

Analyzing the 2025 Union budget: tax reforms, economic Impact, and sectoral opportunities

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Abstract

The union budget 2025, introduces significant economic policies, tax reforms, and sectoral investments aimed at fostering economic growth and financial inclusivity in India. This research critically examines key aspects of the budget, including changes in income tax slabs, their implications for the middle class, and the resulting impact on disposable income and consumer spending. Additionally, the paper explores government initiatives for MSMEs, startups, agriculture, and manufacturing, highlighting their potential to drive business expansion and job creation. The study also addresses criticisms regarding fiscal allocations, political motivations, and concerns over reduced government spending in critical sectors. By analyzing both the benefits and drawbacks of the budget, this paper provides insights into its broader economic and political implications of India's future development.

Keyword: Union Budget, Tax reform, economic impact.

Introduction

The union Budget 2025 outlines India's financial plan for economic growth. It includes major changes in taxes, business benefits, and funding for different sectors. Finance minister presented this budget to ease the financial burden on the middle class, support key industries and drive economic growth. While the budget offers many benefits, some have criticized its spending decisions and handling of the fiscal deficit. This research paper examines the main reforms in the budget, their economic effects, and how they may shape India's economy.

Tax Reforms and their economic Impact

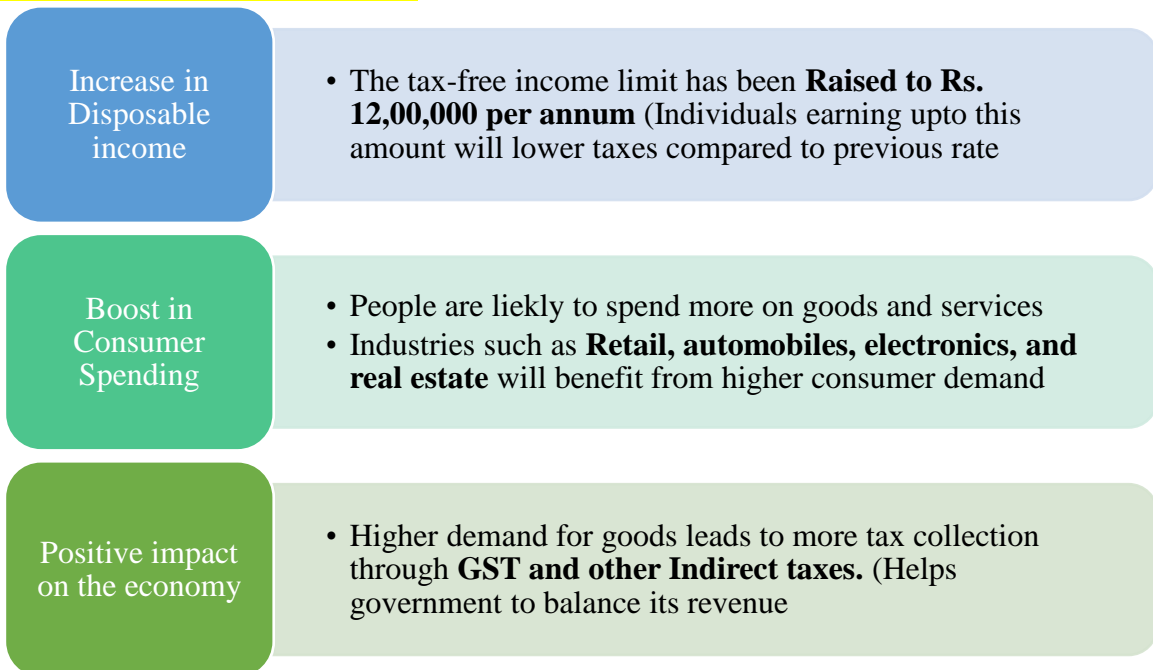
The revision of Income tax slabs in the union Budget 2025 is a major step towards reducing the financial burden on taxpayers, especially the middle class. By increasing the tax-free income limit and adjusting the tax rates, the government aims to boost disposable income, encourage consumer spending, and drive economic growth. Below is a detailed analysis of the economic impact and how it affects different taxpayers.

