Union Budget 2024-25

July 23, 2024

With the economic growth engine of India back on track, post Covid-19, on the back of strong revival in investment demand in the economy led by extremely supportive policy of the government, the government has been on a path to gradually dial down the fiscal expansion in successive budgets. Due to the continued proactive steps taken by the government, India's GDP is expected to see strong performance in FY25 at 7.2% YoY as per the RBI and remain amongst the fastest growing large economies of the world. However, with the political dynamics fluctuating post the general elections with the formation of a coalition government there was an expectation that the budget could see higher welfare spending vs Capex spending. In the global context, the US Fed is now expected to gradually start cutting its policy rates, while the US government's deficit is expected to remain high. The RBI too, is expected to start moving towards a neutral stance on liquidity, as inflation cools, which could ensure enough liquidity remains available to keep the domestic growth engine greased. In this context, the Government has remained on the path of fiscal consolidation, which was better than what was estimated in the interim budget, while keeping a steady balance between growth and welfare schemes. The additional dividend transfer by the RBI (vs the interim budget) seems to have aided the Government budget dynamics.

The Economic Survey, which was announced a day prior to the Union Budget, struck a marginally conservative tone on growth and projected the FY25 Indian GDP growth at 6.5-7.0% YoY. The survey, in its medium-term outlook, highlights the key external issues that India currently faces. It states that in the current multipolar world (vs the earlier bipolar world) minor and significant geopolitical conflicts are likely in the coming decades. It also suggests that societies in advanced nations are fracturing from within, which can create turbulence in the long run. **It postulates that the idea of economic globalisation has run its course and nations are gradually become inward looking.** On the issue of Climate Change and Global Warming, it puts forward the position that Developed Nations are pushing for a reduction in the emission of greenhouse gases into the atmosphere, while the **Developing nations are struggling to restore economic growth and reduce poverty and debt in their countries. This creates a conflict of interest for them in effectively adopting and implementing climate change policies.** As per the economic survey, this is the global backdrop to India's growth, prosperity, and superpower aspirations for the next quarter century. **For realising India's aspirations, despite the changed circumstances, a good place to start is to acknowledge and recognise that the terrain has changed to be able to traverse through it and reach the destination.**

In this context, the survey **has drawn out some of the key areas of policy focus to ensure that India's growth continues unimpeded, crossing the milestone of becoming the third largest economy of the world in short order**, on its way to scaling greater heights. Some of the areas of Policy priorities as suggested by the survey are:

1) **Generating productive employment:** By creating the conditions for faster growth of productive jobs outside of agriculture, especially in organized manufacturing and services, while parallelly improving productivity in agriculture.
2) **Improve the Skill gap challenge:** Through continuous thrust on vocational training, improving industry engagement, establishing a quality assurance framework, leveraging technology, and expanding apprenticeship opportunities. This, in combination with the National Education Policy (NEP), holds tremendous potential for bridging the prevalent education-employment gap in India.
3) **Tapping the full potential of the agriculture sector:** By upgradation of agricultural technology, the application of modern skills in farm practices, enhancing agricultural marketing avenues, price stabilisation, the adoption of innovation in farming, lowering wastages in the use of fertiliser, water, and other inputs, and improving the agriculture-industry linkages.
4) **Easing the compliance requirements and financing bottlenecks confronting MSMEs:** By having sunset clauses for threshold-based incentives given to MSMEs, to help MSMEs secure the necessary funds to start, operate, or expand their business. Export strategy is also a crucial component of elevating the share of manufacturing in GDP and growing the country's MSMEs.

