New Delhi, India. Credit: PHOTO JUNCTION/Adobe Stock

ANALYSIS

Lawyers React To India's 2025 Budget, Welcome Investment And Tax Reform

Partners across the country say the latest rules will boost confidence in the Indian market and enhance its attractiveness for corporate consolidations and cross-border investment.

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The Indian government has revised its regulatory compliance guidance, tax rules and merger processes—a move welcomed by partners at the country's top law firms.

This year's fiscal budget, which was announced by the Indian government on February 1, introduced reforms that India's lawyers say will create a favorable business environment, boost cross-border investment and simplify compliance regimes.

The overhaul comes amid a strong pipeline of transactional activity in India, which lawyers have previously indicated will continue to generate substantial work for the legal industry throughout early 2025.

In the first nine months of 2024, India accounted for 44% of mergers and acquisitions in emerging markets, alongside China. The level of capital markets activity in the country also reflects a continued uptick in initial public offerings on local bourses. More than 100 Indian companies raised over $4 billion in the third quarter of last year.

With major transactions already underway this year, including Indian conglomerate Adani Group's $2 billion divestment and Vishal Mega Mart's $945 million listing, the investment climate in India is expected to maintain its positive momentum as the latest rules take effect.

Ease of Doing Business to Benefit Investors

The "speedy approval processes" related to company and fast-track mergers are an especially welcome change for lawyers and other stakeholders in the ecosystem, said Vikram Raghani, the co-chair of JSA Advocates and Solicitors' corporate group.

More broadly, lawyers say the increased ease of doing business in India will boost stakeholder confidence and speed up the pace of deal activity. Nishith Desai Associates' dispute resolution head Alipak Banerjee says foreign stakeholders in India and Indian investors with plans to expand overseas, in particular, will benefit.

Additionally, India's lawyers are crediting new tax reform measures, such as the removal of certain custom tariffs and extension of sunset provisions for sovereign wealth bonds, as a move toward mobilizing capital.

Cyril Amarchand Mangaldas tax partner Kunal Savani says the rules focus on "reducing administrative frictions and enabling offshore investors to bring more capital and business into India."

While investment may grow, Nishith Desai's Banerjee says India still must establish a robust investment treaty framework, given the increasing investment interest by Indian businesses across Africa, the European Union and various Asian jurisdictions.

Although optimistic that such a framework will come through, lawyers say more clarity is needed about rules concerning cross-border M&A.

More Due Diligence And Compliance Work

Lawyers have previously said that India's shifting regulatory landscape has meant "stricter rules and expanding responsibilities," often presenting in the form of intense diligence and bandwidth challenges for law firms. Now, a series of compliance-related reforms will further increase the need for legal expertise in the country.

CAM's Savani explains that the proposed amendments will have "direct and indirect impact on the deal structuring strategies," adding that law firms will see more demand for transactional due diligence and regulatory compliance guidance, particularly in M&A deals and foreign investment transactions."

The voluntary compliance scheme, which aims to foster a culture of self-regulation among businesses by encouraging voluntary disclosures, will also “simplify compliance, reduce the incidence of prolonged disputes and provide a more predictable legal environment,” says Ayush Mehrotra, a tax partner at Khaitan & Co.

Mehrotra adds that it will further help in mitigating the uncertainty and costs associated with extended litigation.