Income Tax Slabs	Tax Rate
Upto Rs. 4,00,000	Nil
Rs. 4,00,000 – Rs. 8,00,000	5%
Rs. 8,00,001 – Rs. 12,00,000	10%
12,00,001 – Rs. 16,00,000	15%

16,00,001 – Rs.20,00,000	20%
Rs. 20,00,001 – Rs. 24,00,000	25%
Above Rs. 24,00,000	30%

<p style="text-align: center;">Tax Rebate</p> <ul style="list-style-type: none"> It has been Raised to Rs. 60,000 U/S 87A 	<p style="text-align: center;">Standard Deduction</p> <ul style="list-style-type: none"> Rs. 75,000 for salaried employees 	<p style="text-align: center;">Cess on income Tax</p> <ul style="list-style-type: none"> Remains @ 4%
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Economic Impact of revised tax slabs



Challenges involved in it.

- Fiscal Deficit:** Reducing taxes will result in lower direct tax revenue for the government. It is challenges for government to recover this loss through indirect taxes (GST).
- Risk of Inflation:** As the disposable income in the economy increases, it results in more money in the economy which could lead to higher prices in case if supply doesn't match demand.

Sectoral Analysis and Business Opportunities

MSMEs and Startups

Micro, small and Medium Enterprises (MSMEs) sector contributes 29% go India's GDP and account for 50% of total exports. The union budget 2025 introduced several measures to support the growth of MSMEs and startups.

Support to	Previous	Revised	Impact
MSMEs government-backed loans	Rs. 5 Crore	Rs. 10 Crore	MSMEs invest in new machinery, expand its operations and leads to employment opportunities as well
Loans to Startups	Rs. 10 Crore	Rs. 20 Crore	Higher loan limits help the startups scale up faster in early stages.

Changes in MSMEs definition

The government has also updated the criteria for classifying MSMEs based in their investment in business and annual turnover.

Category	Investment Limit		Turnover Limit	
	Previous	Revised	Previous	Revised
Micro Enterprises	Rs. 1 Crore	Up to Rs. 2.5 crore	Rs. 5 Crore	Up to Rs. 10 crores
Small Enterprises	Rs. 10 Crore	Up to Rs. 25 crores	Rs. 50 Crore	Up to Rs. 100 crores
Medium Enterprises	Rs. 50 Crore	Up to Rs. 125 crores	Rs. 250 Crore	Up to Rs. 500 crores

Impact on Economy and Business.

The revised definition allows the business to remain under MSME status for longer, enjoying lower tax rates, easier loans and government subsidies. MSMEs can now invest more in technology and innovation without worrying about losing government support. They increase their productions and hire more employees, ultimately result in lower unemployment rate.

Agriculture and Rural Economy

Initiatives	Objective	Impact
National Mission for high-yield seeds	Launch of High-yield, Pest-Resistant seeds for crops such as wheat, rice, maize and sugarcane	Expected to increase crop yields by 25% and reduce farmer losses
Agricultural Credit Scheme	7.7 crore farmers to receive short-term loans up to Rs. 5,00,000 at lower interest rates via Kisan Credit Card.	Helps Farmers avoid private lenders charging 40% interest rates
100-District Agricultural Hubs	1.7 Crore farmers to receive modern farming equipment, storage infrastructure, and direct market access.	Opportunities for agritech startups to provide better storage, logistics, and digital marketplaces
Cotton Production and Makhana Board (Bihar)	India’s Cotton yield (436 kg / Hectare) is 4-5 times lower than China (2,171 kg / hectare) 5-Year modernization plan to increase cotton yield and provide better pest management	Makhana Board in Bihar to stabilize makhana prices and this improves the global market access.

