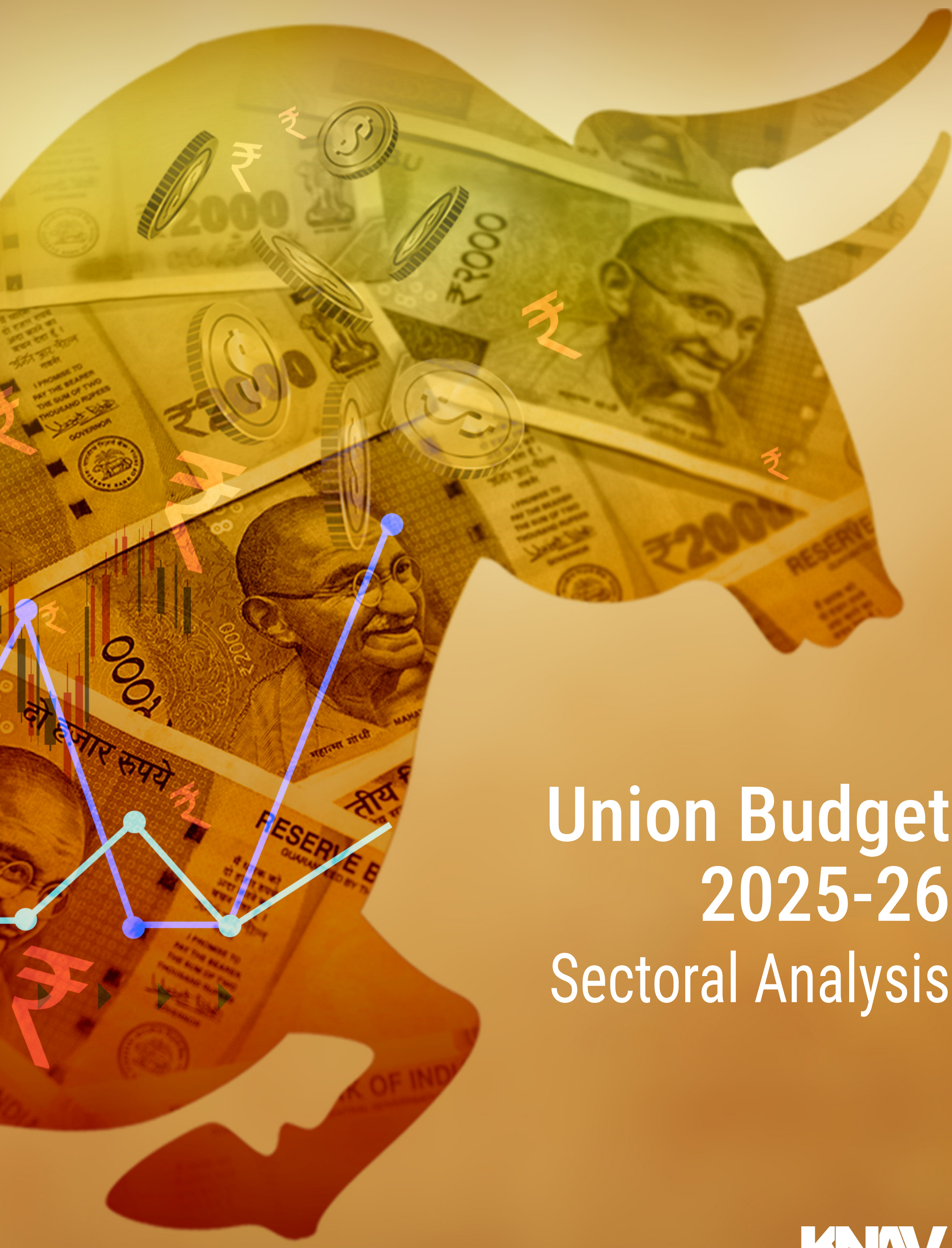

# Union Budget 2025-26

## Sectoral Analysis

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## Foreword

The Union Budget 2025-26 arrives at a pivotal moment, reflecting India's ambition to strengthen its economic resilience while embracing future-ready reforms. As the global economy navigates uncertainty, India's strategic focus on domestic growth, digital transformation, and industrial innovation reinforces its position as a key player in the global financial landscape. This budget demonstrates a strong commitment to deregulation, to fostering business confidence, attracting investments, and driving inclusive growth across multiple sectors.