5) **Managing India's green transition:** The path of green transition in India needs to (a) ensure the consistency of the E-Mobility policy with the required optimal energy mix between traditional and renewable sources; (b) ensure grid stability for E-Mobility to become pervasive; (c) develop or acquire storage technology at affordable costs for the share of renewable energy in power generation to rise; (d) reckon with the opportunity cost of land and capital being used for renewable energy given that India's needs for land and capital far exceed their availability; (e) decide on the role and the share of nuclear energy in the energy mix; (f) recognise and deal with challenges posed by dependence on China for critical minerals, which are crucial raw materials needed for E-Mobility and renewable energy generation; (g) examine the implications of phasing down coal on the bank balance sheets; (h) recognise and estimate the impact of phasing out of coal-fired thermal plants on the freight revenues of the Indian Railways and (i) study the implications of replacing internal combustion engine vehicles with e-vehicles particularly on the sale of petrol and diesel and the tax revenues that such sale generates for the Union and State governments. Securing financing for green transition is also another policy priority.
6) **Tackling inequality:** As per the survey, critical policy interventions being undertaken with a focus on creating jobs, integrating the informal sector with the formal sector, and expanding the female labour force are aimed at effectively addressing inequality. Tax policies on the treatment of capital and labour incomes will likely play a more important role in the coming years, especially since the deployment of technology like AI may have a more deleterious impact on employment and income.
7) **Boosting private sector investment:** By creating an enabling policy and regulatory environment for the upgradation of capacity and know-how of component manufacturers, increasing the availability of trained human resources, addressing resource bottlenecks and regulatory impediments, etc. The Government has already taken measures like Aatmanirbhar packages, the introduction of the Production Linked Incentive (PLI), investment opportunities under the National Infrastructure Pipeline (NIP) etc. **The focus needs to be on the implementation of these measures with a target of putting the Private Sector Non-Residential Investment (including equipment, structures, software, and R&D) on a sustainable footing so that it can catalyse the efforts towards increasing investment to 35 % of GDP.**
8) **Strategy for removing the growth impediments in the agricultural sector:** The survey suggests that the potential of agriculture to be an engine of growth, development, and equity has to be exploited through intelligent farmer-friendly policies that are environmentally and climatically sustainable. **Agriculture may have a very important role to play in India's physical, food, and economic security.**

In the budget, the government's priority was to remain on the path of fiscal prudence while maintaining the balance between growth and macro stability/ Socially supportive policies. **The Fiscal deficit for FY24RE (Revised estimates) was estimated at 5.8% of GDP, while the Fiscal deficit for FY25BE (Budget Estimates) is now projected at 4.94% of the GDP, which was better than market estimates and lower than the interim budget estimates (at 5.1% of the GDP).** The government has reiterated its commitment to India's fiscal glide path which has **targeted a 4.5% fiscal deficit by FY26**. The Government also emphasized that from 2026-27 onwards, its endeavor would be to keep the fiscal deficit each year such that the Central Government's debt will be on a declining path as a percentage of GDP. The Government is expected to achieve the consolidation by the increasing tax buoyancy through improved compliance, and higher economic growth on the back of the multiplier effect of strong infrastructure spending and improved domestic demand. **In this context, the budget for FY25 reflected government's commitment to substantially boost inclusive development, MSME, Infrastructure & Manufacturing, skill development, ease of doing business and employment generation. The budget laid emphasis on 1) Productivity and resilience in Agriculture, 2) Employment & Skilling, 3) Inclusive Human Resource Development and Social Justice, 4) Manufacturing & Services, 5) Urban Development, 6) Energy Security, 7) Infrastructure, 8) Innovation, Research & Development and 9) Next Generation Reforms.**