Manufacturing and Industrial Growth

The union budget 2025 introduces new policies to boost manufacturing and industrial growth in India. The government aims to strengthen local industries, reduce dependency on imports (especially from China) and create more jobs. Below are the key strategies.

PLI Scheme (Production-Linked Incentive)	
Objective	<ul style="list-style-type: none"> To provide financial incentives to companies when they increase their production in India To encourage large-scale manufacturing To attract foreign investment To boost exports
Scope	<ul style="list-style-type: none"> Electronics Pharmaceuticals Textiles
Significance	<ul style="list-style-type: none"> Boosts local production (Production happens in India, reducing the imports) Increases foreign Investment (Global companies set up their factories to take advantage of this incentive) Create Jobs (More factories lead to more employment in Manufacturing sector)
Economic Impact	<ul style="list-style-type: none"> Higher Exports (if India produces more, then it can sell these goods to other countries, increasing revenue) Lower Trade deficit: By importing less, India can improve balance of trade. Growth in Supply chains (local businesses supplying raw materials to these industries will also benefit)
Industry Impact	<ul style="list-style-type: none"> Electronics – More smartphone and semiconductor production results in less reliance on imports from other countries. Pharmaceuticals – India strengthens its position as a global medicine supplier Textiles – Indian textile companies can compete better with global brands, increasing exports.

Growth in the Automobile and EV Sector	
Reasons for the growth of automobile industry	<ul style="list-style-type: none"> Rising disposable income - Due to tax cuts the disposable income increases Higher consumer demand for EVs – due to rising fuel prices and government incentives (Government is providing subsidies for electric vehicle, charging infrastructure and batter production)
Economic Impact	<ul style="list-style-type: none"> More production = More jobs – The automobile industry employs million of people in factories, dealerships and service centers.

	<ul style="list-style-type: none"> • More Investment in India – Global car manufacturers may invest more in manufacturing units in India. • Growth in related industries – Automobile part suppliers, battery manufacturers, and charging station providers will also benefit.
Industry Impact	<ul style="list-style-type: none"> • Increase in the demand due to increase in disposable income will support the growth of industry.

Fiscal Policy and Government spending

Fiscal Deficit target reduced

The government is trying to reduce the gap between what the government spends and what it earns from 4.9% to 4.8% of GDP. this will improve the financial stability. And by borrowing less can lead to better control over national debt also.

Tax Collection shortfall

There is a shortfall of Rs. 4 1,000 crores in tax collection. This shortfall has led to budget cuts of Rs. 1.04 trillion.

Impact of budget cuts.

- This has affected the funding for rural development and key welfare schemes.
- This could even slow down rural growth and affect farmers and villages.

Key Findings-

1. **Tax Relief helps the middle class but not job seekers:** The new tax slabs increase the tax-free income limit to Rs. 12,00,000, reducing the financial burden on the middle class. But the budget does not directly create new jobs. Unemployed youth do not gain any direct support because of tax cuts.
2. **MSMEs and Startups get support for growth:** The budget doubles loan guarantees for MSMEs and startups, help them borrow more money to expand their businesses. This can lead to business growth, job creation and more innovation.
3. **Agriculture gets some help but faces market risks:** The government has introduced better irrigation, crop insurance and subsidies to support farmers. But agriculture still depends heavily on weather conditions and market prices. If the crop prices fall or if there’s a drought, farmers may still struggle despite government support.

Suggestions to policy makers-

Increase government spending on education, health and infrastructure.

It recommended to increase healthcare spending to build more hospitals and improve medical facilities, especially in villages Spending more on infrastructure projects like roads, railways, and power supply, which can create jobs and boost economic growth.

Conclusion

The union budget 2025 has strong policies for tax relief and business growth, but it needs improvements in job creation, public welfare and fund allocation. By expanding employment programs, increasing social sector investment, and ensuring fair distribution of resources, the government can achieve balances economic growth and long-term prosperity for all Indians.

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