At KNAV, we understand the importance of evaluating policy measures through a pragmatic and forward-looking lens. This sectoral analysis delves into the key budgetary announcements, assessing their impact on sectors such as consumer and retail markets, technology, pharmaceuticals, healthcare, sports, media, entertainment, energy, environment, financial services and capital markets. Our insights aim to help businesses and investors navigate the evolving regulatory and economic environment with clarity and confidence.

As we analyze the opportunities and challenges presented in this budget, KNAV remains dedicated to empowering businesses with data-driven insights and strategic advisory solutions. We hope this publication serves as a valuable resource in understanding the shifting economic landscape and capitalizing on new opportunities in India's growth story.

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The Union Budget 2025-26 comes at a critical juncture, balancing **economic resilience with future-ready reforms. With global economic uncertainties, shifting trade dynamics, and rapid technological advancements**, the government has crafted a roadmap aimed at s**trengthening domestic consumption, boosting manufacturing, fostering innovation, and enhancing ease of doing business**.

Through targeted policies and strategic investments, the government aims to address current challenges while paving the way for sustainable growth. From tax relief and support for MSMEs to advancements in technology, renewable energy, and healthcare, the budget aims to create a more resilient, inclusive, and competitive economy.

Below are some key sectoral highlights from the Budget along with **KNAV**'s insights for select sectors:

# 01 Consumer & Retail

## Budget Highlights:

### Income Tax Relief & Increased Consumption:

- No income tax for individuals earning up to **INR 12 lakhs** (INR 12.75 lakhs for salaried individual post-standard deduction), leading to higher **disposable income and consumer spending**.

- The change in the slab rates and increase in rebate under new regime are expected to result in **tax savings of INR 1,10,000** for middle – class group.

### Consumer Goods Manufacturing and Trading:

- **National Manufacturing Mission to strengthen "Make in India" and drive local production of consumer goods coupled with enhanced credit schemes for MSMEs and startups, improving capital accessibility.**

- **Toy Industry Growth Plan to position India as a global manufacturing hub for toys.**

- **Non-Leather Footwear Initiative to enhance design and production capabilities.**

- **Basic Customs Duty ('BCD') exempted** on capital goods for mobile phone battery production and **reduced to 5%** on LCD/LED components to support "Make in India" and stimulate sector growth.

- **Social Welfare Surcharge ('SWS') Exemptions**: Certain consumer goods, including footwear, furniture, and lighting fittings, are exempted from the SWS.

- **Duty Changes on Imports**: BCD adjustments on several consumer goods, such as footwear and bicycles, will affect import costs.

- **Textiles**: Two more types of shuttle-less looms are added to the list of fully exempted textile machinery to promote domestic production of technical textile products.

- **Leather Sector**: Full exemption of BCD on Wet Blue leather to facilitate imports and full exemption given on crust leather from 20% export duty to facilitate exports.

- **Omission of Tax Collection at Source ('TCS') on sale of goods** at 0.10% on sale exceeding INR 50 Lakhs removing the onus on sellers selling goods including shares and securities.v

- Presumptive income tax regime introduced for non – residents engaged in **manufacturing of electronic goods** deeming 25% of the receipts taxable under 'Profits and Gains from business or profession' which should be applicable for non-resident providing technical and other services to domestic company / new set up engaged in operating electronic goods through technical personnel or otherwise.

