SPECIAL EDITION

Income Tax & GST Reforms

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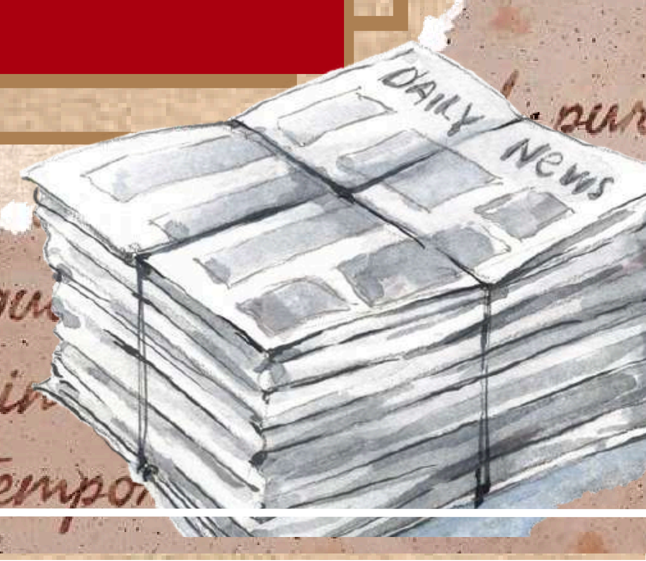


THE NEW INCOME TAX REGIME: A BEHAVIOURAL FINANCE PERSPECTIVE

By Himadri Adhikari

Introduction

The Finance Act, 2025 is on its way to reshape India's personal taxation landscape by introducing significant reforms to the income tax structure. The new regime features lower tax rates and also removes most deductions and exemptions. This shift moves away from a system that guided savings, towards one that prioritises simplicity and choice.

This article analyzes the new system through a behavioural finance lens and explores how these structural changes will influence taxpayer decisions. It also examines the psychological principles behind the new default option and assess the impact on savings, investments and compliance. The analysis focuses on salaried individuals and small investors.

Understanding the New Tax Framework

The Government first introduced the new tax regime back in 2020. While this tax reform has made the new regime the default option, yet the taxpayers can now consciously choose the old regime (tax calculation system used before introduction of new one which also included a lot of exemptions and deductions) over new regime, if it benefits them.

This policy change is a classic example of nudging which uses choice architecture to gently guide taxpayer behaviour towards a preferred outcome.

The new system has also simplified tax calculations significantly. It offers six lower tax slabs, starting from nil tax up to ₹3 lakhs and the slabs increase progressively, with a top rate of 30% on income above ₹15 lakhs. This structure contrasts sharply with the old regime wherein there were fewer slabs but with complications thrown in via numerous deductions.

Key deductions under Chapter VI-A are absent in the new regime. This includes the popular Section 80C, which covered investments up to ₹1.5 lakhs and also removes exemptions for House Rent Allowance ('HRA') and Leave Travel Allowance ('LTA'). This move has ultimately eliminated nearly 70 such provisions and aims to make compliance easier for millions of taxpayers.

The Power of the Default Option

Behavioural finance studies show how psychological factors affect economic decisions. The default option is a remarkably powerful tool in this field where people have a strong tendency to stick with pre-selected choices. This inertia is explained by concepts like status quo bias which observes that how people often prefer to avoid the effort of making an active decision.

By making the new regime the default, the government leverages this human tendency. Many taxpayers may suffer from decision fatigue and not perform a detailed comparison of both options. Instead, they will likely accept the default arrangement and this simple change in choice architecture could cause a large-scale, passive shift to the new system.

This nudge is not coercive as taxpayers retain their freedom to choose. However, the framing of the choice matters immensely as the old regime is now presented as an alternative to opt into. This requires action and calculation and the new regime, conversely, requires no action. This path of least resistance becomes the most probable outcome for many.

Impact on Savings and Investment Choices

The old tax regime actively encouraged specific types of savings. Section 80C was a cornerstone of financial planning for decades and promoted investments in instruments like the Public Provident Fund ('PPF') and life insurance. Taxpayers invested in these products primarily to lower their taxable income and this created a forced, long-term savings habit for many salaried individuals.

The new regime, by removing these tax-saving incentives, alters this dynamic. It gives taxpayers higher disposable income, but also removes the powerful nudge to save for the future. Without the immediate tax benefit, individuals might change their investment habits and gravitate towards holding more liquid assets over long-term, locked-in savings products. This raises concerns about national household savings rates.

Behavioural science suggests this could amplify present bias as this could lead to the tendency to prioritise immediate rewards over future benefits. The lack of tax incentives removes a crucial self-control mechanism that helped counter this bias. The ecosystem of tax-saving products, from Equity Linked Savings Scheme ('ELSS') funds to certain insurance plans, will face a fundamental shift. Financial advisors must now re-educate clients on disciplined investing without relying on tax drivers.

Furthermore, the concept of loss aversion comes into play where people often feel the pain of a loss more strongly than the pleasure of an equal gain. Taxpayers might perceive the loss of familiar deductions like 80C more keenly but this feeling could be overshadowed by the benefit of a lower overall tax liability. This psychological framing can affect their satisfaction and financial choices under the new system.

The Psychology of Simplified Choices

The new regime's simplicity is arguably its main attraction. Simpler choices reduce cognitive burden, i.e., the mental effort required to process information and make a decision. When faced with complexity, as in the old tax system, people often make suboptimal choices as they procrastinate or avoid the decision entirely, due to the choice overload.

The simplified slab structure appeals to our inherent desire for clarity. Taxpayers can understand their liability in this framework more easily and without complex calculations which significantly improves the overall experience of filing taxes. A positive, frictionless experience may lead to better compliance over time and may also foster a greater sense of fairness and transparency in the tax administration system.

However, this simplicity can have unintended behavioural consequences. It may encourage a different form of 'mental accounting' where might people mentally compartmentalize their money for different purposes. Without a dedicated "tax-saving" bucket, the extra cash from lower tax rates might be seen as "windfall income" and this mental label could lead to spending it on discretionary items rather than investing it for long-term goals.

The salience of the tax paid also increases with simplification. When deductions are removed, the final tax amount becomes more direct and obvious which might increase visibility and could make taxpayers more sensitive to the tax they pay. It might lead them to demand greater accountability and efficiency in government spending. This heightened awareness is a subtle but important psychological outcome of the reforms.

Compliance Patterns and Tax Morale

Simplification is a proven strategy to boost tax compliance. A simpler system reduces the scope for unintentional errors in tax filings as it also lowers the cost of compliance, both in terms of time and money. Taxpayers may no longer need professional assistance for filing returns and this ease of use can significantly improve filing rates and accuracy.

Moreover, a system perceived as fair and transparent can enhance tax morale. Tax morale is the intrinsic motivation of citizens to pay their taxes honestly. When taxpayers believe the system is straightforward, their willingness to comply increases. The removal of a web of complex exemptions reduces opportunities for aggressive tax planning and evasion and helps in creating a more level playing field for all honest taxpayers.

The simplification empowers individuals by reducing their reliance on intermediaries. However, this also removes a source of professional financial advice for many. The new system's design also makes it harder for income to go unreported, with fewer avenues to claim deductions, the focus shifts entirely to the correct reporting of income. This structural change is expected to widen the formal tax base over time.

