

OVERVIEW OF THE UNION BUDGET 2025 – 2026

I. INTRODUCTION

On February 1, 2025, the Hon'ble Finance Minister, Nirmala Sitharaman, presented the Union Budget 2025-2026 (“**Budget**”), setting forth the fiscal and legislative roadmap for the upcoming financial year. This Budget encapsulates the administration’s strategic priorities, focusing on inclusive growth, regulatory reforms, and economic resilience. Against a backdrop of global economic uncertainties and geopolitical volatility, the Budget affirms the government's commitment to fiscal prudence and sustainable development, with a vision of achieving "Viksit Bharat" (Developed India).

The Budget is built on the foundation of structural reforms initiated in previous years while introducing new measures to enhance the country’s global competitiveness. It highlights critical areas of intervention, such as tax simplification, sectoral investments, and institutional reforms, to ensure that the benefits of growth are distributed equitably across all sectors of society. The overarching goals of the Budget are to stimulate domestic demand, promote private investment, and strengthen the financial ecosystem, all within the legal and constitutional framework governing fiscal management.

The Budget identifies five key priorities that will drive India's economic trajectory in the coming year:

1. **Green Growth:** A strong emphasis on sustainable development through investments in renewable energy, electric mobility, and energy-efficient infrastructure. Legislative measures will support green financing and incentivize businesses adopting environmentally friendly practices.
2. **Inclusive Development:** Policies aimed at uplifting marginalized communities, expanding access to quality education and healthcare, and promoting gender equality. This includes statutory backing for new welfare schemes and regulatory reforms to ensure equitable resource distribution.
3. **Digital Transformation:** Accelerating the adoption of digital technologies across sections, including governance, finance, and industry. The Budget outlines legal frameworks for data protection, digital payments, and the expansion of digital public infrastructure.
4. **Infrastructure and Investment:** A continued focus on infrastructure development through public-private partnerships (PPP), asset monetization, and regulatory reforms to attract both domestic and foreign investments. The legal framework will ensure transparency and efficiency in project implementation.
5. **Youth Empowerment and Skill Development:** New initiatives to enhance vocational training, entrepreneurship, and employment opportunities for India’s youth. Legal amendments will facilitate easier access to credit, startup incubation, and job creation programs.

II. IMPLICATIONS ON VARIOUS SECTORS

1. Financial Sector Reforms

- **FDI in Insurance Sector** - Legal amendments raise the FDI cap from 74% to 100%, promoting domestic capital retention and encouraging global insurance players to deepen their presence in the Indian market. While, this enhanced limit will be available for those companies which invest the entire premium in India, this policy shift aligns with the government's broader strategy to liberalize the financial sector, a significant departure from the protectionist policies of the past.
- **Credit Enhancement for Infrastructure Bonds** - A Partial Credit Enhancement Facility under NaBFID bolsters infrastructure financing, supported by regulatory incentives for long-term investments has been established. This initiative addresses the financing gaps identified in previous infrastructure development efforts, providing a more robust legal framework for investment.
- **Simplification of KYC Norms** - A revamped Central KYC Registry will be rolled out in 2025 enhancing transparency, reducing procedural complexities, and promoting financial inclusion across urban and rural sectors.
- **Merger and Acquisition Reforms** - Requirements and procedures for speedy approval of company mergers will be rationalized. The scope for fast-track mergers will also be widened and the process made simpler.
- **Transfer pricing** - It is proposed to provide that the transfer pricing provisions for arm's length price determination in relation to similar transactions shall now be applicable for a period of 3 years.

2. MSME Sector and Industrial Growth

- **Revision in MSME Classification** - The Budget revises the classification criteria for MSMEs by enhancing the investment and turnover limits. Specifically, the investment limit has been increased by 2.5 times, and the turnover threshold has been doubled. These changes aim to help MSMEs achieve higher economies of scale, adopt technological advancements, and gain better access to capital markets.
- **Credit Guarantee Enhancements** – The credit guarantees cover have been enhanced from INR 5,00,00,000 to INR 10,00,00,000 for MSME, and up to INR 20,00,00,000 crore for startups, represents a substantial increase in financial support. This policy shift is aimed at fostering entrepreneurial growth and reducing the risk perception associated with lending to small businesses.
- **Customized Credit Cards for Micro Enterprises** - Credit cards with an INR 5,00,000 limit for micro enterprises have been introduced. This initiative simplifies credit access, addressing longstanding barriers faced by small businesses.
- **Enhanced Kisan Credit Card (KCC) Limits** - Loan limits have been increased from INR 3,00,000 to INR 5,00,000 under the Modified Interest Subvention Scheme. This move is

expected to empower rural entrepreneurs and farmers, providing them with the necessary resources to scale their operations.