- Purchases of goods by non – residents for exports beyond specified threshold no longer considered to be constituting '**Significant Economic Presence**' resulting in **business connection in India.**

**Consumer E-Commerce:**

- Formalization of Gig Workers: Nearly **1 crore gig workers** to receive **identity cards under the e-Shram portal** and **healthcare under PM Jan Arogya Yojana**.
- **Transformation of India Post** into a **logistics firm**, strengthening last-mile connectivity for e-commerce.

**Consumer Experiences & Tourism:**

- **Top 50 tourist destinations** to be further developed with **State partnerships** (states to provide land, hotels to get infrastructure status).
- **Production Linked Incentives for destination management, MUDRA loans for homestays**, and **e-visa fee waivers** to boost inbound tourism.
- **Modified UDAN scheme** to enhance air connectivity to **120 new destinations** over the next decade.
- Threshold for tax collection at source ('TCS') for remittance under Liberalised Remittance Scheme for overseas tour programme package increased from **INR 7,00,000 to INR 10,00,000**

**Agricultural reforms impacting consumption:**

- Six-year '**Mission for Aatmanirbharta in Pulses**' focusing on **Tur, Urad, and Masoor**, alongside a new **Vegetable & Fruit Production Programme**.
- **Establishment of Makhana Board** in **Bihar** to strengthen **supply chain and production efficiency**.
- The Budget 2025 has proposed to **reduce the TCS rates** on sale of **Timber** obtained by any mode or any other forest produce (not being tendu leaves) obtained under a forest lease **from 2.5% to 2%**.

## KNAV Insights:

- **Consumer Spending Tailwinds:** **Tax cuts and rising disposable income** could **fuel demand** across FMCG, retail, and discretionary spending sectors.

- **Manufacturing & Export Growth:** MSME credit schemes, t**ariff/custom duty reforms, income tax reforms and 'Make in India' initiatives** make India **more competitive in global trade**, benefiting manufacturers and exporters.

- **Trading of Consumer goods:** **Omission of TCS provisions reducing the compliance burden** on wholesale and retail traders.

- **E-commerce Expansion & Gig Economy Boost:** **Better logistics infrastructure and gig worker benefits** could drive **e-commerce growth** while improving workforce formalization.

- **Tourism & Hospitality Investment Potential:** Policy support for **infrastructure, visa relaxations, and connectivity expansion** unlocks **significant investment opportunities in hotels, travel tech, and experience-led tourism ventures.**

- Promotion of overseas tourism by relaxing the threshold of TCS on overseas tour programme package.

- **Agriculture & Rural Economy Upliftment:** Focus on **self-sufficiency in pulses, supply chain reforms, and rural development** creates opportunities in **agribusiness, food processing, and supply chain technology.**

- After a couple of bleak consumption quarters, the **2025-26 budget lays the foundation for strong domestic consumption, industrial growth, and digital transformation,** making it **a high-potential year for businesses and investors in consumer-centric industries**.

# 02 Technology

## Budget Highlights:

### AI & Emerging Technologies:

- INR 500 crore allocated for a **Centre of Excellence in AI for Education**, fostering AI-driven learning and skill development. Additionally, the **National Geospatial Mission** will accelerate advancements in mapping, satellite tech, and urban planning.

### STEM Education & Innovation:

- Expansion of **Atal Tinkering Labs (50,000 new labs)** in government schools to nurture innovation and hands-on learning in science and technology.

### Fund of Funds (FoF) for Startups & Infrastructure:

- **INR 10,000 crore** dedicated to supporting early-stage **deep-tech and AI-driven startups**.
- **INR 15,000 crore** for real estate & housing infrastructure, aimed at completing **1 lakh housing units**, improving urban development.
- Establishment of a **Deep Tech Fund of Funds**, catalysing investments in AI, quantum computing, semiconductors, and other next-gen technologies.

