UNION BUDGET 2025-26

Budget 2025 Expectation
For Sustainable Energy Sector

India is the third-largest producer and consumer of electricity worldwide. Increased industrialization, rural electrification projects, and increased per capita consumption are expected to further increase electricity demand.

India has been using coal for power generation for decades, and coal continues to be a major energy-producing fuel. In recent times, however, solar electricity has increased significantly, and now solar-sourced energy stands third in electricity generation behind coal and hydro. This is primarily due to the Government's focus on this energy source coupled with the development of technology and reduction in costs.

India has committed to augmenting non-fossil fuel-based installed electricity generation capacity to over 5,00,000 MW by 2031-32. Today non-fossil fuel contributes to approximately 43% of the total installed capacity, compared to approximately 29% of a decade ago. Despite the increase in contribution, the potential of solar and wind energy is vast and is still to be harnessed.

Additional benefits of non-fossil fuel generation alternatives include helping India reduce its carbon footprint, which is much higher currently.

India is the third-largest global emitter of CO2 with the power sector being the major contributor to the carbon footprint.

In that direction, our government has introduced low carbon/clean energy interventions, including the "Rooftop solarization" scheme offering free electricity, enhancing offshore wind energy, coal gasification, compressed bio-gas, biomanufacturing, and bio foundry to produce bio-degradable environmentally friendly polymers and products, scale up plans for electric vehicles and charging infrastructure for a clean environment, etc. The Government also focuses on expanding the use of more electric buses for public transport, leading to significant investments in the electric vehicle sector. Green Growth is one of the top priorities of the Modi-led Government.

Against the above backdrop and with an overall emphasis on sustainable growth, it's essential to join hands with the private sector and encourage the private sector to make investments in this segment. To attract investments, a few direct tax incentives may be considered for businesses engaged in renewable energy generation and for individuals investing in this segment.

Profit linked deduction

Section 80JJA of the Income Tax Act 1961 (the Act) provides a deduction with respect to profits and gains from the business of collecting and processing or treating bio-degradable waste for generating power or producing bio-fertilizers, bio-pesticides or other biological agents or for producing bio-gas or making pellets or briquettes for fuel or organic manure. As per section 80JJA, a deduction of an amount equal to the whole of such profits and gains will be allowed for five consecutive assessment years beginning with the assessment year relevant to the previous year in which such business commences.

Further, in the past, there was a 100% deduction of profits provided to businesses engaged in electricity generation and distribution under section 80IA of the Act.

Given the importance of investment in this sector, the government may consider extending profit-linked deductions similar to those in the biogas industry to other businesses engaged similarly in producing and distributing electricity. The Government may even consider reviving benefits under section 80IA and providing a tax holiday to such companies.

Investment Linked Deduction

The renewable energy sector is cost-intensive and requires substantial capex in plant and machinery operations.

Section 35AD of the Act provides a 100% deduction of the capital expenditure incurred for certain businesses specified in the section, provided the assessee fulfills the conditions prescribed in that section. This is a very positive provision wherein various businesses, such as the development of infrastructure facilities, hospitals, warehousing, etc., are covered. Investment in the renewable energy sector may be included in this list of eligible businesses under section 35AD.

The Government may alternatively consider an investment allowance of upto 20% of investment in new plant and machinery by such business over and above depreciation.

Tax benefits relating to energy generation

A similar section related to carbon credits - Section 115BBG of the ITA deals with the tax on income from the transfer of carbon credits. As per Section 115BBG, where the total income of an assessee includes any income by way of transfer of carbon credits, the income is taxable at a lower rate of 10%. This encourages businesses to save on carbon emissions and utilize resources more efficiently.

Additionally, on similar lines, a company engaged in the generation of renewable energy or non-fossil-based energy may be given a credit linked directly to the units they generate. For example, an amount equivalent to 1% of the units of power generated can be allowed as a deduction or credit to the company. Credits generated may be allowed to be transferred similarly to carbon credits and taxed at a lesser rate.

Roof Top solar energy

The Government introduced the scheme of investment in rooftop Solar Panels by individuals in the last budget, encouraging individuals to use rooftops to install solar panels and generate electricity.

Solar panels require a substantial amount to be invested - approximately 3 to 5 lakhs. This capital expense is to be borne by individuals. This can be a burden on them, eventually discouraging them from investing in the scheme at all.

This scheme is a win-win for all. It helps solve the shortage of electricity supply in urban as well as rural areas, harnesses the power of solar energy, and contributes to a sustainable growth model. In light of this, a deduction on an individual's investment cost may be considered. Such deduction may be spread over 3-5 years, similar to depreciation.

Conclusion

The power sector is one of the most important critical components of infrastructure, and economic growth is directly linked to it. Using renewable or non-fossil-based sources makes economic growth sustainable. Given its importance, a few incentives on the lines listed above are welcome.

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