Conclusion and The Way Forward

The 2025 income tax reforms represent a significant behavioural experiment in public policy where the framework expertly uses established principles to influence taxpayer choices. The default option and radical simplification are powerful nudges and they are fundamentally reshaping how Indians approach their tax obligations and personal finances. The immediate goal of simplifying the tax code seems well on its way to being achieved.

However, the long-term effects on national savings rates need careful and continuous monitoring. While simplicity is a laudable goal, its impact on investment habits is a genuine concern where policymakers should closely observe household savings data in the coming years. Financial literacy initiatives, which go on to explain behavioural biases like present bias, are more critical than ever as these programs can help people make informed decisions in this new, deduction-free environment.

Future reforms could build upon this behavioural foundation and the government could introduce "smart defaults" as a next step. For example, a system where a portion of the tax saved is automatically channelled into the National Pension System ('NPS') unless the taxpayer actively opts out. This would combine the power of defaults with a clear savings objective. Ultimately, the goal must be a tax system that is not only simple but also actively promotes the long-term financial well-being of citizens.

RESOLVING DISPUTES: THE ROLE OF GST APPELLATE TRIBUNAL

By Shreya Mathur

Introduction

The Goods and Services Appellate Tribunal ('GSTAT') was introduced in 2017 under section 109 of the Central Goods and Services Tax Act, 2017 ('CGST Act'). The tribunal is being brought into operation through a notification by Ministry of Finance on April 24th, 2025 under section 111 of the CGST Act.

The Goods and Services Tax Appellate Tribunal (Procedure) Rules, 2025, issued under the notification, has 124 rules spread across 15 chapters, detailing out the procedure and the powers of the tribunal. The operationalizing of the GSTAT is a welcome move for the taxpayers and the judiciary alike.

Goods and Services Appellate Tribunal

The GSTAT is a body set up to hear appeals against the decisions of the appellate authority and the revisional authority set up under CGST Act. It acts as the second-tier of appeal. It has also been granted the power to adjudicate upon anti-profiteering cases, replacing the Competition Commission of India (Anti-profiteering).

The powers of the tribunal have been widened as well, opposed to the previous authorities. The power of allowing cross-examination, constitution of an expert panel, suo motu summoning of records, etc. are some of the new powers granted to the tribunal. These will help facilitate the hearing process and ensure a fair outcome with better adherence to the principles of natural justice.

The recommendations released by the Goods and Services Tax Council have proposed a timeline for the operationalization of the GSTAT. It has been stated that the acceptance of appeals by the tribunals shall begin from September, 2025 and matters would be taken up by December, 2025.

Benches and Composition

The composition of the GSTAT under the CGST Act shall include the president and two technical members, one member each from the centre and the state, in the national bench. The state benches shall comprise of a Judicial Member and two technical members, one member each from the centre and the state.

The senior most judicial member in each state shall be designated as the president for the state benches. Excepting cases of determination of place of supply, state benches hold the same powers of hearing as that of the national bench.

As per the government notification, to facilitate the smooth functioning of the GSTAT, a principal bench to sit at New Delhi and 31 state benches have been established. The government has also approved the appointment of 31 Technical Members (Centre) and 52 Judicial Members for the GSTAT benches across states. The composition for the principal bench has been finalised as well with Justice (Retd.) Sanjaya Kumar Mishra as the first President.

Mechanism and Implementation

With the establishment of the GSTAT, the burden of GST litigation on the High Courts shall reduce. This also aids in expediting the appellate grievance redressal procedure. In addition, a provision has been added to transfer all existing pending appeals before the High Courts to the GSTAT to further these objectives.

One of the novel approaches being taken is the digital first approach. Under Rule 18 of the rules of the Act, the process of filing for appeal shall be undertaken digitally in its entirety through the portal established.

The Ministry of Finance has released a user manual to help facilitate the same. This helps further the aim of digitalisation of court records and increases their ease of access to the public records.

The hearing of the tribunal shall take place in a hybrid format as well. The hearing, with permission of the president, may be conducted online and would take place on the portal of the GSTAT, where it will be recorded. This is a welcome move, allowing flexibility to parties and also aiding in cost cutting and saving of time lost on the hassle of travel, especially for parties residing in places situated far from the bench.

Criticism

While the move is hailed by many, there arise some issues with the newly notified rules. There are some instances where the rules do not cover the procedures that are to be followed, leaving loopholes as well as instances of contradiction with its parent act.

One such issue can be observed in the ambiguity in the procedure established for cross-examination of deponents. The rules do not demarcate under which circumstances the same would be allowed. The decision is left entirely to the discretion of the judges.

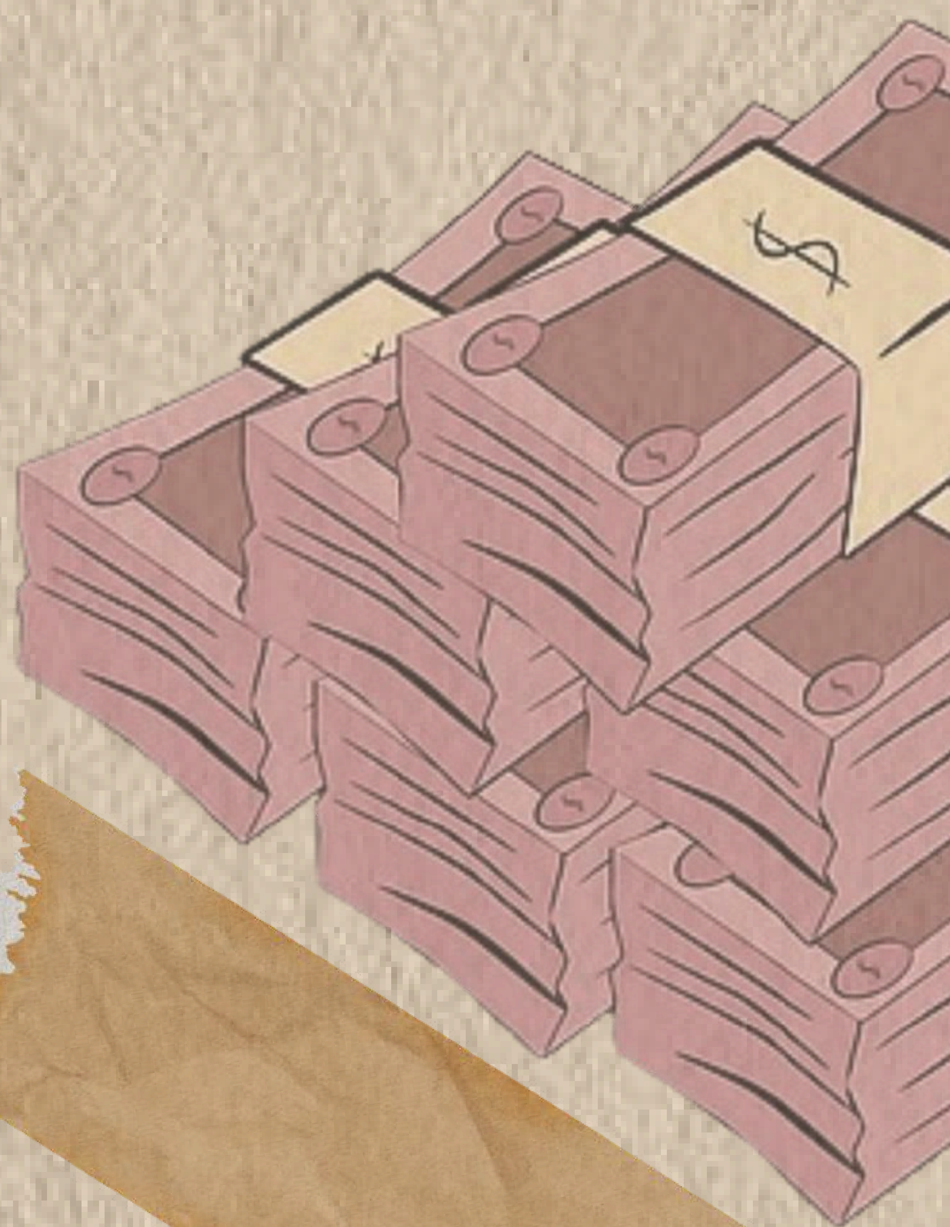
Another such instance is highlighted in a conflict between the CGST and the Rules. Whereas, in the case of a conflicting opinion, while the Rules allow for a referral to a larger bench, the CGST Act calls for the decision to be made by the president in consultation with the opinions of majority of the members of bench who first heard the issue.