### R&D & Innovation Boost:

- INR 20,000 crore allocated under the **Research, Development, and Innovation (RDI) Scheme**, strengthening India's **scientific research capabilities and industrial innovation**.

## KNAV Insights:

- **Strategic Investment Opportunities:** The government's emphasis on **deep-tech innovation, AI, and geospatial technologies** presents **lucrative opportunities for venture capital and private equity players** in high-growth sectors.
- **AI & Automation Driving Industry Disruption:** The AI-focused initiatives align with global trends, encouraging **startups to build scalable solutions in Artificial Intelligence**.
- **Boost to Early-Stage Startups & R&D-Heavy Sectors:** The expanded **Fund of Funds** and **Deep Tech initiatives** will ease access to **growth capital**, benefiting startups in **AI, quantum computing, biotech, and semiconductor manufacturing.**
- **Opportunities in Smart Infrastructure & Digital Economy:** With a strong push for **housing & urban development, prop-tech and smart city solutions** stand to gain significant traction.
- **Long-Term Economic Competitiveness:** The government's focus on **STEM education and AI-driven learning** ensures **a future-ready workforce**, strengthening India's position as a **global technology hub.**
- **Track and Trace Mechanism:** The new provision under GST will mandate Unique Identification Marking for specific commodities, a move expected to enhance tax administration and prevent fraud, ensuring better compliance.

# 03 Media, Entertainment & Sports

## Budget Highlights:

### Tax Rationalization & Middle-Class Relief:

- The government continues its focus on simplifying tax laws, with no new levies or charges, and tax cuts for the middle class. This is expected to **boost consumer spending**, indirectly **benefiting the Media & Entertainment (M&E)** sector by increasing discretionary spending on OTT, gaming, and digital subscription.

### Online Gaming Taxation Reform:

- Currently, **winnings from lotteries, games, betting, and horse racing** are subject to TDS (Tax Deducted at Source) if the **aggregate winnings exceed INR 10,000 in a financial year**.
- The new proposal **shifts this threshold to INR 10,000 per transaction**, meaning **smaller winnings remain tax-free** if they do not cross this limit.

## KNAV Insights:

- **Stronger Consumer Sentiment to Drive Growth:** With middle-class tax relief, disposable income may rise, **positively impacting OTT, multiplexes, live entertainment, and sports viewership** as audiences **spend more on premium content and experiences.**
- **Boost for Online Gaming Sector Amidst Regulatory Challenges:** The **relaxed TDS threshold** could **reignite user participation**, benefiting f**antasy sports, skill-based gaming, and online casino platforms**. However, **regulatory uncertainties remain as the sector still faces GST and compliance concerns.**
- **Expanding Opportunities in AI-Driven Digital Media:** The Government's **continued push for digital innovation** will help **content creators, advertisers, and tech-driven media firms** capitalize on **automation, AI-driven content personalization, and immersive digital experiences.**
- **New Revenue Streams for Sports & Live Events:** The rising focus on I**ndia as a global sports hub** (through FDI and public-private partnerships) could drive investments in **sports infrastructure, franchise leagues, and sports-tech startups.**

  The **2025-26 budget provides a stable foundation for Media & Entertainment growth,** particularly in digital-first content and gaming. However, **entrepreneurs and investors must stay vigilant on evolving tax and regulatory landscapes** to navigate emerging challenges effectively.

# 04 Pharmaceuticals & Healthcare

## Budget Highlights:

### Medical Tourism & "Heal in India" Initiative:

- The government plans to **collaborate with the private sector** to establish India as a **global healthcare destination.**

### Expansion of Medical Education Infrastructure:

- **10,000 additional medical seats to be added** in colleges and hospitals this year, with a **five-year target of 75,000 new seats.**

### Customs Duty Exemptions/relaxations on Critical Medicines:

- Over **30 life-saving drugs** used for the treatment of critical illnesses have been **exempted from basic customs duty** and concessional customs duty of 5% on 6 more lifesaving medicines, reducing costs for patients.

