

The background of the entire page is a photograph of a wind farm. Several large, three-bladed wind turbines are visible, their towers and nacelles silhouetted against a sky with soft, golden light, suggesting either sunrise or sunset. The turbines are situated on a grassy hillside. The overall tone is warm and optimistic, representing clean energy.

ENERGY & RENEWABLES

**AN INDIA UNION BUDGET UPDATE
2025**

Part 1: Business implications

What The Industry Asked For?

- ▶ **Policy Adjustments for Renewable Energy Expansion:** Renewable energy developers propose exemptions from the PLI scheme, inclusion in the ALMM, increased funding, and expanded subsidies and tax benefits for domestic solar panel and battery manufacturing to meet the 500GW non-fossil fuel energy target by 2030.
- ▶ **Support for Energy Storage & Smart Grid:** Additional tax benefits and subsidies for energy storage solutions and smart grid technologies to accelerate EV adoption and strengthen the e-mobility ecosystem.
- ▶ **Support for Power Distribution Companies and Solar Rooftop Expansion:** Power distribution companies seek financial and operational assistance to expand solar rooftop installations and deploy smart meters nationwide.
- ▶ **Viability Gap Funding for Emerging Renewable Technologies:** Offshore wind and green hydrogen project developers seek funding support to scale up alternative renewable energy sources.
- ▶ **Energy Transition Policy for Carbon-Intensive Sectors:** Steel, cement, and chemical industries seek a strategic policy framework to reduce emissions in hard-to-abate sectors.
- ▶ **Policy Transparency for Biofuel Initiatives:** Biofuel manufacturers and distributors propose clear policies and phased timelines for expanding biofuel programmes, including blending Compressed Biogas (CBG) into vehicle fuel and household energy supplies.
- ▶ **Incentives for Clean Energy in Agriculture:** Farmers and rural development stakeholders seek incentives for solar-powered irrigation pumps and energy-efficient cold storage systems to lower emissions and improve agricultural productivity.
- ▶ **Biomass Storage Banks:** Biomass energy producers propose the establishment of dedicated agricultural residue storage facilities to ensure a consistent supply for biomass-based power generation.
- ▶ **Carbon Capture Support for Heavy Industries:** Steel, aluminium, and cement producers request tax rebates, subsidies, and other incentives for carbon capture and utilisation technologies to align with the Carbon Border Adjustment Mechanism (CBAM) requirements of the European Union.



What Budget Gave?

