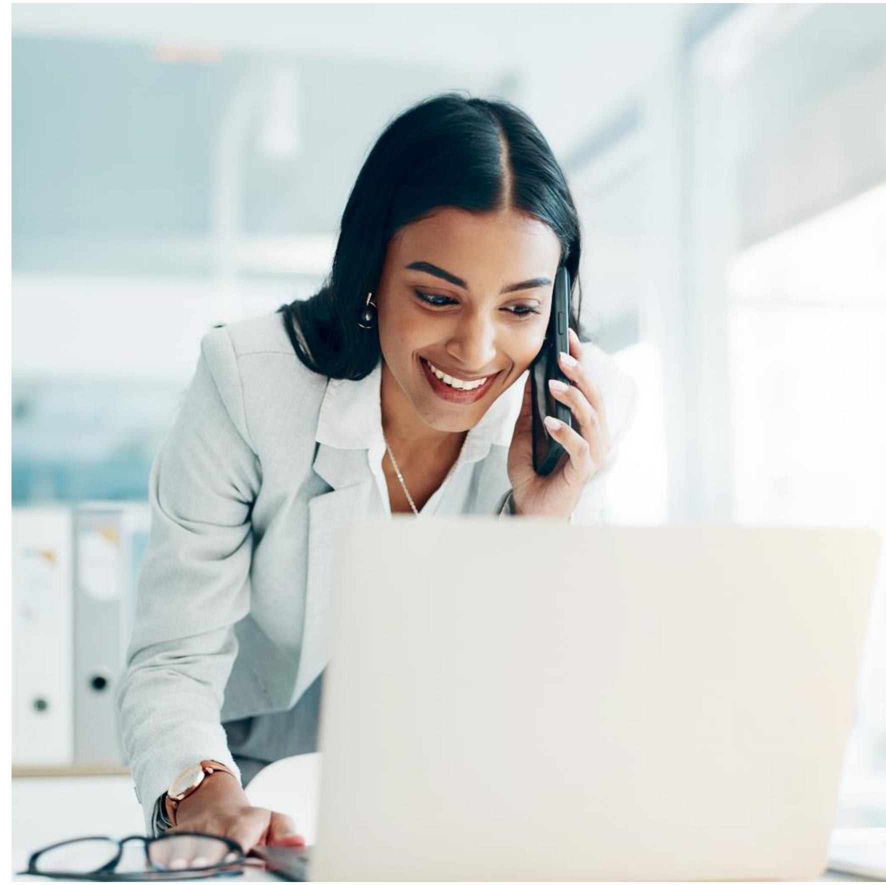
The Bill extended the tax exemption provided on any income of a non-resident from transfer of non-deliverable forward contracts or offshore derivative instruments (ODI) or over the-counter (OTC) derivatives, or distribution of income on ODIs, entered into with IFSC based Foreign Portfolio Investors, subject to conditions to be prescribed. Under the revised amendments, the ambit of tax exemption has been further expanded to include income of a non-resident from distribution of income on OTC derivatives entered with IFSC offshore banking unit or FPIs in IFSC on the fulfillment of the prescribed conditions.

The Bill proposed exemption for any sum received by policyholders under a life insurance policy purchased from IFSC Insurance Intermediary Office (IIIO), regardless of limit of INR 250,000 for ULIPs and INR 500,000 for other policies. Under the revised amendments, the reference to IIIO is corrected to IFSC Insurance Office (IIO).



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