### Daycare Cancer Centres in District Hospitals:

- **200 new centres to be set up in 2025-26**, with all districts covered within three years to improve cancer care accessibility.

### FDI Limit Increase in Insurance Sector:

- Foreign Direct Investment (FDI) **cap raised from 74% to 100%**, enabling greater capital inflows and potential consolidation in the insurance industry.

### Impact of Tax Regime Shift on Insurance:

- The government's push towards the new tax regime (which does not allow deductions on insurance premium payments) **could negatively impact insurance penetration** as tax incentives for insurance purchases diminish.

### Patient Assistant Programmes:

- The budget proposes the inclusion of 37 more medicines and 13 new Patient Assistance Programmes under the existing BCD exemption for drugs supplied free to patients.

## KNAV Insights:

- **Boost for Medical Tourism & Private Healthcare Providers:** The "**Heal in India**" initiative positions **hospital chains, wellness centres, and digital health startups** to tap into **high-value international patients**, enhancing revenue pools for private players.

- **Increased Talent Pool for Healthcare Sector:** Expansion of medical seats is a long-term growth driver for the industry, **addressing skilled labour shortages and benefiting hospital chains, medical colleges and staffing firms, focused on healthcare training.**

- **Opportunities in Pharma & Life Sciences:** Customs duty exemptions on critical medicines will **lower treatment costs** and **boost domestic research & development**, presenting growth potential for domestic pharma companies and drug formulators.

- **Stronger Infrastructure for Cancer Treatment:** The rollout of **district-level daycare cancer centres** opens avenues for **hospital groups, diagnostic chains, and oncology-focused startups to collaborate and expand their presence.**

- **Insurance Sector Attractiveness for Global Investors:** With **100% FDI now permitted**, expect **increased M&A activity and global insurers entering the Indian market**, providing liquidity and expansion opportunities. However, the shift towards the **new tax regime could reduce policy sales**, prompting insurers to **innovate products beyond tax benefits** to sustain growth.

- This budget lays a **strong foundation for long-term healthcare sector growth**, with a focus on **accessibility, affordability, and global positioning**.

# 05 Energy & Environment

## Budget Highlights:

### PM E-Drive Scheme Allocation Surge:

- Budgetary outlay increased by **114% (from INR 1,871 crore in 2024-25 to INR 4,000 crore in 2025-26).**

### Customs Duty Reforms for EV & Battery Supply Chain:

- **Reduction in customs duties on 25 minerals**, including lithium, alongside **exemption of basic customs duty on 35 capital goods for manufacturing EV batteries.**

### Green Manufacturing Incentives:

- Policy support and reduction of BCD announced for solar PV cells, EV batteries, electrolysers, and wind turbines to accelerate India's renewable energy ambitions.

### Nuclear Energy Mission:

- Introduction of a **dedicated Nuclear Energy Mission** with an allocation of **INR 20,000 crore**, focusing on **research and development of Small Modular Reactors (SMRs).**

## KNAV Insights:

- **A Strong Commitment to Clean Energy:** The budget signals a **firm policy direction towards sustainable growth**, with key incentives targeted at reducing India's reliance on fossil fuels.
- **Boost to EV Ecosystem & Battery Manufacturing:** The combination of **lower import duties on lithium** and the **expansion of the PM E-Drive Scheme** is set to benefit EV manufacturers while stimulating **domestic battery production**, which could **improve EV affordability** and **reduce supply chain vulnerabilities.**
- **Momentum in Nuclear Energy Innovation:** The launch of a Nuclear Energy Mission represents a **strategic move towards energy security**, fostering research in **SMRs**, a field that has been attracting **increasing interest from investors and deep-tech startups**. This initiative aligns with global trends, where SMRs are seen as a **scalable and efficient alternative to traditional nuclear plants.**
- The budget underscores a **policy shift towards self-sufficiency in clean energy**, reinforcing India's commitment to **net-zero goals and industrial decarbonization.**

