

Union Budget 2025

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Indirect Tax Analysis

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## Introduction

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- In this update we have highlighted the key changes made to the indirect tax regime in the Union Budget presented by the Hon'ble Finance Minister on February 1, 2025. Various new proposals have been tabled. Apart from amending the current provisions of indirect tax laws, certain new provisions have also been introduced.
- We hope that this update will prove to be handy for understanding the key implications to the indirect tax regime pursuant to the Budget. We will be happy to hear your feedback on this update and help you with any further information that you may require. Feel free to send us an email at **communications@argus-p.com**

February 1, 2025

# CGST – Key Changes

- Section 2(61) of the Central Goods and Services Tax Act, 2017 (“**the CGST Act**”)\* is being amended to explicitly provide for distribution of input tax credit by the Input Service Distributor in respect of inter-state supplies on which tax has to be paid under reverse charge basis (effective April 1, 2025).
- Section 2(69) is being amended by inserting an Explanation providing the meaning of the terms 'Local Fund' and 'Municipal Fund' used in the definition of "local authority“, so as to clarify the scope of the said terms.
- Section 2(116A) is being inserted to provide definition of Unique Identification Marking for implementation of Track and Trace Mechanism.
- Section 12(4) and Section 13(4) relating to time of supply of vouchers is being deleted.
- **Section 17(5)(d) is being amended to substitute the words "plant or machinery" with the words "plant and machinery" with effect from July 1, 2017.**

*All changes would be effective from the date of enactment of Finance Bill, 2025, unless specified otherwise*

*\* Reference invited to the provisions of CGST Act would include similar reference to the State GST laws*

# CGST – Key Changes

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- Section 20(1) and Section 20(2) are being amended to explicitly provide for distribution of input tax credit by the Input Service Distributor in respect of inter-state supplies, on which tax has to be paid under reverse charge basis (effective April 1, 2025).
- The proviso to Section 34(2) is being amended to provide the requirement for reversal of corresponding input tax credit in respect of a credit-note, if availed, by the registered recipient, for the purpose of reduction of tax liability of the supplier in respect of the said credit note.
- Section 39(1) is being amended to provide an enabling clause to prescribe certain conditions and restriction for filing of return.
- **Section 107(6) is being amended to provide for 10% mandatory pre-deposit of penalty amount for appeals before Appellate Authority in cases involving only demand of penalty without any demand for tax.**
- Section 112(8) is amended to provide for 10% mandatory pre-deposit of penalty amount for appeals before Appellate Tribunal in cases involving only demand of penalty without any demand for tax.

# CGST – Key Changes

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- A new Section 122B is being inserted to provide penalties for contraventions of provisions related to the Track and Trace Mechanism provided under Section 148A.
- Section 148A is being inserted to provide enabling mechanism for a Track and Trace Mechanism for ensuring effective monitoring and control of supply of specified commodities.
- Schedule III is being amended (with effect from July 1, 2017) as under:
  - Insertion of a new clause (aa) in paragraph 8 to specify that the supply of goods warehoused in a Special Economic Zone or in a Free Trade Warehousing Zone to any person before clearance for exports or to the Domestic Tariff Area shall be treated neither as supply of goods nor as supply of services.
  - It further seeks to amend the Explanation 2 of the said Schedule to clarify that the said Explanation shall be applicable in respect of clause (a) of paragraph 8 of the said Schedule.
  - It also seeks to insert an Explanation 3 in the said Schedule to define the expressions “Special Economic Zone”, “Free Trade Warehousing Zone” and “Domestic Tariff Area”, for the purpose of the proposed clause (aa) in paragraph 8 of said Schedule.
- It is also clarified that no refund of tax already paid in respect of the aforesaid activities or transactions, shall be available.

# Service Tax – Key Changes

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- Services provided or agreed to be provided by insurance companies by way of reinsurance services under the Weather Based Crop Insurance Scheme (WBCIS) and the Modified National Agricultural Insurance Scheme (MNAIS) are proposed to be exempted from service tax retrospectively for the period commencing from April 1, 2011 and ending with June 30, 2017.
- Refund of service tax shall be made on the aforesaid activity, if service tax collected earlier.
- An application for the refund of service tax shall be made within a period of six months from the date on which the Finance Bill, 2025 receives the assent of the President.

## Excise – Key Changes

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- Customs, Central Excise and Service Tax Settlement Commission (“**CCESC**”)\* constituted under Section 32 of the Central Excise Act, 1944 shall cease to operate with effect from April 1, 2025. The pending applications as on March 31, 2025 shall be dealt by the Interim Boards for Settlement.
- Section 31 is being amended to define the terms "Interim Board for Settlement" and "pending application".
- A new Section 31A is being inserted to establish one or more Interim Boards for settlement to process the pending applications. Further, it is being provided that every pending application shall be dealt by the Interim Board from the stage at which such pending application stood immediately before its constitution.
- Section 32F is being amended to substitute the expression "Settlement Commission" with "Interim Board" so that the specified procedure on receipt of the application under section 32E shall apply to the Interim Boards. Additionally, a new sub-section is being introduced to allow the Interim Board, within three months of its constitution, to extend the time limit for disposing of pending applications by up to twelve months from its constitution, with reasons to be recorded in writing.