3. Investment and Infrastructure Development

- **Public-Private Partnerships (PPP)** - The Budget provides for each infrastructure related ministry to come up with a 3-year pipeline of projects that can be implemented in PPP mode. Furthermore, the states will also be encouraged to do the same and can seek support from the India Infrastructure Project Development Fund (IIPDF), which is a scheme for preparing PPP proposals and thereafter supporting and developing the same. In order to support the states in relation to infrastructure, an outlay of INR 1.5 lakh crore, 50-year interest free loans to states for capital expenditure and further incentives for reforms have been proposed.
- **Asset Monetization Plan 2025-2030** - The 2nd Asset monetization plan for 2025-2030 will be launched to plough back capital of INR 10 lakh crore in new projects. Furthermore, regulatory and fiscal measures will be fine-tuned to support the 2nd Asset monetization plan.
- **Urban Challenge Fund** - The establishment of a INR1 lakh crore fund to support urban redevelopment and infrastructure enhancements is governed by new regulatory frameworks focusing on sustainable urbanization. This initiative addresses the shortcomings of previous urban development programs, emphasizing sustainability and legal compliance.
- **UDAN Scheme** - The earlier scheme allowed 1.5 crore middle class people to meet aspirations for speedy travel. The scheme has connected 88 airports and operationalised 619 routes. Inspired by the aforementioned success, the new modified UDAN scheme focuses on regional connectivity to 120 new destinations and aims to carry 4 crore passengers in the next 10 years. Furthermore, the modified UDAN scheme will also support the building of helipads and smaller airports in hilly regions as well as Northeast regions/ districts. Additionally, green field airports will be facilitated in Bihar to meet future needs of the state. These will be in addition to expansion of Patna airport.

4. Energy Sector

- **Power Sector Reforms** - The Government will incentivise electricity distribution reforms and augmentation of intra state transmission capacity by states. This will improve financial health and capacity of electricity companies. Additional borrowing of 0.5% of GSDP will be allowed to states contingent on these reforms.
- **Nuclear Energy Mission for Viksit Bharat** - It has been indicated that at least 100 Gigawatt of Nuclear Energy, which is essential for India's Energy Transition Efforts, shall be developed by 2047. For active partnership with the private sector towards this goal, amendments to the Atomic Energy Act and the Civil Liability for Nuclear Damage Act, will be taken up. A Nuclear Energy Mission for research and development of small modular reactors with an outlay of INR 20,000 Crore will be set up. At least 5 indigenously developed small modular reactors will be operationalised.

5. Maritime and Shipping

- **Marine Development Fund** - An INR 25,000 crore Marine Development Fund structured with 49% government support and the remaining corpus mobilized with ports and the private sector has been announced. The Fund seeks to provide long-term and low-cost financial support for indigenous shipbuilding and other blue water infrastructure projects.
- **Credit Notes and Shipbuilding Financial Assistance Policy** - The Government has announced its plan to revamp the Shipbuilding Financial Assistance Policy to address cost disadvantages. Further, a ship recycling credit note scheme is to be introduced to encourage scrapping of ships in Indian yards and boost local shipbuilding to promote a circular economy. It could be expected that with such credit notes, fleet owners would be able to approach Indian shipbuilders to order new ships and get rebates in shipbuilding costs to the extent of such credit note values. Therefore, encouraging fleet owners to recycle ships in India
- **Large Ships** - Large ships above a specified size will be included in the infrastructure harmonized master list (HML). This entails the inclusion of larger ships within the overall HML of infrastructure sectors. Owing to this addition, developers of ships will gain access to more favourable lending conditions that would feature enhanced credit limits and easier terms, along with greater availability of funds through external commercial borrowings. They will also benefit from long-term financing options provided by insurance companies and pension funds and become eligible to secure loans from the India Infrastructure Financing Company Limited. Long-term loans would also help the sector with the acquisition of overseas assets. The inclusion of the sector in the HML thus seems to be aimed at creating a more robust and supportive financing environment for domestic building of ships.
- **Exemption of Basic Custom Duty (BCD)** - Being cognisant of the high gestation period in ship building, the Government has proposed to continue the exemption of BCD on raw materials, components, consumables or parts for the manufacture of ships for another ten years. This is likely to reduce import costs and ensure business competitiveness for domestic manufactures by reducing production costs. The Government has proposed the same dispensation for ship breaking to make it more competitive.
- **Shipbuilding Clusters** - It has been announced that 'Shipbuilding Clusters' will be facilitated by the Government so as to increase the range, categories and capacity of ships. This will include additional infrastructure facilities, skilling and technology to develop the entire ecosystem.
- **Tonnage Tax Scheme for Inland Vessels** - Currently, the tonnage tax scheme is available to only sea going ships. The Government has proposed to extend the benefits of the existing tonnage tax scheme to inland vessels registered under the Indian Vessels Act, 2021 to promote inland water transport in the country.
- **Gains from International Financial Services Centre (IFSC) incentives to Ship Leasing**

- The exemption in section 10(4H) has been extended to capital gains for non-resident or a unit of IFSC on transfer of equity shares of a ship leasing domestic company. Further, the exemption under section 10(34B) is to be extended to dividend paid by a ship leasing company in IFSC to a unit of IFSC engaged in ship leasing. The cut-off date of claiming such benefits of commencement in IFSC has also been extended to 31st March 2030.