The gross fiscal deficit was pegged at Rs.16.13 trillion or ~4.9% of the GDP in FY25BE (Budget estimates) as against Rs.17.34 trillion or 5.8% of the GDP in FY24RE (Revised Estimates). The fiscal deficit number was better than market expectations, as the budget focused on using the additional dividend received from the RBI and better tax receipts towards cutting the fiscal deficit and supporting incremental revenue expenditure. **Most of the major estimates on the Expenditure, Revenue receipts and Capital receipts looked credible, given the strong tax collection momentum. The Government's track record in managing the fiscal balance of the economy has been very credible in the past. The government expects the nominal GDP to rise by 10.5% YoY to Rs.326.3 trillion.** This number looks quite realistic. **With the real GDP growth expected to be in the range of 6.5%-7% YoY for FY25 and CPI based inflation for the year estimated at about 5% YoY, the nominal GDP growth seems achievable. We have seen this trend over the last few years where the budget takes a conservative view on the estimates.** The budget also estimated disinvestment proceeds to the tune of Rs.500 bn in FY25BE, which could also include disinvestment of government stake in PSU companies and/or possible reduction in the shareholding for PSU companies to comply with minimum shareholding norms. The tax revenues are expected to grow by 11.1% YoY (tax revenues net to center) to Rs.25.8 trillion for FY25BE on the back of strong tax collection momentum. Improved corporate tax collection at 10.55% YoY and personal incomes tax collection at 16.11% YoY and higher GST collection at 11.01% YoY due to higher growth dynamics and multiplier effect of the large capital spending by the government and incremental consumption demand is likely to support the growth in tax revenues. Total expenditure in FY25BE is pegged at Rs.48.2 trillion, which is an increase of 7.3% over FY24RE. Revenue Expenditure is estimated to be Rs.37.1 trillion in FY24BE, reflecting a growth of 4.8% over FY23RE. Capital expenditure, which continues to have the highest thrust in the budget, is estimated to grow by ~17% over FY24 RE to Rs 11.1 trillion. Though the capex spending growth is lower than the 28% YoY seen in FY24. The government seems to have used the incremental buffer that it had to curtail the fiscal deficit further vs what it had proposed in the Interim Budget for FY25. **We think that the key to manage the fiscal deficit number would be the ability of the government to go ahead with the planned disinvestment, transfer from RBI, PSU and financial institutions to the tune of Rs.2.89 trillion, communication (Spectrum) receipt of Rs.1.2 trillion and managing the current subsidy burden on Food, Petroleum and Fertilizer at Rs.3.8 trillion (decline of ~7.8% against FY24RE). With the government clearly focused on job creation through new and innovative measures along with support on the capital expenditure side, the expectations of revival in growth and jobs creations in the economy gets reinforced.**

Major Budget takeaways on key focus areas:

The Budget has proposed to focus on Employment, Skilling, MSME and Middle Class. It has laid special emphasis on job creation by having Five schemes to focus on 41 mn youth over 5 years with a central outlay of Rs 2 trillion. Government has made a provision of Rs 1.48 trillion for education, employment and skilling.

The Finance Minister has listed out detailed roadmap to pursue nine priorities for the budget. These priorities are:

1. Productivity and resilience in Agriculture
2. Employment & Skilling
3. Inclusive Human Resource Development and Social Justice
4. Manufacturing and Services
5. Urban Development
6. Energy Security
7. Infrastructure
8. Innovation, Research & Development
9. Next Generation Reforms

- **Productivity and resilience in Agriculture**
  - The Budget has allocated Rs 1.52 trillion for agriculture and allied sectors.
  - The budget focused on raising productivity and developing climate resilient varieties for Agri sector.
  - New policies like National Cooperation Policy were announced.
  - The other areas in this theme that the budget focused was improving Vegetable production & supply chain, Release of new varieties of seeds, initiating about 10 mn farmers into natural farming, Financing for Shrimp farming, processing and export.

- For MGNREGA - Rs 86 bn allocation (Increased by 43.3%) & Research and Development Projects – Rs 12 bn (Increased by 42.9%)

- **Employment & Skilling**

  The budget has proposed that as part of the Prime Minister's package, 3 schemes for 'Employment Linked Incentive' to be implemented-

  Scheme A: First timers

  First-timers to receive one month's wage upon entering the workforce in all formal sectors. A direct benefit transfer (DBT) of one month's salary, up to Rs 15,000, to be provided in three instalments.

  Scheme B: Job creation in manufacturing

  Incentives to be provided to both employees and employers as per their EPFO contributions for the first 4 years of employment.

  Scheme C: Support to employers

  Reimbursement to employers up to Rs 3,000 per month for 2 years towards their EPFO contribution for each additional employee

  Skill Development

  - New centrally sponsored scheme for Skilling under Prime Minister's Package for 2 mn youth over a 5-year period.
  - Model Skill Loan Scheme to be revised to facilitate loans up to Rs 0.75 mn.
  - Financial support for loans upto Rs 1 mn for higher education in domestic institutions to be provided to youth who have not been eligible for any benefit under government schemes and policies.