# 06 Financial Services & Capital Markets

## Budget Highlights:

### An allocation of 10,000 Crores through Fund of Funds for startups:

- The finance minister has proposed investment in the startup ecosystem through an allocation of INR 10,000 Crores through fund of funds. The AIF's for startups have received commitments of more than INR 91,000 Crores. These are supported by the fund of funds set up with the Government of India's contribution of INR 10,000 Crores. Now a new fund of funds with an expanded scope and fresh contribution of INR 10,000 Crores will be set up. The money would be invested in startups through venture funds.
- A Deep Tech Fund of Funds is proposed to catalyse the next generation startups as a part of this initiative. Given the impact that emerging technologies, especially AI is having around the world, the investments will accelerate advancements for investments in critical technologies.

### Extension for incorporation of Start-Ups for Tax Benefits:

- Under Direct Taxes, the period of incorporation is extended by 5 years to allow the benefit available to start-ups which are incorporated before 1.4.2030. As per section 80-IAC of the Income Tax Act, 1961, startups received tax benefits that include a three-year tax holiday. This benefit was ending on April 2025 which has now been extended another by 5 years to 2030.

### Tax relief for Alternative Investment Funds (AIFs) in categories I and II reclassifying securities as capital assets:

- Category I and category II AIFs are undertaking investments in infrastructure and other such sectors. Taxation of such entities will be certain on the gains from securities. With this amendment, the sale of securities by AIFs will be taxed as capital gains, rather than business income, reducing the compliance burden

### Extension of investment date for Sovereign and Pension Funds

- To promote funding from Sovereign Wealth Funds and Pension Funds to the infrastructure sector, the tax exemption which was to end this financial year is extended by five more years, to March 31, 2030. The scheme provides exemptions from income such as dividends, interest, long-term capital gains, and certain other incomes arising from investments in India.

## Ease of Doing Business & Compliance Reforms

### Bilateral Investment Treaties

- To encourage sustained foreign investment and in the spirit of 'first develop India', the current model BIT will be revamped and made more investor friendly. This is proposed to be in alignment with global investment norms which will encourage foreign investments in India.

### Merger of Companies

- 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.

### KYC Simplification

- The simplification of the KYC process with the revamped Central KYC Registry to be rolled out in 2025. This will be a streamlined system with an added layer of data protection, safeguarding sensitive information of the investors.
- Scope of Virtual Digital Assets ('VDA') widened to include **Blockchain technology**. Further, reporting requirement under 'Specified Financial Transactions' to include reporting of VDAs effective from April 01,2026.
- Elimination of ambiguities on taxation of Business Trust: Tax on pass – through capital gains income of unit holders of Business Trust **on transfer of listed shares and securities** earlier taxed at maximum marginal rate **now rationalised to be taxed under section 112A of the IT Act at 12.50%.**

### Relaxation of TDS and TCS provisions on transactions by financial institutions:

- The threshold for deducting TDS on interest income receivable by banks, co-operative societies and post – offices increased to INR 1,00,000 and INR 50,000 respectively for senior citizens and individuals. Omission of TCS at the rate of 0.50% on remittance under LRS exceeding INR 7,00,000 for educational purposes financed by loan from financial institutions.

### Tax relief for Alternative Investment Funds (AIFs) in categories I and II reclassifying securities as capital assets:

- Definition of capital assets to include securities held by Category I and category II AIFs resulting in the sale of securities by AIFs to be taxed as capital gains, instead of business income.