6. Seafood Exports and Production

- **Fish Production and Aquaculture** - India holds a prominent position as the world's second-largest fish producer and a leading force in aquaculture, with seafood exports reaching INR 60,000 crore. The Government plans to unlock the marine sector's untapped potential by developing a framework that promotes sustainable fisheries development in India's Exclusive Economic Zone and High Seas. This initiative will place special emphasis on the Andaman and Nicobar and Lakshadweep islands, aiming to harness their unique maritime resources while ensuring environmental sustainability.
- **Seafood Exports** - The Government has set an ambitious target to double seafood exports from the current INR 60,000 crore to INR 1 trillion. To support this goal, the Budget introduces key customs duty reductions. The Basic Customs Duty on Frozen Shrimp Paste has been slashed from 30% to 5% for manufacturing and exporting related products. Additionally, the duty on Fish hydrolysate, a crucial ingredient in fish and shrimp feed production, has been reduced from 15% to 5%. These measures aim to enhance the global competitiveness of India's seafood processing industry.

7. Cryptocurrency and Digital Assets

- **Mandatory Reporting for Crypto Transactions** - Prescribed reporting entities are now required to furnish detailed information about transactions involving crypto-assets, marking a notable shift towards stricter regulatory oversight. It is also proposed to align the definition of virtual digital asset accordingly.

8. Export Promotion and Global Integration

- **Export Promotion Mission** - A coordinated legal framework driven by the Ministries of Commerce, MSME, and Finance facilitating export credit, streamlining trade procedures, and reducing non-tariff barriers for Indian businesses will be set up.
- **BharatTradeNet** - A unified digital platform for trade documentation and financing, aligned with international standards, will be introduced. This platform addresses the inefficiencies of the past, providing a streamlined solution for exporters.
- **National Framework for Global Capability Centres (GCCs)** - A national framework will be formulated as guidance for establishment of GCCs in Tier 2 cities, fostering economic decentralization and creating employment opportunities.

9. Direct Tax

- **Income Tax Slabs (New Regime)** - Tax-free income limit has been raised to INR 12,00,000. Standard deductions have been increased from ₹50,000 to ₹75,000. Furthermore, the tax slabs have been revised to the following:

INR 0 – INR 4,00,000	Nil
INR 4,00,000 – INR 8,00,000	5%
INR 8,00,000 – INR 12,00,000	10%
INR 12,00,000 – INR 16,00,000	15%
INR 16,00,000 – INR 20,00,000	20%
INR 20,00,000 – INR 24,00,000	25%
Above INR 24,00,000	30%

- **More self-occupied properties** - Taxpayers can claim 2 properties (previously 1) without any conditions.
- **Senior Citizen Benefits** - TDS exemption on interest income for senior citizens has been raised from INR 50,000 to INR 1,00,000.
- **Annual TDS limit on rent** – The annual TDS limit on rent has been increased from INR 2,40,000 to INR 6,00,000.

10. Indirect Tax

- **TDS Slabs (New Regime)** - Tax-free income limit has been raised to INR 12,00,000. Standard deductions have been increased from ₹50,000 to ₹75,000. Furthermore, the tax slabs have been revised to the following:

Category	Old Limit	New TDS Limit (2025-26)
TDS on Interest (Senior Citizens)	INR 50,000	INR 1,00,000
TDS on Rental Income	INR 2,40,000	INR 6,00,000
TCS on Foreign Remittances (LRS)	INR 7,00,000	INR 10,00,000
TCS on Education Remittances	Applicable	Removed

- **Customs Duty** - Exemption on 36 life-saving drugs have been introduced. Import duty on 12 critical minerals for EV & battery manufacturing have also been introduced.
- **Social Welfare Surcharge** - Removed on 82 tariff items, hence, lowering import costs.

III. CONCLUSION

The Budget serves as a transformative legal and fiscal blueprint, striking a deliberate balance between economic growth, statutory reforms, and social equity. By fostering a transparent and predictable regulatory environment, streamlining tax structures, and prioritizing investment in critical sectors, the government has laid a strong foundation for sustainable development and global competitiveness.

The legal amendments and fiscal measures reflect a strategic vision aimed at accelerating economic expansion while ensuring an equitable distribution of resources, in line with constitutional principles of justice, equality, and inclusive growth.

As India advances toward “Viksit Bharat,” this Budget reaffirms the government’s commitment to legal integrity, fiscal prudence, and socio-economic progress. The strategic initiatives and legal reforms outlined are designed to enhance resilience amid global uncertainties, positioning India as a key player in the global economy while ensuring that the benefits of growth reach every segment of society.

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