- **Inclusive Human Resource Development and Social Justice**
  - Purvodaya:
    - Industrial node at Gaya to be developed along the Amritsar-Kolkata Industrial Corridor.
    - Power projects, including new 2400 MW power plant at Pirpainti, to be taken up at a cost of Rs 214 bn.
  - Andhra Pradesh Reorganization Act: Special financial support through multilateral development agencies of Rs 150 bn in the current financial year.
  - Allocation of more than Rs 3 trillion for schemes benefitting women and girls.
  - Pradhan Mantri Janjatiya Unnat Gram Abhiyan: Improving the socio-economic condition of tribal communities covering 63,000 villages benefitting 50 mn tribal people.
  - 100 branches of India Post Payment Bank to be set up in the North-East region.

- **Manufacturing & Services**
  - New mechanism for facilitating continuation of bank credit to MSMEs during their stress period
  - Limit of Mudra loans increased from Rs 1 mn to Rs 2 mn
  - Turnover threshold of buyers for mandatory onboarding on TReDS platform to be reduced from Rs 5 bn to Rs 2.50 bn.
  - Financial support for 50 multi-product food irradiation units in MSME sector
  - E-Commerce Export Hubs to be set up in PPP mode to enable MSMEs and traditional artisans to sell their products in international markets

- **Urban Development**

  Transit Oriented Development: Formulation of Transit Oriented Development plans and strategies to implement and finance 14 large cities above 3 mn population.

  Urban Housing: Investment of Rs 10 trillion, including the central assistance of Rs 2.2 trillion in next 5 years, under PM Awas Yojana Urban 2.0 proposed to address the housing needs of 10 mn urban poor and middle-class families of which about Rs 301.71 bn has been allocated in the current year's budget.

Street Markets: New scheme to support the development of 100 weekly 'haats' or street food hubs every year for the next 5 years in select cities.

- **Energy Security**

  Energy Transition: Policy document on 'Energy Transition Pathways' to balance the imperatives of employment, growth and environmental sustainability to be brought out.
  Pumped Storage Policy: Policy for promoting pumped storage projects for electricity storage to be brought out.
  Research and development of small and modular nuclear reactors: Government to partner with private sector for R&D of Bharat Small Modular Reactor and newer technologies for nuclear energy, and to set up Bharat Small Reactors.
  Roadmap for 'hard to abate' industries: Appropriate regulations for transition of 'hard to abate' industries from the current 'Perform, Achieve and Trade' mode to 'Indian Carbon Market' mode to be put in place.

- **Infrastructure**

  Infrastructure investment by Central Government: Rs 11.11 trillion (3.4 % of GDP) to be provided for capital expenditure.
  Infrastructure investment by state governments: Provision of Rs 1.5 trillion for long-term interest free loans to support states in infrastructure investment.
  Pradhan Mantri Gram SadakYojana (PMGSY): Launch of phase IV of PMGSY to provide all-weather connectivity to 25,000 rural habitations.
  Irrigation and Flood Mitigation: Financial support of Rs 115 bn to projects such as the Kosi-Mechi intra-state link and other schemes in Bihar. Government to provide assistance to Assam, Himachal Pradesh, Uttarakhand and Sikkim for floods, landslides and other related projects**.**
  Tourism: Assistance for development of temples, monuments, craftsmanship, wildlife sanctuaries, natural landscapes and pristine beaches of Odisha.

- **Innovation, Research & Development**
  - Anusandhan National Research Fund for basic research and prototype development to be operationalised.
  - Financing pool of Rs 1 trillion for spurring private sector-driven research and innovation at commercial scale.

  Space Economy: Venture capital fund of Rs 10 bn to be set up for expanding the space economy by 5 times in the next 10 years.

- **Next Generation Reforms**

  Rural Land Related Actions
  Unique Land Parcel Identification Number (ULPIN) or Bhu-Aadhaar for all lands, Digitization of cadastral maps, Survey of map sub-divisions as per current ownership, Establishment of land registry, Linking to the farmers registry & Urban Land Related Actions. Land records in urban areas to be digitized with GIS mapping.
  Services to Labour: Integration of e-shram portal with other portals to facilitate such one-stop solution and Mechanism to connect job-aspirants with potential employers and skill providers.
  NPS Vatsalya: NPS-Vatsalya as a plan for contribution by parents and guardians for minors.