Conclusion

The recently notified rules have been a long due step in the operationalization of the GSTAT. They have notified the procedures to be followed by the tribunal and delineated as well as expanded the powers of the appellate tribunal.

The Rules also call for increased digitalisation in all stages.

The government is paving its path to enhance the ease of doing business and increase transparency. But as the government appoints the members to the benches to make the GSTAT functional soon, they also need to conduct a thorough review of the rules published. With loopholes emerging and conflicts between the Rules and the parent act, the government has their hands full as they set the ship sailing.



Banking's Digital Push: How Tax Reforms are Accelerating Financial Inclusion

By Rahul Agarwal

Introduction

The new Goods and Services Tax ('GST') reforms, effective from September 22, 2025, bring significant changes to India's indirect tax structure. The GST Council in its 56th meeting held on September 3, 2025, recommended major reforms that simplified the four-slab system (5%, 12%, 18%, 28%) into a citizen-friendly 'Simple Tax' - a 2-rate structure with a Standard Rate of 18% and a Merit Rate of 5%, along with a special de-merit rate of 40% for select goods and services. Also, several incentives for digital compliance have been introduced which are expected to work in favour of the economy.

Growth and Consumption

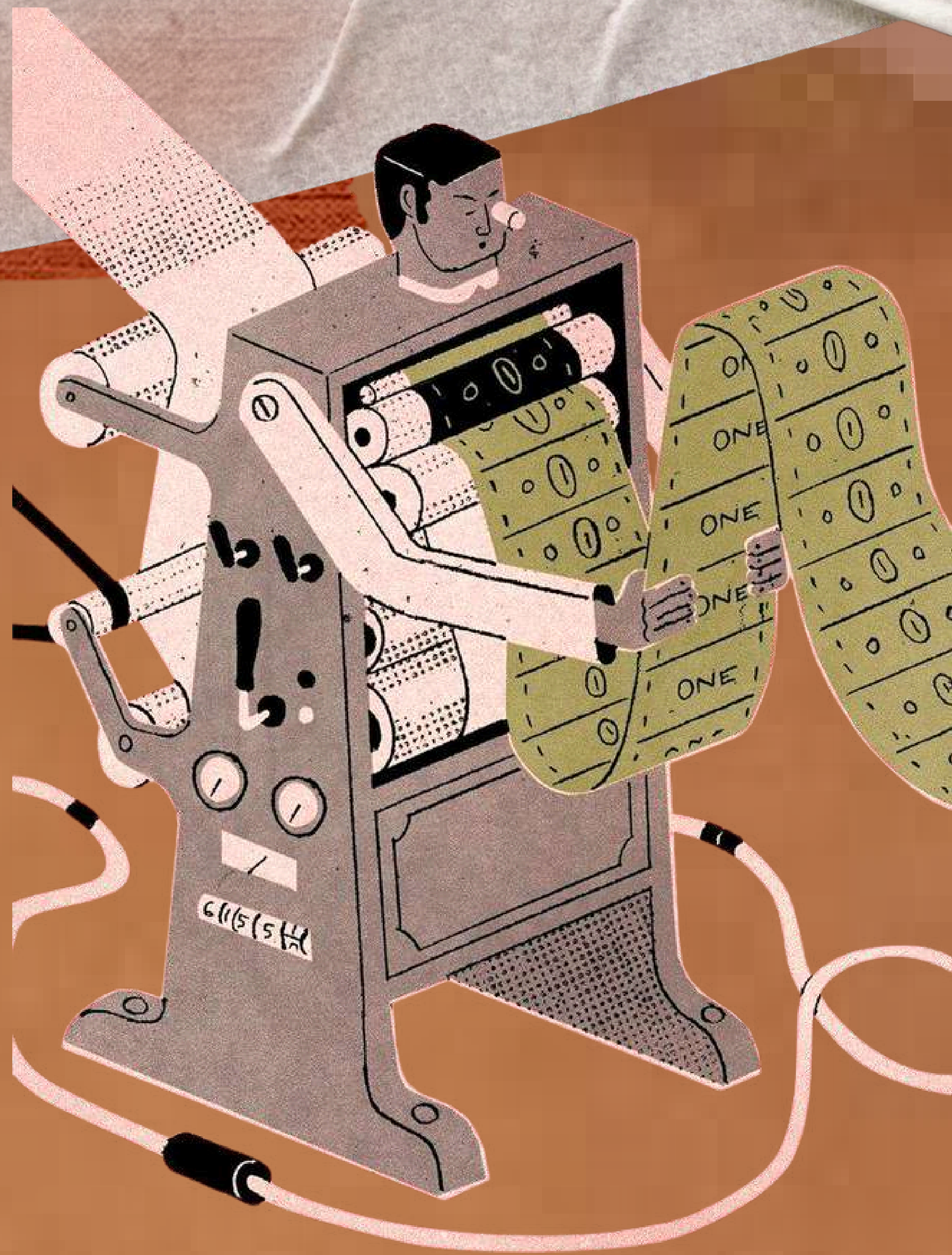
Digital GST compliance features, including simplified registration processes and streamlined invoicing systems, are enabling banks and financial institutions to expand their service channels. Such reforms are designed to accelerate financial inclusion of the general population and small businesses in the rural segments of the society. Banks are capitalizing on these reforms by setting up more Digital Banking Units ('DBUs'), Automatic Teller Machines ('ATM'), and simplified banking services for remote areas of the country. Electronic Know Your Customer ('E-KYC') systems and digital banking infrastructure now allows individuals to access banking services online more easily. Lower GST rates on basic goods and services result in price reductions in the market and accelerate the purchasing power in the market. This injects more money into the market allowing the economy to grow. The elimination of GST on individual life insurance policies (including term, ULIP, and endowment plans) and all individual health insurance policies (including family floater policies and senior citizen policies) is expected to boost the healthcare and insurance sectors. It allows insurance companies to attract in more consumers with competitive premiums and enhanced coverage. The reforms aim to lower costs for essentials, boost consumption, and enhance industry competitiveness.

