



## UNION BUDGET 2025-26

# Budget 2025 Expectation Semiconductor Industry

As February approaches, everyone is looking ahead to the Union Budget 2025. The government's primary focus for this fiscal year is expected to be economic growth and development. A key expectation from Finance Minister Nirmala Sitharaman is to sustain growth while managing the fiscal deficit and keeping inflation under control. We have covered certain expectations from the 2025 budget for semiconductor industries below.

The semiconductor manufacturing industry is a key area of focus in global economic and strategic planning, mainly due to its pivotal role in high-performance computing, the digital economy, national security and more or less, any technological advancement. Given the recent geopolitical developments, including the China-Taiwan issue and growing unrest between China and the West, major semiconductor giants from the western and allied countries like Taiwan, South Korea, and Japan are trying to de-risk their investments from China, which presents a significant opportunity for India. With the right policies and infrastructure support, India could seize this opportunity and position itself as a key player in semiconductor technology.

The Production Linked Incentive (PLI) scheme, introduced in Ind, will likely be extended or expanded in Budget 2025 to encourage more semiconductor manufacturers to establish or expand their operations in India. PLI Schemes are a cornerstone of the government's push to achieve an Atmanirbhar Bharat. The objective is to make domestic manufacturing globally competitive and create global champions in manufacturing. The strategy behind the scheme is to offer companies incentives for incremental sales from products manufactured in India.

While the PLI scheme is a positive initiative, it may not fully address the multifaceted challenges that the semiconductor industry faces in India. Complementary policies focused on infrastructure, technology development, talent building, and research and development are also required for long-term success.

In Budget 2025, several schemes can be expected for the semiconductor industry. Below are the key direct tax expectations for the semiconductor manufacturing industry in Budget 2025.

### 1. Tax Relief for R&D Activities

Budget 2025 may propose an increase in tax deductions for semiconductor companies engaged in research and development (R&D). This could include a higher rate of weighted deduction (200% or so) for R&D expenditures, making investing in next-generation semiconductor technologies more attractive to domestic players.

### 2. Tax Holidays or Reduced Tax Rates for Semiconductor Manufacturers

Similar to tax holidays offered in other sectors, Budget 2025 might introduce tax exemptions or reduced tax rates for semiconductor manufacturers setting up new fabrication plants (fabs) or manufacturing units. These could help companies offset the sizeable upfront investment required to establish a manufacturing facility.

### 3. Accelerated Depreciation on Semiconductor Manufacturing Equipment

Semiconductor manufacturing equipment is often capital-intensive. Budget 2025 may propose accelerated depreciation on equipment used in chip production. This would allow companies to recover their investment more quickly, thereby encouraging the establishment of new production units.

### 4. Tax Incentives for Export-Oriented Semiconductor Companies

Semiconductor manufacturers involved in exporting chips or related technologies might receive special tax incentives under Budget 2025. This could include exemption from taxes on export earnings or a reduction in export duties to make domestic products more competitive in the global market.

### 5. Taxation of Foreign Investments

Considering key factors such as lower operating costs, a dynamic workforce, and strong international diplomacy, India is an attractive destination for companies to invest in and operate. In countries like India, Foreign Direct Investments (FDI) in semiconductor manufacturing could be incentivized through tax holidays, reduced tax rates, or special rebates on profits derived from semiconductor operations. Budget 2025 might focus on easing FDI regulations to attract more international semiconductor giants to set up manufacturing units in the country.

## Conclusion

In Budget 2025, direct tax provisions aimed at the semiconductor industry are expected to focus heavily on encouraging domestic production, innovation, and foreign investment. These provisions could include tax credits for R&D, capital investment incentives, tax holidays for manufacturing units, etc.

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