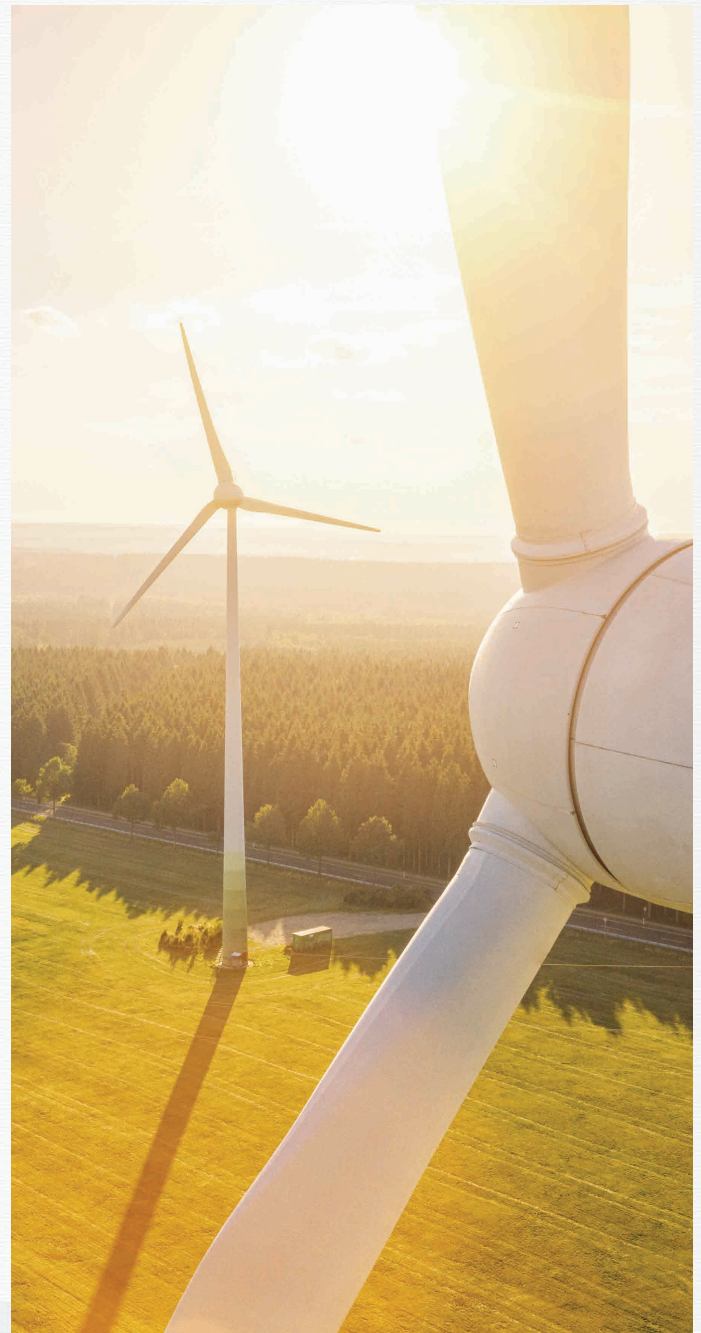
- ▶ **Nuclear Energy Mission for Viksit Bharat:**
 - The Budget highlights the goal of 100 GW of nuclear energy by 2047, with amendments to the Atomic Energy Act and Civil Liability for Nuclear Damage Act to encourage private sector participation.
 - **Small Modular Reactors (SMR) R&D:** A Nuclear Energy Mission with INR 200bn will support SMR R&D, aiming for five indigenously developed SMRs to be operational by 2033. accelerate
- ▶ **PPP Model for Energy Projects:** A three-year project pipeline aims to boost private sector participation in transmission, distribution, and power evacuation infrastructure.
- ▶ **Supporting Clean Tech manufacturing:** The Budget focuses on boosting Clean Tech manufacturing to enhance domestic value addition, covering solar PV cells, EV batteries, motors and controllers, electrolysers, wind turbines, very high voltage transmission equipment, and grid-scale batteries.
- ▶ **DISCOM Reforms:** The Budget offers incentives for electricity distribution reforms and intra-state transmission capacity enhancement. States will be allowed an additional 0.5% GSDP borrowing, contingent on these reforms.

How It Impacts The Industry?

- ▶ The Budget takes a comprehensive approach to addressing power sector challenges, focusing on distribution reforms, transmission upgrades, and clean energy expansion. The provision for additional borrowing linked to DISCOM reforms aims to improve financial stability in distribution companies, while investments in intra-state transmission will facilitate better integration of renewable energy.
- ▶ The commitment to achieving 100 GW of nuclear energy by 2047, supported by INR 200bn for SMR R&D, strengthens long-term energy security. Incentives for clean tech manufacturing—spanning solar PV cells, EV batteries, and wind turbines—will reduce reliance on imports and enhance India's role in the global green energy supply chain.
- ▶ Tariff reductions on solar components and lithium-ion batteries will lower project costs and accelerate adoption. These measures, combined with policy support for energy storage and smart grids, are crucial for sustaining the clean energy transition. However, their success depends on effective execution, regulatory clarity, and continued investment in grid modernisation.

Our Point Of View

- ▶ The Budget 2025-26 sets a strong direction for energy reforms, but execution will be key; linking state borrowing to DISCOM reforms is strategic, though structural and operational improvements remain critical.
- ▶ Clean tech and nuclear investments support energy security, but global competitiveness will depend on policy stability and supply chain resilience.
- ▶ Although the industry had hoped for more, this budget marks a positive step forward by the Government in the right direction..



Part 2: Tax implications

What The Industry Asked For?

- ▶ **Higher Rate of Depreciation for EV Charging Stations:**
Companies involved in setting up EV charging infrastructure seek the highest available rate of depreciation for charging stations to enhance investment viability
- ▶ **Concessional Income Tax Regime for Renewable Power Sector:** Renewable energy developers and manufacturers seek the introduction of a concessional income tax regime to attract increased investment in the sector.
- ▶ **Customs Duty Concessions for Battery Energy Storage Systems:** Energy storage solution providers seek an extension of customs duty concessions under the Project Import Scheme to reduce costs and accelerate large-scale energy storage deployment.

- ▶ **Extension of Tax Holiday for Start-ups:**
The Government introduced a 100% tax exemption for eligible startups in Budget 2016, with a sunset date of 31 March 2025. This has now been extended to startups incorporated before 01 April 2030.