Initial months may invite resistance and confusion from various businesses and banks. This would also require the business to adapt the new reforms to their existing businesses. It would also involve various sectors needing to launch revised pricing for their products. This pricing revision may not change the actual product cost but will affect the tax composition and potentially the quantity offered. Fast Moving Consumer Goods ('FMCG') companies are finding it challenging to reduce prices on small-value items, with many opting to increase product quantities or offer promotional schemes instead. Companies are rather expected to increase the quantity of the product or offer promotional schemes instead of direct price reductions for low-value items.

Digital infrastructure while improving is still not sufficiently developed to accommodate the huge population of India, most of which is still adopting to digital services. This infrastructure although eases the urban population, is not available to the remote regions of the nations. Unaware and scarce digital and electronic resources in such regions also pose a great challenge for the banks to provide inclusive services.

Conclusion

The September 2025 tax and GST reforms mark a decisive turning point in India's journey towards an inclusive



digital economy. Through radically simplified compliance, digital transaction incentives and credit flow to the newly formalized and financially excluded. These reforms aim to enlarge the digital infrastructure of the banks but to change the very concept of financial inclusion and grant them a range of services. Public from remoter regions are entering into the services of formal banking. Such systems would facilitate and support transparency, predictability and would strive to eliminate the flaws in the system.

Steps however, have been taken by the government and the private sectors to enable the rural and semi-rural populations to the facilities of the digital infrastructure. Yet, more than half of the population of the country is oblivious to the extent of online services being offered in the country.

SOVEREIGN DEBT AND FISCAL PRUDENCE: MOODY'S PERSPECTIVE ON INDIA'S 2025 TAX REFORMS

By Sriyya Jain

Introduction

India's new fiscal policy and sovereign credit have occupied the centre stage from the day it was released by the Government of India ('Govt'), which will be effective from Sept 22nd, 2025. Through this reform, the govt has simplified the tax slabs. Now, there will be only two tax slabs 5% and 18% respectively. A tax slab for luxury and demerit goods with a 40% taxation rate has also been introduced. The aim of this is to relieve burdens, widen the tax base, and boost economic growth.

These reforms, when aligned with international best practices, are closely tracked by agencies like Moody's for their impact on revenue stability, fiscal discipline, and investor confidence. This article would mainly throw light on Moody's perspective on the same, enabling us to get an insight into what an international organisation thinks about the changes and reforms that have been brought in.

Understanding Moody

Moody's rating, a segment of Moody's Corporation, is one of the world's largest leading credit rating agencies. It plays a crucial role in global financial markets. Its primary role is to assess the creditworthiness of countries, companies, and securities.

According to the standings of the assesse, they are assigned a standardized ratings that ranges from the highest rank of Aaa to the lowest C. These ratings are widely used by investors, govt and financial institutions while, make decisions, to gauge risks and the profitability of the deal.

Sovereign credit ratings underpin a country's potential access to global capital markets and also influence the government's borrowing cost. Moody's credit rating system analyses different factors that include, but are not limited to, fiscal deficit, Debt-to-GDP ratio, policy credibility, tax administration, and economic governance. As of 2025, India has a rating of Baa3 with a stable outlook, reflecting cautious optimism about its debt metrics and reform-driven growth prospects.

Transparent tax systems and prudent fiscal management are critical in Moody's evaluation as they reflect the govt's capacity to manage the debts and also to attract investments.

Overview Of India's 2025 Tax and GST Reforms

The 56th meeting conducted by the GST council, chaired by Hon'ble Finance Minister Nirmala Sitharaman, marked the approval of the GST reforms, which emphasize on **simplification**, relief and inclusive growth. They eliminate the pre-existing 12% and 28% GST rates and create a new two-slab structure that provides greater clarity to the taxpayers. Some of the key changes include:

- Household essentials, food items, and medicines for life-threatening diseases now have either 0 or a 5% rate.
- Rates on 2-wheeler vehicles, small cars, TVs, ACs and farm machinery drop to 18% or 5%.
- Luxury goods and health-damaging goods like tobacco, pan masala, liquor, and carbonated drinks will now have a tax slab of 40% on them.
- Reforms have been brought to streamline registration, filing and refunds, lowering costs especially for small businesses.
- construction, agriculture, medical devices, hotels, handicrafts, and education, resulting in affordable goods and services.

Moody's Perspective On The Reforms

Moody welcomes the tax system simplification and a broadened revenue base, core requirements for fiscal discipline and predictable collections. The rate rationalization and improved compliance are expected to increase formalization, widen the tax net and stabilize govt's revenues. Moody points to the positive outcomes from India's Debt-to-GDP ratio as the collection grows and structural deficits have been trimmed.

They also highlighted the improvements in governance from streamlined processes and a faster digital refund. These measures reduce compliance costs and strengthen policy credibility. They have added that such reforms, if sustained, could support future upgrades in sovereign outlook by reinforcing India's fiscal strength and governance.

Implications for Investor Confidence and Sovereign Debt Markets

Moody's rating plays a crucial role in shaping the sentiments of foreign and domestic investors towards sovereign and capital bond markets.

The combination of a simplified GST structure, widened tax base and prudent revenue, will strengthen investors' confidence, translating to greater interest from global investors. These reforms will lead to making India's fiscal situation more predictable while also lowering risk premiums on debt as well as increasing opportunities for international capital markets.

Challenges and Risks Highlighted

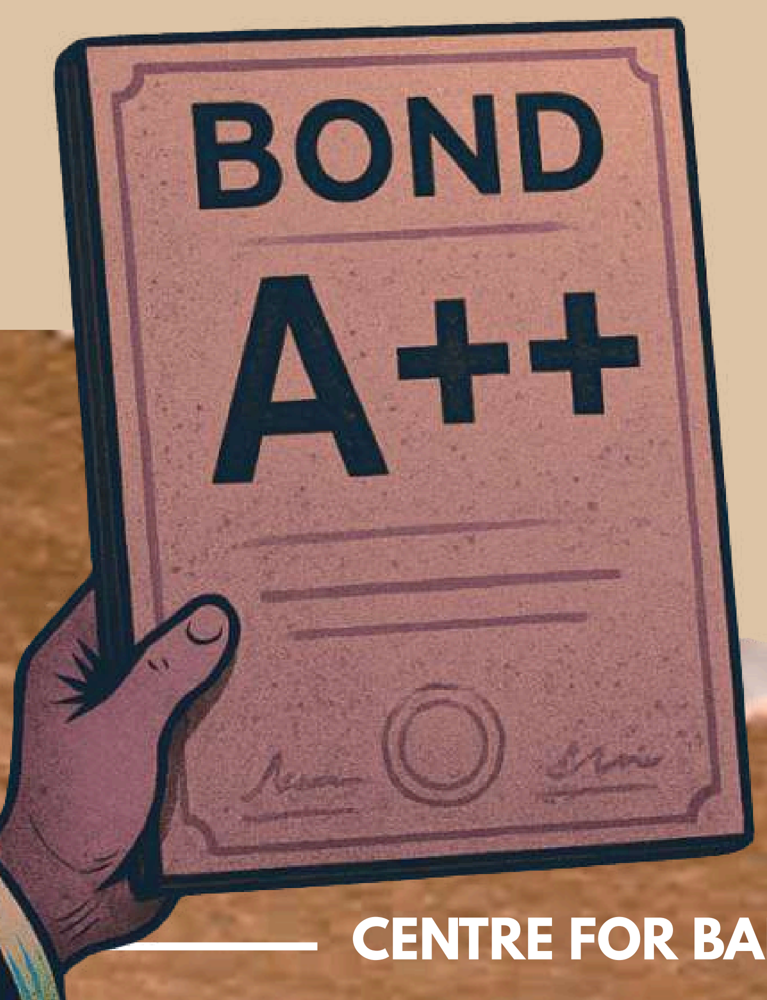
As the saying goes, every coin has two sides; likewise, despite all the positive reviews given by Moody, it also identified several risks that could arise. Some of the issues to be looked out for are the need for consistent implementation across diverse states and exposure to global economic headwinds, which are currently the ongoing concerns.

