7. India’s 2025 Economy Reform - Economy

Building a Future-Ready India. India's economic reforms in 2025 signal a shift to outcome-based governance, featuring a new Income Tax Act with higher exemption limits, a restructured rural employment guarantee increasing work days to 125, and a simplified two-slab GST regime. These measures aim to enhance ease of doing business and fiscal sustainability while empowering MSMEs and stabilizing the labor market through consolidated codes.

Context- A Shift in Governance

New Phase- The economic reforms of 2025 represent a maturing phase in Indian governance.
Strategic Shift- The focus has decisively moved from simply "expanding regulatory frameworks" to "delivering measurable outcomes" for citizens and businesses.

Key Reforms Shaping Growth and Opportunity

1. Income Tax Reforms

Exemption Limits
General Exemption- Annual incomes up to ₹12 lakh are now exempted from income tax under the new regime.
Salaried Taxpayers- The effective exemption limit rises to ₹12.75 lakh after accounting for the standard deduction.
Legislative Overhaul- The Government has introduced the New Income Tax Act, 2025, which replaces the decades-old Income-tax Act, 1961.
Key Features of the New Act

1. Digital-First Enforcement- Prioritizes technology-driven tax administration.
2. Faceless Administration- Reduces human interface to curb corruption and harassment.
3. Simplified Compliance- Consolidates various provisions, such as Tax Deducted at Source (TDS), under a single section for ease of understanding.

2. Rural Employment Reforms

The government has restructured rural welfare by replacing the existing framework with a new, more robust legislative act.

Feature	Previous Framework (MGNREGA)	New Framework (Viksit Bharat Act, 2025)
Legislation	Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)	Viksit Bharat – Guarantee for Rozgar and Ajeevika Mission (Gramin) Act, 2025
Employment Guarantee	Typically 100 days (Standard)	125 days of wage employment per rural household in a financial year.
Administrative Expenditure	Capped at 6%	Increased to 9% to strengthen staffing, training, and technical capacity.

Objective of Expenditure Hike- The increase in administrative funds is aimed at improving field-level support and institutional delivery mechanisms.

3. Ease of Doing Business Reforms

Quality Control Orders (QCOs)- To protect domestic production without causing disruption, QCOs are now implemented in a phased manner.
MSME Focus- The Bureau of Indian Standards (BIS) ensures these orders are MSME-friendly, preventing undue compliance burdens on smaller manufacturers.

4. GST 2.0 Reforms

Simpler Tax Structure
Transitioned to a **two-slab GST regime (5% and 18%)**.
Benefit- drastically reduces complexity, classification disputes, and overall compliance costs.
MSME and Startup Enablement- Introduced faster refunds and simplified registration/return processes.
Goal- To lower input costs and incentivize youth to initiate startups and enter business sectors.

Wider Tax Base & Fiscal Health

Taxpayer Base- Expanded to over 1.5 crore.

Revenue- Gross collections reached ₹22.08 lakh crore in FY 2024–25, reinforcing the fiscal sustainability of the nation.

5. Labour Reforms

Consolidation- The Government has amalgamated 29 existing labour laws into four comprehensive Labour Codes to streamline regulations

1. The Code on Wages, 2019
2. The Industrial Relations Code, 2020
3. The Code on Social Security, 2020
4. The Occupational Safety, Health and Working Conditions Code, 2020

6. Export Promotion Mission (EPM)

Strategic Launch- Announced in the Union Budget 2025–26.

Core Shift- Moves away from fragmented export support schemes to a single, outcome-based, and digitally driven framework.

Target Beneficiaries- Specifically aimed at empowering MSMEs, first-time exporters, and labour-intensive sectors.

Challenges Ahead

Digital Divide- The aggressive push for digital-first governance in taxation and welfare risks excluding smaller firms and workers who lack digital literacy or necessary infrastructure.

Global Economic Uncertainty- Domestic reforms may face headwinds from sluggish global demand, geopolitical tensions, and supply-chain disruptions, which could limit export potential.

MSME Compliance Burden- Despite simplification efforts, smaller enterprises continue to struggle with digital compliance, adhering to quality standards, and accessing affordable credit, especially in rural and semi-urban areas.

Centre–State Coordination- The successful implementation of major reforms (GST 2.0, Labour Codes, Rural Employment) relies heavily on fiscal and administrative coordination, which currently faces operational frictions.

Way Ahead

Governance Philosophy- The reforms highlight a transition towards outcome-based governance, prioritizing the reduction of friction for citizens and businesses.

Future Outlook- These measures are designed to enhance transparency and foster trust, aiming to build a resilient and globally competitive Indian economy.

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