Indirect tax

- ▶ Exemption from Basic Customs Duty (BCD) to waste and scrap of lithium-ion battery and capital goods used in the manufacture of lithium-ion battery of EVs and mobile phones.
- ▶ Customs duty rates on photovoltaic cells assembled in modules or made up into panels, classifiable under tariff item 85414300 and other items classifiable under tariff item 85414900 marginally reduced by exempting Social Welfare Surcharge, while reduction in BCD on them is offset by levy of Agriculture and Infrastructure Development Cess.
- ▶ BCD rates on liquified propane, liquified butane, LPG (for non-automotive as well as automotive purpose) and other liquified petroleum gas has been reduced.
- ▶ Implementation of levy of additional excise duty of INR 2 per litre on unblended Diesel deferred till 31 March 2026.
- ▶ Concessional BCD rate on parts of Wind Operated Electricity Generators (WOEG), for the manufacture or maintenance of WOEG and permanent magnets for manufacture of PM synchronous generators for use in WOEG extended till 31 March 2026.
- ▶ Definitive time limit of two years introduced to finalise bill of entries provisionally assessed, subject to conditions.
- ▶ Provisions introduced to voluntarily revise bill of entry and pay duty with interest, subject to conditions.
- ▶ Retrospective amendment in provisions dealing with blocked input tax credit (ITC) under GST law proposed to replace the phrase 'plant or machinery' with 'plant and machinery', which would result in restricting ITC of GST charged on construction of immovable structures qualifying as plant, to overcome the Supreme Court's ruling in Safari Retreats which allowed such ITC.
- ▶ Taxpayer allowed to reduce output tax liability in case of issuance of credit notes to a registered recipient only if ITC reversed by the recipient
- ▶ Enabling provisions for invoice management system, to claim ITC and adjustment of outward liability, introduced.

What Budget Gave?

Direct tax

- ▶ Excluding deemed dividend taxability in case where one of the group entities is a 'Finance company' or a 'Finance unit' as defined under IFSC regulations and the parent entity is listed on stock exchange outside India.
- ▶ **Rationalisation of carry forward of losses in case of amalgamation:** It is proposed to put a capping on the indefinite carry forward of losses and permits to carry forward the loss for eight years from the year in which such loss has first been computed by the original predecessor entity instead of the year in which amalgamation has been effected.
- ▶ **Multi-year Arm's length determination for Intra-group transactions:** Budget has proposed to introduce a progressive approach in transfer pricing assessments, by determining the Arm's Length Price (ALP) covering three consecutive years. This proposal seeks to shift to a more streamlined multi-year approach, where companies have transactions with their group companies by opting towards determination of ALP for three consecutive years as against for each year. Additionally, the scope of safe harbour rules is proposed to be expanded.
- ▶ **Rationalisation of Tax deducted at sources and Tax collected at sources:** The Government has proposed to rationalise tax withholding (TDS) provisions by increasing the threshold limits on payments such as dividend, commission, fees for professional or technical services, etc. Additionally, the requirement of higher TDS/ TCS in case of non-filer of tax return proposed to be removed in case of non-PAN cases.
- ▶ It is proposed to remove the provisions of TCS under section 206C(1H) of the IT Act on sale of specified goods with effect from 1 April 2025.

- ▶ Input service distributor (ISD) mechanism to also govern distribution of ITC by ISD in respect of inter-state supplies on which tax has to be paid under reverse charge mechanism from 1 April 2025.

- ▶ The duty cuts on goods used in manufacturing of lithium-ion batteries would encourage the domestic production of the batteries.

How It Impacts The Industry?

- ▶ Given the consolidation which happens frequently in the energy and renewables sector, it is important to consider implications of this proposed amendment relating to carry forward of losses in case of amalgamation.
- ▶ Multi-year ALP will lead to a reduction in transfer pricing litigation spread across multiple years on similar transactions and provide more certainty and clarity to the energy and renewable companies, in terms of tax outcome.

Our Point Of View

- ▶ Tariff cuts and battery incentives boost domestic manufacturing, yet scalability and investor confidence will determine impact. Businesses must align with evolving regulations and capitalise on opportunities in grid modernisation, storage, and localised production.
- ▶ Considering that energy and renewable companies operate through multiple special purpose vehicles (SPVs) wherein intra-group transfer of funds can have tax consequences, it is pertinent to consider the possibilities of funding such SPVs through a Finance unit in IFSC.



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