Key Receipts Areas:

Sr. No.	Particulars	FY24BE (Rs. Bn)	FY24RE (Rs. Bn)	FY25BE (Rs. Bn.)	FY25BE vs FY24RE
1	*Direct Tax Revenue from:*				
	~ Corporation Tax	9226.75	9226.75	10200	10.55%
	~ Income Tax	9005.75	10223.25	11870	16.11%
		18232.5	**19450**	**22070**	**13.47%**
2	*Overall GST*	9566	9566	10618.99	11.01%
3	Dividends from PSEs and other Investments	430	500	562.6	12.52%
	Dividend/Surplus from RBI, Nationalised Banks and financial Institutions	480	1044.07	2328.74	123.04%
	Total Dividends and Profits	**910**	**1544.07**	**2891.34**	**87.25%**
4	Disinvestments	510	300	500	66.67%

Source: www.indiabudget.gov.in

Key Expenditure Areas:

Sr. No.	Particulars	FY24BE (Rs. Bn)	FY24RE (Rs. Bn)	FY25BE (Rs. Bn.)	FY25BE vs FY24RE
1	Central Sector schemes/projects	14678.8	14461.52	15161.76	4.84%
2	Pension	2343.59	2380.49	2432.96	2.20%
3	Defence	4327.2	4558.97	4547.73	-0.25%
4	*Subsidy:*				
	~ Fertiliser	1751	1888.94	1640	-13.18%
	~ Food	1973.5	2123.32	2052.5	-3.34%
	~ Petroleum	22.57	122.4	119.25	-2.57%
5	Agriculture and Allied Activities	1442.14	1405.33	1518.51	8.05%
6	Education	1164.17	1088.78	1256.38	15.39%
7	Energy	949.15	549.89	687.69	25.06%
8	Health	889.56	792.21	892.87	12.71%
9	Rural Development	2382.04	2389.84	2658.08	11.22%
10	Urban Development	764.32	692.71	825.77	19.21%
11	*Centrally Sponsored Schemes:*				
	~ National AYUSH Mission	12	8.15	12	47.24%
	~ PM POSHAN	116	100	124.67	24.67%
	~PMAY (Rural)	544.87	320	545	70.31%
	~PMAY (Urban)	251.03	221.03	301.71	36.50%
	~ AMRUT	80	52	80	53.85%
	~ Jal Jeevan Mission	700	700	701.63	0.23%
	~ MGNREGP	600	860	860	0.00%
	~ PM Gram Sadak Yojna	190	170	190	11.76%
	~ PM Garib Kalyan Anna Yojana	1973.5	2123.32	2052.5	-3.34%
	~ Solar Power (Grid)	49.7	47.57	100	110.22%
	~ PLI (Auto and Auto components)	6.04	4.84	35	623.14%
	~ PLI (MEITY)	46.45	45.6	62	35.96%
12	Ministry of Road Transport and Highways	2704.3471	2763.5145	2780	0.60%
13	Ministry of Railways	2412.6751	2432.7184	2553.93	4.98%

Source: www.indiabudget.gov.in

Outlook:

On the back of robust growth in the country, the budget seems to be using the improved revenue traction to improve the economy's fiscal health. The same could be used counter-cyclically if faced with weakening economic conditions. Despite the fiscal consolidation, the budget seems positive for the economy as it addresses both the demand and supply side concerns. It has also used the additional windfall in the form of higher RBI dividends and improved nominal GDP growth traction to support growth. Post the election verdict the larger focus of the budget was on Youth and job creation. Various measures have been proposed to shore up employment and employability for the youth that should pay rich economic dividends in the future. Given that this was a coalition government, the budget did focus on the key coalition partner states of Bihar and Andhra Pradesh. Nevertheless, majority of the allocation to these states were targeted at key infrastructure projects which is likely to support the states' economies in the longer run, and no visible dole out was seen in this context. The abolition of angel tax and rationalization of the capital gains tax for unlisted equities would go a long way in supporting the development of and funding for entrepreneurs in the country. When we look at the overall allocation to major ministries and key schemes, the budget seems to have a "business as usual" approach, wherein the earlier policies and programs of the government have been taken forward. However, when looked along with the bottom-up policy initiatives, especially in terms of ease of doing business and employment generation, the budget seems to be taking larger leaps. Over the past few years, we have seen coordinated efforts by the government to move India towards its goal of inclusive growth, stronger value-added manufacturing capabilities, improving ease of doing business, supporting MSMEs, large scale job creation and improving the quality of life in the country. This budget was also a step in that direction. The Budget would continue to support building the long-term potency in the economy to ensure the virtuous cycle of higher investments leading to strong job creation and in turn leading to sustained consumption capabilities and higher economic growth.