*The above changes would be effective from April 1, 2025*

*\* Similar changes proposed for CCESC under the Customs Law*

## Excise – Key Changes

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- Implementation of higher excise duty on sale of unblended Diesel - The additional excise duty of Rs 2 per litre notified to be levied on unblended Diesel vide Notification No. 11/2017-Central Excise dated 30.06.2017, as amended, is being deferred till March 31, 2026.



## Customs – Key Changes

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- Section 18(1B) of the Customs Act, 1962 (“**the Customs Act**”), is being inserted to provide definite time limit of two years for finalization of provisional assessment. It also provides that the time period may be extended by the Commissioner of Customs for a further period of one year if the sufficient cause is shown. For the pending cases, the time-limit shall be reckoned from the date of assent of the Finance Bill.
- Sub-section (1C) is being inserted to provide for certain grounds on which the time-limit of two years for finalizing provisional assessment shall remain suspended.
- Section 18A is being inserted to provide for voluntary revision of entry post clearance so that the importers and exporters may revise any entry that is made in relation to the goods within a prescribed time and according to certain conditions as may be prescribed. It also provides for treating such entry as self-assessment and allowing payment of duty or treating the revised entry as a refund claim under Section 27. It also provides for certain cases where this section will not apply.
- A new explanation is being inserted in Section 27(1) to clarify that the period of limitation of the claim of refund consequent to the revised entry under Section 18A or amendment under Section 149 shall be one year from the date of payment of duty or interest.

## Customs – Key Changes

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- A new clause is being inserted in Explanation 1 of Section 28 to provide that the relevant date in case where duty is paid under the revised entry under Section 18A is the date of payment of duty or interest.
- A new sub-section (3) is being inserted in Section 127D clarifying that the powers of Settlement Commission shall be exercised by the Interim Board and further provisions of this section shall mutatis mutandis apply to the Interim Board as they apply to the Settlement Commission.
- Rules 6 and 7 of Customs (Import of Goods at Concessional Rate or for Specified End Use) Rules, 2022 are being amended to increase the time limit for fulfilling end use from current six months to one year. Further, the importers will now have to file only a quarterly statement instead of monthly statement (effective February 2, 2025)

# Customs – Key Changes

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- Clause 98 of the Bill seeks to amend the First Schedule to the Customs Tariff Act, 1975 (“CTA”)
  - a) in the manner specified in the Second Schedule so as to revise the rates in respect of certain tariff items with effect from the February 2, 2025
  - b) in the manner specified in the Third Schedule with a view to harmonize certain entries with the Harmonized System of Nomenclature to create new tariff lines in respect of certain entries and to revise the rates in respect of certain tariff items, with effect from May 1, 2025.
- The First Schedule to the CTA is proposed to be amended vide the Third Schedule, so as to
  - reduce the tariff rate from 25%, 30%, 35%, 40% to 20%
  - reduce the tariff rate from 150%, 125%, 100% to 70%
  - reduce the tariff rate on certain items
  - tariffise effective rates in the Schedule
  - create new tariff items based on process (parboiled, others) and on variety (rice recognized by Geographical Identification Registry, basmati, others) under sub-heading 1006 30

## Customs – Key Changes

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- create new tariff items under ‘Makhana’ products (popped, flour and powder, others) and consequent re-numbering of existing entries under sub-heading 2008 19
- create new tariff items to separately identify waste oils containing different levels of concentration of levels of polychlorinated biphenyls (PCBs), polychlorinated terphenyls (PCTs) or polybrominated biphenyls (PBBs) under sub-heading 2710 91
- create new tariff items for identification of certain dual-use chemical for non-pesticidal use in chapter 28
- create new tariff items and supplementary notes for identification of certain goods covered by International Conventions in chapter 29 and chapter 38
- create new tariff lines to distinguish precious metals – containing 99.9% or more by weight of silver, containing 99.5% or more by weight of gold, containing 99% or more by weight of platinum under headings 7106, 7108 and 7110 respectively
- changes in heading 8112 to align with WCO HS 2022
- changes in sub-heading note 2 to chapter 85 to align with WCO HS 2022

## Customs – Key Changes

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- Basic Customs Duty (“**BCD**”) decreased on Wet Blue leather (hides and skins), lead waste and scrap, zinc waste and scrap, platinum findings, ethernet switches etc.
- Export duty is being reduced from 20% to NIL on crust leather (hides and skins)
- Agriculture Infrastructure and Development Cess (“**AIDC**”) rates being revised on products like Marble and travertine, PVC Flex Films, PVC Flex Sheets, Solar Cells, Solar Module and Other semiconductor devices and Photovoltaic cells, Motor vehicles for carrying passengers etc.
- Social Welfare Surcharge (“**SWS**”) is being exempted on products like PVC Flex Films including Flex Banner and PVC flex Sheets, Solar Cells, Electricity meters for alternating current (Smart meter), Solar Module and Other semiconductor devices and Photovoltaic cells, Motor vehicles for carrying passengers etc.
- Conditional BCD exemption prescribed vide notification No. 50/2017- Customs dated 30.06.2017 has been reviewed whose validity is expiring by March 31, 2025. After review, 24 entries are being continued for varying periods with modification in few entries and 1 entry is being lapsed.

*The above changes would be effective from February 2, 2025*

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