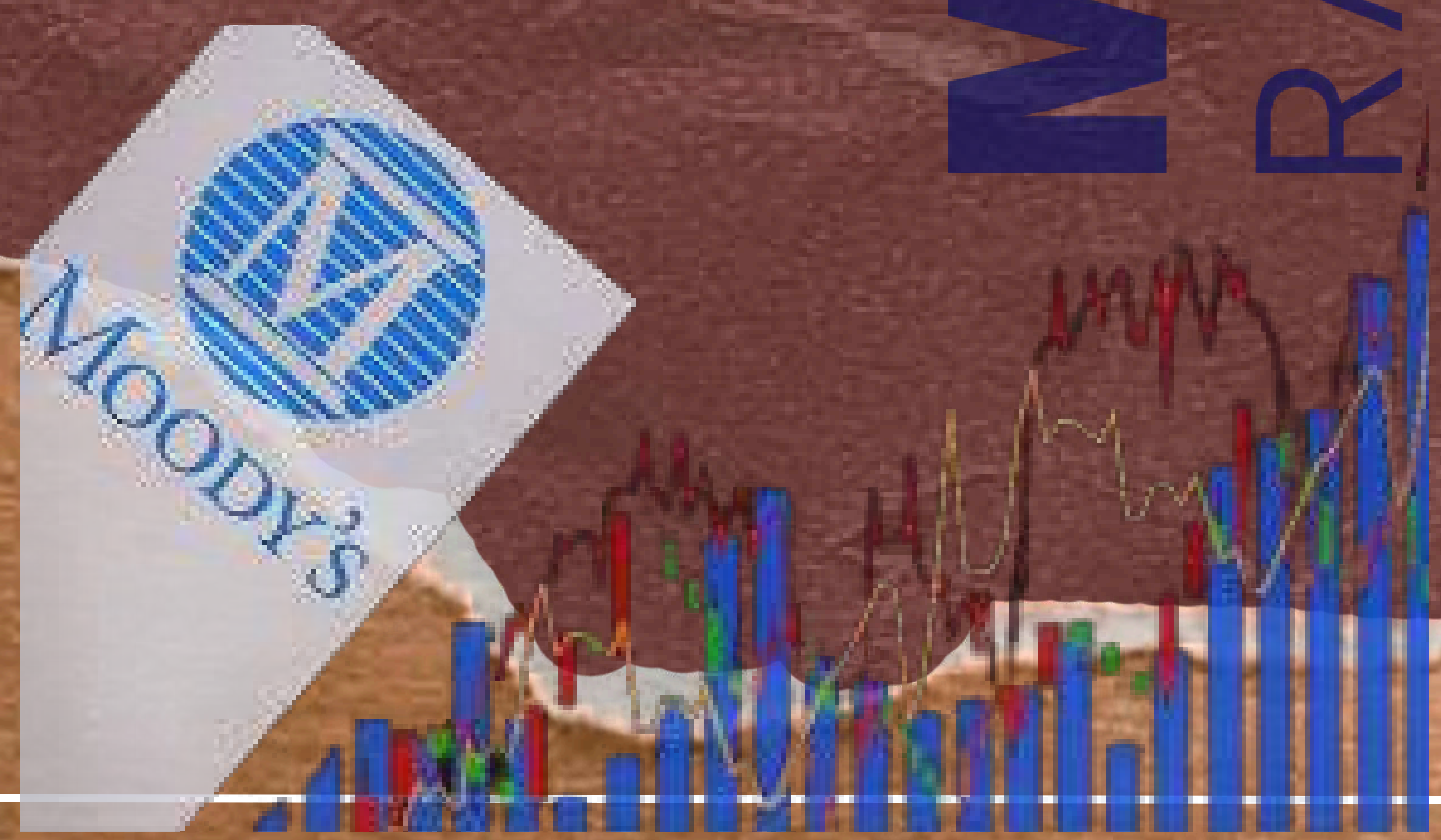
In addition, geopolitical uncertainty and inflationary pressure may test the sustainability of the reforms as well. Moody also notes that India's ability to maintain progress in lowering debt ratios depends on robust economic expansion, avoidance of large-scale fiscal giveaways and careful management of unforeseen expenditures.

Conclusion

The new tax and GST reforms are centered around simplification, relief, and revenue stability representing a landmark moment for sovereign creditworthiness. Moody's positive, yet cautiously optimistic perspective underscores the importance of persistent policy innovation and credible governance. By aligning tax administration with global standards and targeting inclusive growth, India is now positioned to gain investors' trust and, on its way, to enhance its footing in sovereign debt markets.

MOODY'S RATINGS





GST CUTS AND CONSUMER FINANCE: LEGAL IMPLICATIONS FOR NBFCS AND RETAIL LENDING

By Priyadarshani Sahoo

India's newest GST reforms lower tax rates on many everyday goods and durables. Under the "Next-Gen GST" plan, most household essentials - soaps, staples, two-wheelers, TVs, ACs, cement, farm equipment, etc. will be taxed at 5% or less (down from 12-28% previously). The aim is to "prioritize consumers by lowering rates on essentials and high-value items" to boost purchasing power. Government analyses highlight the expected chain effect: "Lower Prices, Higher Demand", cheaper goods should raise household savings and stimulate consumption, creating a virtuous cycle. Industry leaders agree this will benefit the "common man" and the economy as cutting GST on normal consumption items will provide a lot of relief to the general public.

Demand and Retail Credit: A Boost from GST Cuts

Lower GST on consumer durables and essentials is expected to lift retail demand and demand for retail loans. By making many everyday and high-ticket items cheaper, disposable incomes rise and consumers become more willing to finance purchases. Official communications emphasize that lower tax burdens leave more money in consumers hands, spurring spending and cutting EMI obligations on financed purchases.

For example, Motilal Oswal and other experts have pointed out that lowering GST on cars or appliances will directly reduce monthly installments, encouraging more consumers to borrow for those purchases.

This dynamic is already reflected in market expectations. A Deloitte GST survey found that 85% of corporate respondents have a positive view of GST in 2025 (up from 59% in 2022), reflecting confidence that recent reforms will stimulate growth. ICRA reports project that overall incremental bank credit will grow 10-11% in FY2025-26, with Non-banking finance companies (NBFC) retail lending expanding 15-17%. In particular, ICRA notes GST driven higher consumption will improve economic activity and lending appetite. In short, lower GST on consumer goods is likely to translate into stronger demand for loans, especially for consumer durables, vehicles, and household financing.