### Relaxation of income tax provisions for income earned by Sovereign Wealth Funds and Pension Funds:

- The sunset dates for investment by SWFs and PFs in India **extended for a period of five years till March 31,2030**, for availing exemption from taxes for interest, dividend, capital gains and other income.
- Long – term capital gains arising to SWFs and PFs **not to be included in the total income of SWFs and PFs.**

**Incentives for IFSC units:**

- The sunset dates for commencement of operations of International Financial Service Centre ('IFSC') units for several tax concessions is proposed to be **extended to 31st March,2030.**
- **Exemption** on capital gains on transfer of equity shares and dividend of domestic companies being units of IFSC engaged in aircraft leasing extended to **ship leasing units** in IFSC to ensure parity with aircraft leasing unit in IFSC.
- Scope on tax neutrality on relocation of funds to IFSC **widened to include retail schemes** or exchange traded funds **(ETF).**
- **Rationalisation** of definition of '**deemed dividend**' for **treasury centres in IFSC**, for inter-company loan, borrowings or advance between two group entities when one of the group entity is a 'finance company' or a 'finance unit' set up to undertake treasury activities and the parent / principal entity is listed on stock exchange outside India.
- **Exemption** to non-resident proposed to be **extended** to cover income from transfer of specified forward contracts /derivative instruments entered with **foreign portfolio investors ('FPI') being an IFSC Unit.**

## KNAV Insights:

- FDI limit for Insurance sector enhanced to 100 per cent in the insurance sector as part of new-generation financial sector reforms. This enhanced limit will be available for those companies which invest the entire premium in India. The current guardrails and conditionalities associated with foreign investment will be reviewed and simplified.
- The government recognises the significance of promoting entrepreneurship and startups for the India's economy. The increased contribution of another 10,000 Crores will be significant to boost entrepreneurship and the startup ecosystem. Given that the industry has been navigating a funding winter last two years, this contribution will help domestic venture funds to increase their funding to startups and reduce reliance on foreign investments for investments.
- The incentives of tax holiday provided to startups will encourage more entrepreneurs to start businesses and help India become a global startup hub. This will also reduce the overall tax burden and compliances in the early stage of business on account of capital constraints. The income classification for AIF as capital assets will reduce the tax liability of investors and will boost their investments in this sector.
- The inclusion of Blockchain under the VDA definition suggests the Government's ideology on stringent monitoring of income from VDA and its taxability in India.
- The extension of sunset dates for various IFSC incentives and other benefits is a welcome move by the Government to promote growth in the IFSC units.
- Category I and Category II AIFs are undertaking investments in infrastructure and other such sectors. Taxation of such entities will be certain on the gains from securities. The income classification for AIF as capital assets will reduce the tax liability of investors and will boost their investments in this sector.
- Relaxation of investment date for SWPs and PFs will promote funding by these funds in India.

## Conclusion:

The Budget underscores the government's commitment to fostering **economic freedom, business innovation, and strategic deregulation.** With **Ease of Doing Business 2.0**, the Budget aims to **reduce bureaucratic hurdles, enhance investment opportunities, and drive sustainable economic growth.**

Inclusion of **tax rationalization, support for startups and MSMEs, digital infrastructure expansion, and clean energy initiatives** are designed to position India as a **global leader in manufacturing, technology, healthcare, and green energy.** The emphasis on **capital infusion for innovation-driven sectors, expansion of infrastructure, and financial liberalization** signals a **pro-business approach**, ensuring that India remains competitive in the global economic landscape.

For **entrepreneurs, business owners**, and investors, the budget presents **significant opportunities** in sectors like **consumer goods & services, renewable energy, electric mobility, AI-driven digital transformation, and financial services**, while also addressing key challenges in taxation and regulatory compliance. As India continues its economic growth trajectory, this budget serves as a **catalyst for long-term, sustainable, and inclusive growth.**

However, the evolving **regulatory landscape and global economic headwinds** necessitate **strategic agility and policy adaptability** from businesses and investors. As the reforms take shape, industry stakeholders must remain proactive in leveraging new opportunities while mitigating potential risks. The **success of this budget's vision will ultimately depend on swift and effective execution, alongside continued structural policy support.**

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