For the Equity market the key irritant in the budget was the hike in the short-term capital gains tax and the long-term capital gains tax, which saw the markets moving in a profit booking mode as the budget was being presented. Over the long run, gradual reduction in the fiscal deficit, would lead to ratings upgrade for India, which could structurally drive down the cost of capital for the economy and act as a booster for Indian corporates and investors. From here on, the Indian equity markets are likely to be driven by corporate earnings performance and upcoming macro-economic data points. In a situation of improving domestic fundamentals, rising corporate profits, strong investment demand and improvement in consumption (with better employment opportunities), we think that the Indian economy would be well positioned to deal with the changing geo-economic dynamics. However, given the rich valuations in the equity markets currently, we continue to maintain our investment deployment strategy of 40% Lumpsum and 60% staggered over the next 5-6 months. From an Equity Mutual Fund perspective, investors could look at investing in Large cap funds, Flexi/Multicap funds, Value funds, Hybrid equity funds, Infrastructure funds and Business cycle funds in line with their risk profile and product suitability from a 2-3 years' time horizon.

Personal Income Tax

From Assessment Year (AY) 2025-26, it is proposed that the following rates under sub-section (1A) of section 115BAC of the Act would be the tax rates applicable for determining the income-tax payable in respect of the total income of a person, being an Individual or Hindu Undivided Family.

For Individual Tax Payers (under New Tax Regime)

Tax Slabs	**(From AY 2025-26)**
Income (Rs)	**Tax Rate (%)**
0 mn – 0.30 mn	0%
0.30 mn – 0.70 mn	5%
0.70 mn – 1.00 mn	10%
1.00 mn – 1.20 mn	15%
1.20 mn – 1.50 mn	20%
Above 1.50 mn	30%

Surcharge on income-tax:

a) of 10% for income (including the income by way of dividend or income under the provisions of section 111A, 112 and section 112A of the Income-tax Act) exceeding Rs.5 mn but not exceeding Rs.10 mn.
b) of 15% for income (including the income by way of dividend or income under the provisions of section 111A, 112 and 112A of the Act) exceeding Rs.10 mn but not exceeding Rs.20 mn.
c) of 25% for income (excluding the income by way of dividend or income under the provisions of section 111A, 112 and section 112A of the Income-tax Act) exceeding Rs.20 mn but not exceeding Rs.50 mn.
d) of 37% for income (excluding the income by way of dividend or income under the provisions of section 111A, 112 and section 112A of the Income-tax Act) exceeding Rs.50 mn.
e) of 15% for income (including the income by way of dividend or income under the provisions of section 111A, 112 and section 112A of the Income-tax Act) exceeding Rs.20 mn but is not covered under clauses c) and d).
f) In case where the total income includes any income by way of dividend or income chargeable under section 111A, 112 and section 112A of the Income-tax Act, the rate of surcharge on the amount of income-tax computed in respect of that part of income shall not exceed 15%.
g) In case where the income is chargeable to tax under sub-section (1A) of section 115BAC of the Act, the surcharge at the rate of 37% on the income or aggregate of income of such person (including the income by way of dividend or income under the provisions of sections 111A, 112 and 112A of the Act) exceeding Rs. 50 mn shall not be applicable. **In such cases the surcharge shall be restricted to 25%.**

Health and Education Cess:

For AY 2025-26, ''Health and Education Cess'' is proposed to be levied at the rate of 4% on the amount of income tax so computed, inclusive of surcharge wherever applicable, in all cases.

