IT/ ITeS AND GCC SECTOR

AN INDIA UNION BUDGET UPDATE 2025

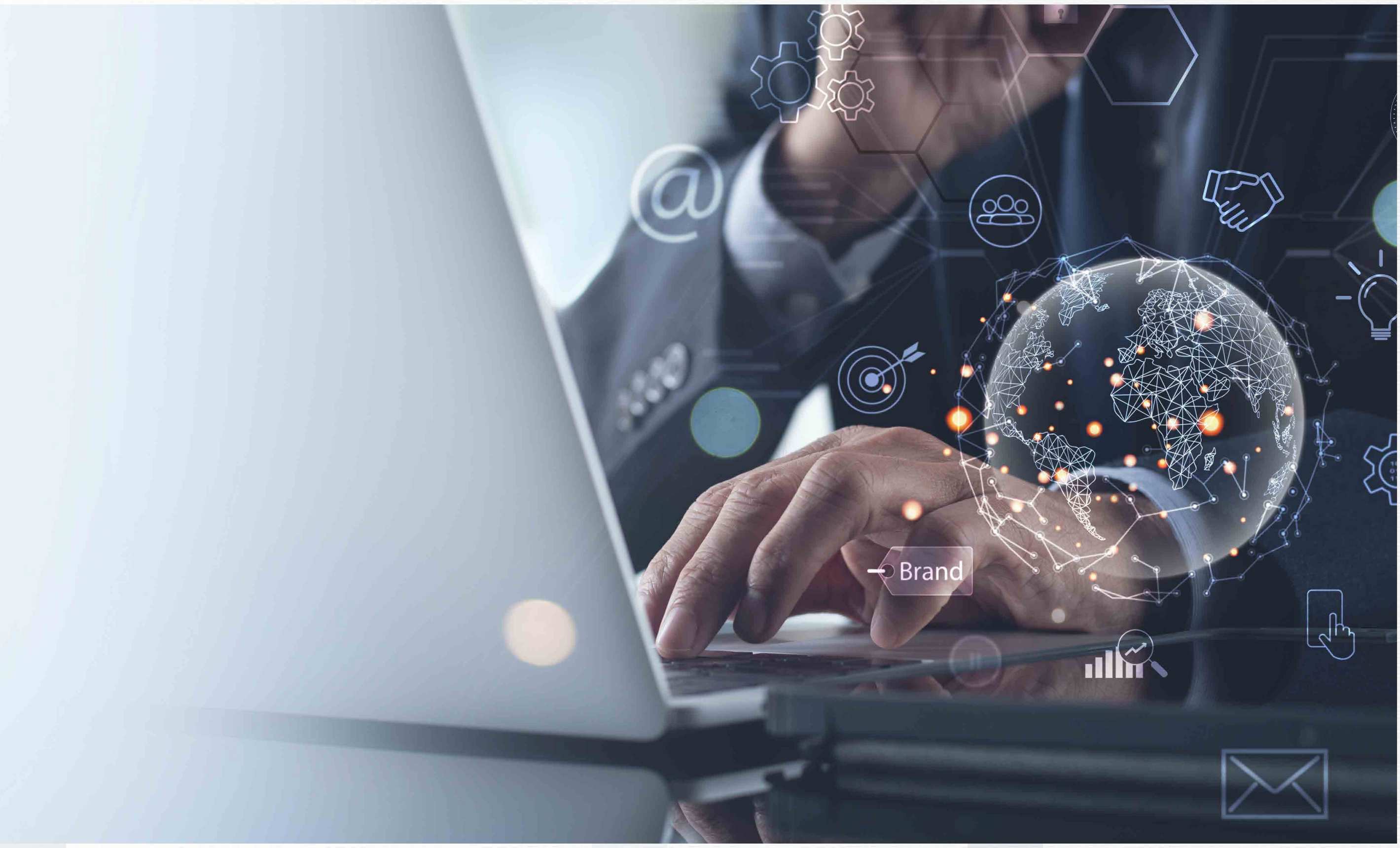
SECTOR OVERVIEW

- India holds a leading position in the global Information Technology sector (IT/ ITeS), significantly contributing to export growth. The industry has estimated revenues of USD 254bn, marking a 3.8 % YoY growth in FY24 (excluding e-commerce). The exports grew at 3.3% while domestic market is expanded at 5.9%. The sector has continued the expansion of workforce by adding 60,000 employees, bringing the workforce to 5.43 million in FY24. India's IT industry has demonstrated remarkable resilience in FY24, amidst macroeconomic pressures and geopolitical tensions. The sector continued strong performance in FY25, growing at 7.1 % in H1 of FY25.

- Global Capability Centres (GCC), which initially emerged as support units to parent entities, have evolved into strategic hubs. India has emerged as a key strategic location for establishing GCCs, with leading organisations centralising their technology ecosystems in the country. This shift has significantly contributed to reshaping India's corporate landscape.

- The number of GCCs in India has grown from approximately 1430 in FY19 to over 1700 in FY24. GCCs in India have employed nearly 1.9 million professionals. Over the last five years, the number of engineering research & development-focused GCCs has grown 1.3 times faster than the overall GCC setup, highlighting a continued shift towards high-value-added work.