Implications for NBFCs and Retail Lenders

NBFCs and banks stand to be important beneficiaries and participants in this consumption and credit upcycle.

Cheaper consumer products mean higher sales for retailers and manufacturers, which in turn raises the pool of potential retail borrowers for lending institutions. NBFCs, which have large portfolios of consumer, housing, and SME loans, can tap this demand. Credit rating agencies project NBFC credit growth of 15–17% in FY2026, only slightly below the prior year. Analysts note that NBFCs heavily engaged in financing for consumer goods and housing will see portfolio growth as GST cuts lower effective loan amounts.

Any surge in credit growth must not compromise underwriting quality. RBI and agencies have cautioned that unsecured consumer loans can carry asset-quality risks. CRISIL notes that concerns about unsecured consumer credit remain, and NBFCs must be watchful of asset quality even as they chase growth. Nevertheless, the easing of borrower's tax burdens and likely reduction in cost of funds (RBI rate cuts) should bolster margins and lending capacity for banks and NBFCs alike.

Legal and Compliance Considerations for NBFCs

Under the new GST framework, most NBFCs' core business (lending) remains largely unaffected in tax status: interest income on loans is exempt from GST, and that continues. However, important clarifications and guidelines bear on NBFC operations and loan documentation:

- GST on penal charges: RBI's 2023 "Fair Lending" guidelines barred penal interest and required lenders to levy penal charges for defaults. The GST Council's January 2025 clarifications (Circular 245/02/2025) explicitly align with RBI, it confirms that no GST is payable on penal charges levied by banks or NBFCs for breach of loan terms. The GST department ruled that such charges are akin to liquidated damages (not a "toleration fee"), so they fall outside GST. This clarity is a boon to lenders as they can impose RBI-mandated penal fees without worrying about adding an indirect tax.
- Disclosure and loan docs: RBI's digital lending and fair-practice regulations (2024-25) require NBFCs to present borrowers with a standardized Key Fact Statement (KFS) at origination, showing interest rates, fees, and terms. As a result, all fees or charges (including penal charges or foreclosure fees) must be transparent. RBI explicitly instructs NBFCs to include penal fees in the KFS and sanction letter.

- In addition, RBI clarified that any penal charges collected appear in "Schedule 14: Other Income" of financial statements, separate from interest income. NBFCs must update internal accounting systems accordingly.
- GST compliance and credits: Though loans themselves are exempt, NBFCs still deal in services subject to GST (e.g. insurance premiums earned, or any co-lending fees). NBFCs should adjust their invoicing and compliance processes to reflect the new reduced rates on inputs used in their business (for example, fleet vehicles for repossession, computers, etc.). The simplified two-rate GST structure (5% and 18%) and rationalized exemption list will also simplify compliance overall. Many NBFCs with pan-India operations already enjoy streamlined GST registration. However, NBFCs should note special clarifications like those NBFCs acting as payment aggregator or similar qualifies for those exemptions.

Conclusion

In summary, NBFCs and retail lenders should take the GST cuts as largely a demand-side positive. Legally, the new tax regime brings helpful clarifications but also imposes the need to update loan documentation and tax reporting. NBFC compliance teams should ensure that their lending practices fully reflect the new rules.

If implemented smoothly, the GST tax cuts and RBI guidelines together promise a cleaner, more borrower-friendly environment that could boost retail credit growth.

MORTGAGE FINANCING AND REAL ESTATE: TAX REFORMS AND LEGAL IMPLICATIONS

By Umang Binayakia

Introduction

India's Goods and Services Tax ('GST') revamp in 2025 is restructuring construction costs and shifting the dynamics of housing finance incentives. This, in turn, is reshaping mortgage lending, developer economics, and buyer's affordability. The new tax slabs and notifications alter input costs and input tax credit flows. When combined with fresh housing subsidies and priority sector nudges, they change credit risk pricing and contractual compliance for banks, developers, and homebuyers.

GST Reform and Construction Materials

The GST Council simplified slabs and reclassified many construction inputs. Some key materials like cement, tiles, and certain masonry products moved to lower rates which is from 28% to 18%. This reduces the tax burden on raw inputs and on work contracts for residential projects. By cutting GST on key materials, the reforms aim to ease developers' input tax burden.

This may narrow the pricing differential between under-construction and ready-possession properties, depending on market pass-through. Developers will now face a lower embedded tax cost to finance

Input Tax Credit Consequences

Changes in tax rates matter because Input Tax Credit ('ITC') rules determine whether developers can offset taxes paid on inputs against output liability. Section 16 of the Central Goods and Services Tax Act 2017 remains the governing provision, and the Central Board of Indirect Taxes and Customs ('CBIC') has issued implementation guidance to address transitional ITC questions and retrospective eligibility that affect past claims. When GST rates change, or when some supplies are made exempt or zero-rated, developers' ability to claim or carry forward ITC also changes. This directly affects project cash flows, working capital needs, and even their mortgage exposure.

Housing Finance Incentives and Mortgage Lending

At the same time, the Centre and the Reserve Bank of India ('RBI') continue to incentivize housing finance through credit-linked subsidy schemes and priority sector classification. These measures lower effective interest rates for eligible borrowers, which in turn can encourage more households to seek home loans. Programmes such as the Pradhan Mantri Awas Yojana ('PMAY'), renewed credit-linked subsidy windows, and clearer PSL guidelines make smaller-ticket home loans more attractive for banks, potentially reshaping their loan portfolios and reducing the average ticket size of mortgage books.

How reforms reshape Mortgage Economics

Taken together, reductions in input taxes and the strengthening of subsidy frameworks alongside clearer priority sector treatment serve to lower costs on the supply side of construction as well as the financing costs borne by borrowers on the demand side. This narrows developer margin pressure and increases borrower ability to service loans. Banks may reprice risk, extend longer tenors, or offer differentiated products for affordable housing. Smaller developers may experience improved liquidity, provided that input tax credit benefits and reductions in input rates are effectively passed through. However, whether developers pass savings to buyers will depend on contractual obligations, competition, and regulators' attention.

Legal and Compliance Considerations for Banks

Lender diligence must now include tax structuring and ITC reconciliation. Lenders should verify that developer claims of lower input taxes are properly supported. They must also ensure that the GST classification and Harmonized System of Nomenclature ('HSN') codes used in project budgeting correspond to the notified rates. In addition, loan covenants should require developers to maintain proper GST compliance records. Developers should also indemnify lenders against any tax demands arising from misclassification. Banks should also monitor priority sector certification and subsidy disbursement conditions to ensure loan pricing and provisioning are correct.

Legal and Compliance Considerations for Developers

Developers must revise supply chains and contractual terms to reflect the new GST slab rates introduced under the 2025 reforms. They must ensure deeds and sale agreements accurately reflect tax liabilities to avoid disputes at handover. Contractual clauses on escalation and tax shifts should be revisited, and disclosures to homebuyers should be clear about the tax element and subsidy interplay. Where refunds or transitional adjustments arise, developers should follow Central Board of Indirect Taxes and Customs ('CBIC') procedures to avoid retrospective demands.