Rebate under section 87A:

From AY 2025-26 onwards, an individual whose income is chargeable to tax under the proposed sub-section (1A) of section 115BAC, is now proposed to be entitled to a rebate of 100% of the amount of income-tax payable on a total income not exceeding Rs.700,000.

Standard deduction:

Standard deduction for salaried individuals under new tax regime is proposed to be increased from Rs 50,000 to Rs 75,000.

Standard deduction for family pension under new tax regime is proposed to be increased from Rs 15,000 to Rs 25,000.

Capital Gains Taxation:

Section 111A - Short Term (ST) Capital Gain Tax (For equity shares and units of equity oriented mutual fund schemes)

From AY 2025-26, short term capital gain tax on the transfers after 23rd July 2024 is proposed to be **increased to 20% from 15%.**

Section 112A - Long Term (LT) Capital Gain Tax (For All Assets: Financial / Non-Financial)

(i) From AY 2025-26, tax on long term capital gain on the transfers after 23rd July 2024 is proposed to be **increased to 12.5% from 10%.**

(ii) From AY 2025-26, exemption from long term capital gains for income computation is proposed to be **increased to Rs 1,25,000 p.a from Rs 1,00,000 p.a.**

Change In Time Limit for Determining Holding Status of Capital Asset (ST/LT)

(i) **Listed financial assets** is proposed be deemed to be long term capital asset, if it is held for **more than one year**.

(ii) **Unlisted financial assets** is proposed be deemed to be long term capital asset, if it is held for **more than two years**.

Unlisted Debt Products

The tax on capital gain on unlisted debt products like bonds, debentures, debt mutual funds and market linked debentures is proposed to be at applicable slab tax rate irrespective of their period of holding.

Section 115QA – Taxation on Buy Back of Shares:

Instead of the company, now the income in the form of dividends (consideration received – fair market value of the shares) as received by the shareholder is proposed to be taxed in the hands of the shareholder.

Section 80CCD – Contribution to NPS:

Deduction from income for contribution to NPS by private sector employee is proposed to be **increased to 14% from 10% of salary.**

Section 56(2) (viib) - Abolition of Angel Tax:

Angel tax for all classes of investors is proposed to be abolished. Angel tax was applicable when start-ups raised funding by issuing unlisted equity shares worth more than the fair market value. This difference was deemed to be income for the start-ups and was attracting tax.

Changes in STT on F&O Transactions:

Securities Transaction Tax (STT) has been proposed to be increased for Futures & Options as follows:

Transaction Type	Previous STT	New STT
Futures	0.0125% of the price	0.0200% of the price
Options	0.0625% of the option premium	0.1000% of the option premium

TDS on Rent by Individual or HUF:

TDS on rent payment by resident individuals or HUF exceeding Rs 50,00 per month is proposed to be **reduced to 2% from 5%**.

Note: For any tax query, please check with your tax consultant.

Debt Market Outlook

In FY25 Union Budget, the government's **market borrowing** number came in lower than the FY24RE and marginally higher than the market expectations on the back of higher dividend income from the RBI. The government in FY25BE has budgeted a net market borrowing of Rs 11.63 trillion and a gross market borrowing of Rs 14.01 trillion as against the FY24RE figures of Rs 11.80 trillion and Rs 15.43 trillion, respectively. The Non-Tax Revenue is estimated to increase by ~45% to Rs 5.46 trillion for FY25BE as compared to Rs 3.76 trillion for FY24RE. In the Non-Tax Revenue, the estimates of Dividend/Surplus from the Reserve Bank of India and Nationalized Banks & Financial Institutions are projected at Rs 2.89 trillion for FY25BE as against Rs 1.54 trillion for FY24RE.

The government's **fiscal deficit** number for FY25BE came in at 4.9% of GDP, better than the market expectation of 5.0-5.1% of GDP. The higher tax revenue, dividend/surplus and lesser market borrowing provided support to fiscal deficit. Meanwhile, Capital Expenditure increased by ~17% to Rs 11.11 trillion for FY25BE in comparison to Rs 9.50 trillion for FY24RE.