- With 28% of the global STEM (science, technology, engineering, mathematics) workforce and 23% of global software engineering talent, India is a powerhouse of skilled professionals. The number of global roles within GCCs is projected to surge from 6,500 to over 30,000 by 2030, driven by strong leadership development programs.



POLICY ANNOUNCEMENTS

Living up to the expectations of balancing economic growth, the Government came up with a number of policy announcements to give a boost to the IT sector. Some of the key policy announcements are –

- **Fund Allocation:** The Government has allocated INR 386,130mn and INR 260,262mn to the Ministry of Science and Technology (MST) and Ministry of Electronics and Information Technology (MeitY), respectively. This marks an incredible increase of 167% for MST and 48% for MeitY in comparison to the Union Budget 2024-25.

- **Global Capability Centres:** The government proposed a National Framework for promoting Global Capability Centres in emerging Tier-2 cities. This is in addition to the individual efforts of various states that have announced or placed drafts for public comments to promote GCC's.

- **National Centres of Excellence (NCoE) for Skilling:** The government has proposed to set up five NCoE for skilling with global expertise and partnerships to equip youth with the skills required for 'Make for India, Make for the World' manufacturing. The partnerships will cover curriculum design, coaching of trainers, a skills certification framework, and periodic reviews.

- **Centre of Excellence (CoE) in AI for Education:** The Union Budget for FY 24- 25 announced three CoE in AI for agriculture, health, and sustainable cities. The Government has proposed to expand the initiative to education with a total outlay of INR 5,000mn.

- **Research, Development and Innovation:** Additional INR 200,000mn funding to implement private sector-driven Research, Development and Innovation initiative announced in the previous budget.

- **Deep Tech Fund of Funds:** A Deep Tech Fund of Funds will also be explored to catalyse the next generation of startups.

- **PM Research Fellowship:** The government has proposed to provide 10,000 fellowships for technological research in IITs and IISc with enhanced financial support in next five years.

- **Merger of Companies:** The requirements and procedures for speedy approval of company mergers will be rationalised. The scope for fast-track mergers will also be widened, and the process will be made simpler.

- **Manufacturing Mission:** Further to support 'Make in India', the Government will set up a National Manufacturing Mission covering small, medium and large industries by providing policy support, execution roadmaps, governance and monitoring framework for central ministries and states.

TAX PROPOSALS

Direct tax

- **Change in tax slab:** With the aim of increasing disposable income, Government has made changes in tax slabs. Further, rebate is proposed for resident individual taxpayers whose income is up to INR 1.2mn.

- **Presumptive taxation:** In order to incentivise non-residents to provide support (in the form of technology and support services) in setting up of electronics manufacturing facilities, it is proposed to have presumptive taxation regime for such non-residents. The effective tax rate is proposed to be 8.75% (excluding surcharge and education cess).

- **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.

- **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-filing of tax return is proposed to be removed.

- 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.

- **Extension of time limit for filing updated returns:** In a move to encourage voluntary compliance and following the philosophy of 'Trust first, scrutinize later', the Government has proposed extending the time limit for filing an updated return from 36 months to 60 months from the end of the relevant fiscal year. The new tax rates for these filings range from 25% to 70% of the aggregate tax and interest, depending on the time period beyond the fiscal year.

- **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.

Indirect tax

- Customs
  - Definitive time limit of two years introduced to finalise bill ofentries provisionally assessed, subject to conditions.
  - Provisions introduced to voluntarily revise bill of entry and pay duty with interest, subject to conditions.
  - Time limit for fulfilling end-use condition of imported inputs under Customs (Import of Goods at Concessional Rate of Duty or for Specified End Use) Rules, 2022 is extended from six months to one year, with periodicity for submission of statements being revised from monthly to quarterly basis.

- GST
  - 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.
  - Taxpayers allowed to reduce output tax liability in case of issuance of credit notes to a registered recipient only if ITC is reversed by the recipient.
  - Enabling provisions for invoice management system, to claim ITC and adjustment of outward liability, introduced.
  - 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.
  - Retrospective amendment from 1 July 2017 to treat supply of goods warehoused in SEZ or FTWZ to any person before clearance for exports or to domestic tariff area as supply of neither goods nor services.
  - For appeals involving only 'Penalty' without any tax or interest, a pre-deposit of 10% of the penalty is proposed for filing first appeal and an additional 10% for appeal before Appellate Tribunal.

Concluding Thoughts

- There has been a paradigm shift in how Multinational Companies operates in India - a transition from outsourcing the work to establishing an in-house unit to cater to their global units. Recognising this evolving landscape, the Government has been closely monitoring the developments and has taken proactive measures to capitalise on the opportunities presented.
- To support the growing demand of GCCs, Government is set to introduce new policies aimed at fostering their expansion. As part of these initiatives, there is a strategic focus on developing Tier-2 cities, upskilling the youth and establishing R&D facilities, ensuring a broader geographic distribution of GCCs, and promoting overall economic growth.

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166
COUNTRIES &TERRITORIES

119,611
PEOPLE

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350+
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