Legal And Compliance Considerations For Homebuyers

Homebuyers and mortgage applicants should seek transparency regarding the reflection of tax reductions and subsidies in pricing and loan documentation, supported by itemized statements. Under the 2025 GST reforms, delays in getting the title or taking possession of a property can affect how under-construction units are treated for input tax credit, including when and whether it can be claimed. GST usually does not apply to resale homes, so tax issues in the secondary market are limited to specific situations, like property assignments or developer-related obligations under the new rules

Conclusion

The 2025 GST Reforms bring both opportunities and challenges for real estate and housing finance. Lower GST on construction materials, combined with housing subsidies and clearer priority sector rules, reduce developer costs and make home loans more affordable. This can help developers with cash flow and encourage smaller home loans. At the same time, the reforms create important compliance requirements.

Developers need to update supply chains, contracts, and sale agreements to reflect new GST rates and input tax credit rules, and clearly inform homebuyers. Lenders should verify GST claims, reconcile ITC, and include protections in loan agreements. Homebuyers should make sure that tax cuts and subsidies are properly applied, especially for under-construction units. Overall, these reforms change construction costs and housing finance, but careful compliance is crucial to avoid tax problems, disputes, or financial risks.

ENHANCED TDS THRESHOLDS: EASING THE BURDEN ON BANKS AND CORPORATIONS

By Manvi

Introduction

The sweeping reforms to India's tax regime, introduced through the Taxation Laws (Amendment) Bill, 2025 have, paid particular focus on Tax Deducted at Source ('TDS') provisions. Effective from April 1, 2025, these reforms revise threshold limits across key sections of the Income Tax Act, easing compliance for banks, corporations, and taxpayers. By raising thresholds that had long constrained liquidity and created administrative burdens, the reforms aim to simplify tax compliance, improve cash flow management, and reduce transaction-level complexity in financial operations. This article analyses the enhancement of TDS thresholds, its impact on banks and corporations, and the broader policy implications.

Background To TDS Framework

TDS was introduced in India as a mechanism to ensure timely tax collection at the point of income generation. Over time, however, low thresholds led to frequent deductions even on modest payments, increasing compliance burdens for businesses and financial institutions. Banks, corporations, and professional service providers were particularly affected, as they managed large volumes of transactions requiring deduction, filing, and reconciliation.

By 2025, the need for reform became clear: outdated thresholds no longer reflected contemporary income patterns and imposed disproportionate costs on both taxpayers and administrators.

Key TDS Enhancements

The Taxation Laws (Amendment) Bill, 2025 significantly recalibrates the TDS framework by raising thresholds across key categories. The interest income limits have been doubled with senior citizens charged ₹1 lakh and other taxpayers charged ₹50,000 as professional fees (Section 194J). Commission and brokerage amount (Section 194H) increases to ₹20,000 and dividend and mutual fund income increase to ₹10,000. Compensation income (Section 194LA) goes up to ₹5 lakh and under Section 194T, a new provision of 10% TDS on payments by a partner exceeding ₹20,000 per annum has been introduced. All these measures denote a structural change of efficiency and fairness in tax compliance.

Impact on Banks and Financial Institutions

The enhanced thresholds ease operational and compliance pressures for banks. Reduced processing complexity means fewer TDS-triggered transactions, cutting down costs of record-keeping and reconciliation. Administrative efficiency improves as small finance banks and cooperative institutions face fewer compliance triggers, allowing manpower and technology resources to focus on core banking operations.

Further, technology integration benefits are substantial. Automated systems and Open Banking Application Programming Interfaces (APIs) handle fewer compliance events, reducing computational loads, enhancing efficiency, and cutting maintenance costs. Banks also anticipate fewer customer grievances and TDS certificate requests, streamlining customer service operations.

Corporate Compliance Advantages

Corporations stand to gain significantly from improved cash flow management, as fewer payments now trigger immediate tax deductions. This strengthens liquidity, allowing firms to plan expenditures more effectively. Additionally, less compliance burden, fewer quarterly filings and fewer TDS certificates might allow businesses to implement increased resources in their operations instead of tax administration.

Vendor and contractor relations are also enhanced by the reforms. The smaller vendors and professional service providers shall now receive gross payments more regularly and will not be dependent on refunds as much and will have greater confidence in the business transactions.

Sector-Specific Benefits

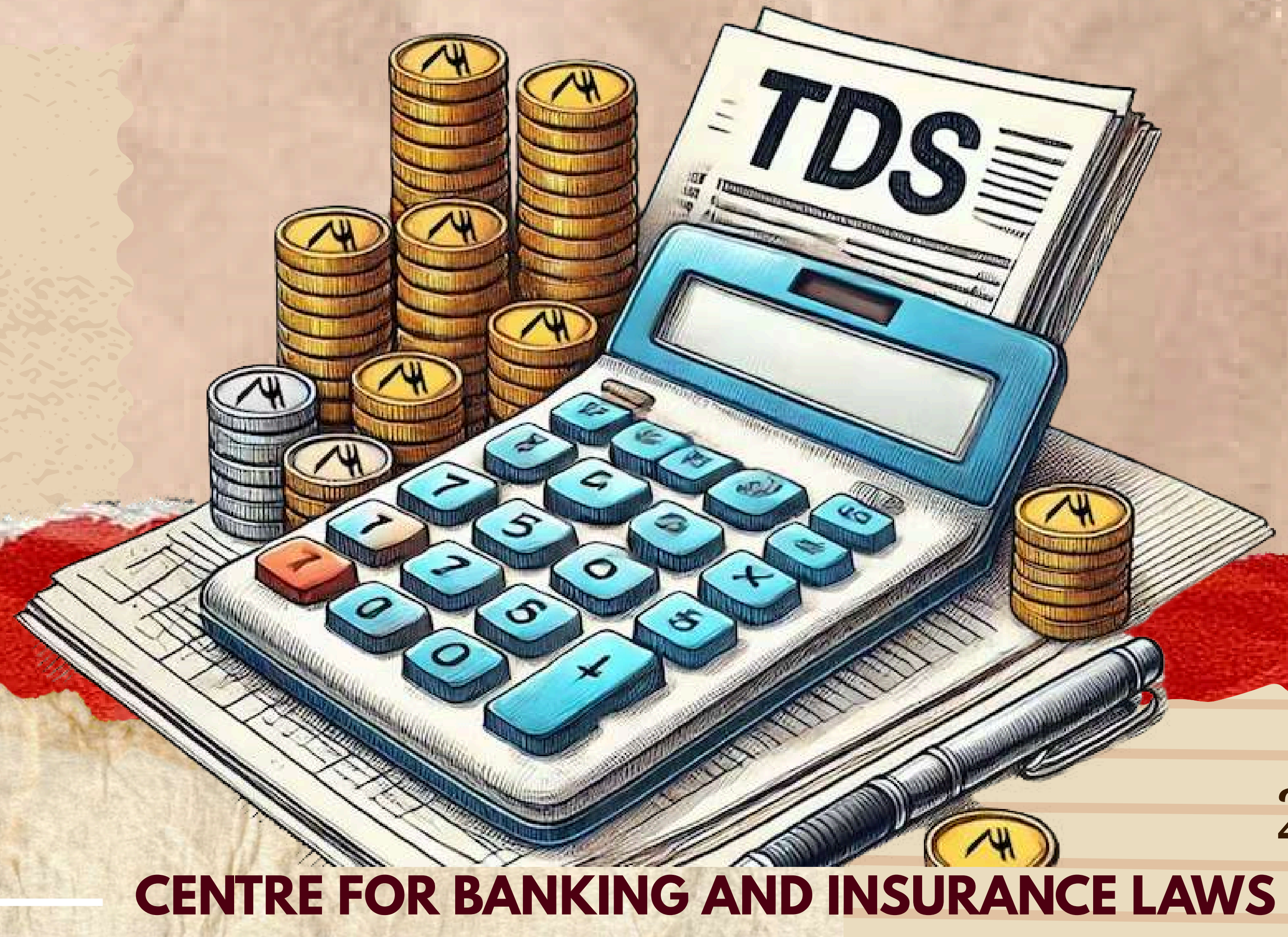
The enhanced TDS thresholds deliver certain clear sectoral benefits. Non-Banking Financial Companies (NBFCs, from hereinafter) can relax on professional and vendor payments even though they are still required to pay under Section 194A of the Act and save costs. The core of the partnership firms and Limited Liability Partnerships (LLPs, from hereinafter) which would be subject to new obligation under the Section 194T would be relieved with increased thresholds. In the meantime, the institutions that are technology-oriented enjoy fewer loads of data, and easier reconciliation which simplifies compliance throughout the board.