The government continues to remain on its fiscal consolidation path and is aiming to reach a fiscal deficit of below 4.5% of GDP for FY26. From FY27 onwards, the government highlighted its plan to keep fiscal deficit in such a manner that the debt to GDP ratio remains on a declining path. This statement suggests that the government may shift its fiscal strategy from fiscal deficit target as a % of GDP to debt to GDP ratio.

The bond market has remained neutral to the announcements made in the Union Budget as the market was expecting lower market borrowing, even though the fiscal deficit came in lower than the market expectations. The yield of the 10-year benchmark bond, 7.10 G-sec 2034, remained flat and was trading at a level of 6.97% at the time of writing this note as against its previous close of 6.97%. Currently, the yield curve remains flat as the short-end of the curve remains elevated due to tight liquidity conditions and the long-end remains well bid due to favorable demand-supply dynamics. The short end of the yield curve will move lower leading to steepening once the RBI eases banking system liquidity.

With the government remaining fiscally prudent, the global rating agencies may look to upgrade India's sovereign rating, which remains a positive for the bond market. The structural decline in fiscal deficit and the potential rating upgrade may structurally lower the interest rates over the long term. Moreover, with the government remaining on its fiscal consolidation path and inflation declining on the durable basis, the RBI's MPC may look to pivot. The RBI may change its liquidity stance from 'withdrawal of accommodation' to 'neutral' before proceeding with the rate cuts.

Fixed Income Mutual Fund Strategy:-

While the duration strategy looks attractive in the long term, gains from duration play could be limited in the near term as the long end of the curve remaining lower. At the current juncture, accrual opportunities at the 2-4-years segment of the corporate bond curve remains attractive from a risk-reward perspective, for incremental investment, until fresh triggers appear to suggest further decline in yields at the longer end. Hence, investors can look at Corporate Bond Funds and Short duration funds for a horizon of 15 months and above. For a horizon of 3 months and above, investors can consider Arbitrage Funds. Whereas for a horizon of up to 3 months, investors can consider Overnight Funds and Liquid Funds. Investors can also look at Multi-asset allocation funds for a horizon of 36 months and above. Investors should invest in line with their risk profile and product suitability.

Budget at a Glance

Particulars (Rs. Bn)	2022-2023 Actuals	2023-2024 BE	2023-2024 RE	2023-2024 PA[1]	2024-2025 BE	% Change[*]
A. Revenue Receipts	23,832.06	26,322.81	26,997.13	27,284.12	31,292.00	15.91%
Tax Revenue (net to centre)	20,977.86	23,306.31	23,239.18	23,265.24	25,834.99	11.17%
Non-tax Revenue	2,854.21	3,016.50	3,757.95	4,018.88	5,457.01	45.21%
B. Capital Receipts	18,099.51	18,708.16	17,907.73	17,141.30	16,913.12	(-)5.55%
Total Receipts (A+B)	**41,931.57**	**45,030.97**	**44,904.86**	**44,425.42**	**48,205.12**	**7.35%**
Total Expenditure	**41,931.57**	**45,030.97**	**44,904.86**	**44,425.42**	**48,205.12**	**7.35%**
Revenue Expenditure	34,531.32	35,021.36	35,402.39	34,940.36	37,094.01	4.78%
Capital Expenditure	7,400.25	10,009.61	9,502.46	9,485.06	11,111.11	16.93%
Revenue Deficit	**10,699.26**	**8,698.55**	**8,405.27**	**7,656.24**	**5,802.01**	**(-)30.97%**
as a % of GDP	**4.0%**	**2.9%**	**2.8%**	**2.6%**	**1.8%**	
Fiscal Deficit	**17,377.55**	**17,868.16**	**17,347.73**	**16,536.70**	**16,133.12**	**(-)7.00%**
as a % of GDP	**6.4%**	**5.9%**	**5.8%**	**5.6%**	**4.9%**	
GDP	**271,524.22[#]**	**301,750.65**	**299,098.79[#]**	**295,356.67**	**326,369.12**	**10.50%**

Source: www.indiabudget.gov.in

Note: All figures in Rs. Bn, except the YoY % figures.
[*] % Change is FY25BE over FY24RE.
[1]Provisional Actuals (PA) for FY24 are unaudited and subject to change
[#]Calculated basis fiscal deficit numbers.

Please refer to the disclaimer on the next page

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