UNION BUDGET 2025-26

Budget 2025 Highlights

A long-awaited and well-deserved change: Reforms in Personal Income Tax

This was a historic 8th budget for Finance Minister Nirmala Sitharaman, the second of Modi Government 3.0, and finally, the middle class has been appeased. The Government has acknowledged that the middle class is providing strength for India's growth.

The Government introduced a new taxation regime for individuals a couple of years back without any deductions or incentives. Individuals could optionally apply the old regime or the new tax regime. However, the new tax regime was made the default regime of taxation, indicating that the government wanted to promote the new tax regime.

In the current budget, the Government has further amended the new regime to reduce taxes, especially keeping the middle class in focus and leaving more money in their hands, boosting household consumption, savings, and investments. This article delves into the most significant changes to personal income tax introduced in Budget 2025.

1. New income tax slabs under new tax regime

New Tax Slabs under the New regime proposed to be applicable from Assessment Year (AY) 2026-27 i.e., the financial year (FY) 2025-26, along with a comparison with earlier tax regime is given below-

The proposed amendment makes the new regime lucrative, especially for income groups upto INR 24 lakhs salary. In the new regime, the standard deduction from salary continues to be INR 75,000.

The increased tax slabs may make the new regime attractive to a lot more as the income difference to break even the tax liability under both regimes are now roughly INR 8 lakhs. In other words, if an individual has eligible deductions under various sections (e.g. LTA, HRA, investment in PF, and other saving schemes under section 80C, and housing loan interest, etc.) totaling to INR 8 lakhs or more, the old regime remains beneficial.

Tax slab for Financial Year 2024-25		Applicable from Financial Year 2025-26 (Proposed)	
Total Income	**Tax Rates**	**Total Income**	**Tax Rates**
Up to INR 3,00,000	NIL	Up to INR 4,00,000	NIL
INR 300,001 to INR 7,00,000	5%	INR 400,001 to INR 8,00,000	5%
INR 7,00,001 to INR 10,00,000	10%	INR 8,00,001 to INR 12,00,000	10%
INR 10,00,001 to INR 12,00,000	15%	INR 12,00,001 to INR 16,00,000	15%
INR 12,00,001 to INR 15,00,000	20%	INR 16,00,001 to INR 20,00,000	20%
Above INR 15,00,000	30%	INR 20,00,001 to INR 24,00,000	25%
		Above INR 24,00,000	30%

2. Rebates offered under section 87A

Apart from the above slab rate changes, the tax rebate as per Section 87A of the Income tax Act, applicable for income upto INR 7 lakh, has been enhanced to INR 12 lakh. Considering the standard deduction available for salaried persons and rebates in the new tax regime, taxpayers with an income upto INR 12.75 Lakhs will have no tax liability as per the new regime. They will get the benefit of INR 80,000 in tax rebate (which is 100% of tax payable as per existing rates). However, the rebate is not applicable against income chargeable at a special rate of tax, like income from capital gains, etc. Therefore, if an individual's income includes capital gains, the rebate is not applicable to the tax on such capital gain, even if the total income is less than INR 12 lakhs.

3. Annual value of 2 self-occupied properties will be treated as nil for taxation purposes.

Presently, taxpayers can claim the annual value of self-occupied properties as nil only when fulfilling certain conditions. Considering the difficulties faced by taxpayers effective from FY 2024-25, it is proposed that the benefit of two such self-occupied properties be granted without any condition.

4. Deduction under section 80CCD for contributions made to National Pension Scheme (NPS) Vatsalya

NPS Vatsalya, a scheme designed for minors, officially launched on 18 September 2024, aims to secure their financial future while promoting the importance of saving for retirement from an early stage.