Economic and Policy Implications

The policy perspective, of the reform in question, is in terms of balancing revenue collection and compliance efficiency. The government can guarantee a constant flow of tax funds and minimise the collecting cost, which is also in line with the best practices across the world. The reforms promote the ease of doing business agenda in India by facilitating compliance among SMEs, banks, and other professionals in their services. The increased thresholds will also promote wilful compliance, as there are fewer complexities and disputes surrounding minor deductions by the taxpayers.

Challenges and Considerations

However, the change does not come without challenges. Financial institutions also require updates in their systems, which means that their software needs to be revised, and the staff needs to be trained and the integration-testing should be done to verify accuracy. There can be increased compliance costs in the short run because of systems adaptation.



Secondly, it is important to communicate the new-found changes with the customers. It is beneficial to explain to the depositors, vendors, and other professionals providing services, why the reforms are necessary in order to avoid misunderstandings in the transition process. Transitional reconciliation is also dangerous because it may lead to disputes when there is overlapping of the rules in the pre and the post reform period unless handled with caution.

Conclusion

Increase of TDS limits under the Union Budget 2025 is an indicator of a planned move to transform the way the administration of TDS in India is done. The reforms relieve both the banks and corporations, as well as individual taxpayers, by increasing limits on interest income, professional services, investment returns and compensation payments. The outcome is a system that maintains a revenue efficiency and lowers the administrative cost, enhances liquidity and facilitates an environment that is conducive to business. In the future, it will be necessary to keep the trend going with further automation of TDS systems and specific education of taxpayers. When executed correctly, the reforms might be an example on how the tax regime in India can be simplified in the future by balancing financial accountability and economic responsibility.

THE MSME OPPORTUNITY: CREDIT GROWTH IN A POST-REFORM GST WORLD

By Ananya Kreeti

Introduction

Good and Services Tax ('GST') is an indirect tax which was introduced in 2017. It is imposed on supply of goods and services. GST is a major tax reform which is directed to unify India's fragmented tax regime. Micro, Small and Medium Enterprises ('MSME') are entities that are involved in the production, manufacturing and processing of goods and commodities. MSME is considered as backbone of Indian economy as it contributes nearly 30% of India's Gross Domestic Product ('GDP'), 40% of exports and employs over 11 crore people. Recently, GST 2.0 has come into the news that aims to make the tax regime simpler and MSME friendly.

The new reforms include correction of inverted duty structure, faster processing of refunds, automation of input tax credit claims and reduction in compliance burden due to simpler registration and fewer return filings. These reforms have eased MSMEs working capital constraints and access to formal finance with measures like enhance credit guarantee schemes and integration with Udayam platform. Udyam Registration is a free online self-declaration system that gives MSMEs official government recognition.

Recent Changes

- Simplification of tax slab and correction of duty structure: One major challenge for MSMEs under the GST was that of complex structure of multiple tax slabs- 5%, 12%, 18% and 28%. The problem here was with the inverted duty structure, where the tax rate on input was higher than the final goods. GST 2.0 has rationalized the tax slabs which means less litigation, clearer pricing strategies for MSMEs. The net effect is improved cash flow and greater competitiveness especially in export-oriented clusters.
- Faster and more predictable refunds ITC Input Tax Credit ('ITC') mechanism: ITC is the credit businesses can claim for the GST paid on inputs, which is set off against their GST liability on sales. One of the major issues for small business have been delayed refund and mismatched ITC claims. MSMEs often have thin margins and short cash cycles Hence their liquidity gets locked up for months due to refund backlogs. The new reforms remove threshold refunds for refunds in several categories including exporters and e-commerce MSMEs, this ensures wider eligibility.

- Reduced compliance burden: The compliance costs were as burdensome as the taxes themselves. The compliance system was time consuming due to frequent return filing, complicated classification rules and of penalties. The new simplified tax slab aid MSMEs in better compliance management like fewer disputes with tax authorities and more focused on business activities.
- Budget and Policy complements: Firstly, the guarantee cover for loans to MSMEs has increased. Now banks and National Banking Finance Corporations ('NBFC') can lend more without fear of defaults. The new instruments like MSME credit cards assist traders, artisans and other service providers to get quick liquidity without lengthy loan approvals. A significant number of micro enterprises are coming into the formal system due to a robust digital registration system which guarantees digital identity, subsidies, bank credit and global market access.

The GST data has been integrated with banking and Fintech platforms to create reliable financial footprints for MSMEs which enhances their potential to access structured financial products.

How these Improve MSME Working Capital

The inverted duty structure led to blocking of input credits which further disrupted funds that could have otherwise been used for raw materials, wages and market expansion. Now with the corrected inverted duty structures and automated ITC matching systems these issues have significantly reduced. The major reforms such as removal of refund threshold and automation of refund processing have accelerated the flow of funds into the small businesses. This help the MSME to manage supply chain more efficiently. Due to the simplified tax and registration processes MSMEs can now divulge the working capital for more productive purposes.

Potential Risk and Challenges

In certain smaller towns and rural areas, the digital infrastructure remains weak which create a gap in policy intent and practical benefit. Many micro enterprises remain outside the tax net despite Udayam registration. These businesses lack potential for digital book keeping and banks may remain cautious while lending loans to such businesses. There is a huge literacy gaps among the micro and small enterprises who still struggle to understand the new reforms which might benefit the medium enterprises.

Conclusion

Although the new reforms offer significant possibilities to MSME sector, it has its own drawbacks. While many small and medium enterprises are reaping the benefits of the reforms, others lag behind due to limited awareness. It is therefore crucial for MSMEs to understand the opportunities that GST 2.0 presents and leverage them to enhance growth and compete effectively in global markets.