The Finance Minister has announced that NPS Vatsalya subscribers will now receive the same tax benefits effective FY 2024-25 as regular NPS subscribers for their contributions under Section 80CCD(1B). Taxpayers who contribute to NPS Vatsalya account for children, dependents, or specific beneficiaries can claim an additional tax deduction of INR 50,000 under Section 80CCD(1B), similar to regular NPS contributions. Ironically, though the tax deduction of INR 50000 proposed is not available in the new regime. The government is encouraging the new tax regime adoption, passing this benefit of tax deduction under the new regime as well, which would have been reasonable

5. Exemption to withdrawals by Individuals from National Savings Scheme (NSS) from taxation

Section 80CCA, provides for a deduction to an individual, or a Hindu undivided family, for any amount deposited in the National Savings Scheme (NSS). It is also provided that no deduction would be allowed in relation to such an amount on or after the 1st day of April 1992.

Currently, amounts withdrawn from NSS, including accrued interest, are taxable if the deduction was previously claimed. A notification from the Department of Economic Affairs on 29th August 2024 announced that no interest will be paid on NSS balances after 1 October 2024.

In response to the hardship faced by individuals withdrawing due to this, the budget proposes amending Section 80CCA to exempt withdrawals made on or after 29th August 2024 from these deposits, including interest, for amounts deposited before 1 April 1992

This amendment shall be made with retrospective effect from the 29 day of August 2024.

6. Perquisites

Government in budget 2025 has increased the limits for being qualified as tax free perquisites for salaried people. Now, more employees (depending upon the increase in the limit of gross total income to be notified) are eligible for a tax-free perquisite for any expenditure incurred by the employer for travel outside India on the medical treatment of such employee or his family member, this amendment will take effect from FY 2025-26

Our Comments

A broader strategy that will give tax relaxation to a much wider income spectrum was always a valid ask from taxpayers. The new change of increasing the 87A rebate to INR 12,00,000 offers a good deal of financial breathing room to the lower-middle income community. On top of that, restructuring the tax slabs is a welcome move for middle- and higher- salary individuals, reducing their tax burden. Moreover, we see a strategy being implemented to push more and more taxpayers into the new regime and possibly phase out the old regime completely over a few years, which is in line with the government's promise to simplify the country's income tax structure. The reforms will surely cause a short-term hit on Government's tax revenue. Still, as a long-term strategy, this will boost the purchasing power of the Aam-Admi, increasing their spending and thereby possibly boosting the Indian economy, which the latest reports indicate could be on a stagnating path.

About Nexdigm

Nexdigm is an employee-owned, privately held, independent global organization that helps companies across geographies meet the needs of a dynamic business environment. Our focus on problem-solving, supported by our multifunctional expertise enables us to provide customized solutions for our clients.

We provide integrated, digitally driven solutions encompassing Business and Professional Services, that help companies navigate challenges across all stages of their life-cycle. Through our direct operations in the USA, Poland, UAE, and India, we serve a diverse range of clients, spanning multinationals, listed companies, privately-owned companies, and family-owned businesses from over 50 countries.

Our multidisciplinary teams serve a wide range of industries, with a specific focus on healthcare, food processing, and banking and financial services. Over the last decade, we have built and leveraged capabilities across key global markets to provide transnational support to numerous clients.

From inception, our founders have propagated a culture that values professional standards and personalized service. An emphasis on collaboration and ethical conduct drives us to serve our clients with integrity while delivering high quality, innovative results. We act as partners to our clients, and take a proactive stance in understanding their needs and constraints, to provide integrated solutions. Quality at Nexdigm is of utmost importance, and we are ISO/IEC 27001 certified for information security and ISO 9001 certified for quality management.

We have been recognized over the years by global organizations, like the International Accounting Bulletin and Euro Money Publications, World Commerce and Contracting, Everest Group Peak Matrix® Assessment 2022, for Procurement Outsourcing (PO) and Finance and Accounting Outsourcing (FAO), ISG Provider Lens™ Quadrant 2023 for Procurement BPO and Transformation Services and Global Sourcing Association (GSA) UK.

Nexdigm resonates with our plunge into a new paradigm of business; it is our commitment to ***Think Next***.

USA Canada Poland UAE India Hong Kong Japan

www.nexdigm.com

Reach out to us at ***ThinkNext@nexdigm.com***

Follow us on

Listen to our podcasts on all major platforms