

Budget 2024

Key Tax Proposals



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INTRODUCTION

Union Finance Minister Nirmala Sitharaman presented the Interim Budget for the **FY 2024-25** with the full budget for FY 2024-25 to be presented in July 2024 once new Government takes charge.



While giving a report card on the performance of the government, the Finance Minister said that Indian economy has witnessed a profound transformation in the last ten years and that the government has carried out structural reforms and implemented pro-people programmes. The Finance Minister also reiterated that the government will continue on path of fiscal consolidation to reduce fiscal deficit to 4.5% in 2025-26 and for 2024-25, the fiscal deficit is projected to be 5.1%. Multiple initiatives centred around Women, Youth, Farmers and Poor have been announced over a period of ten years.

As this being an interim budget, the Finance Minister did not propose any major changes relating to taxation be it direct or indirect taxes, including import duties. Certain tax benefits given to Start-ups, Sovereign Wealth and Pension funds and IFSC units, earlier expiring on 31 March 2024 have been extended by a year (the concessional tax rate of 15% available for new manufacturing domestic concerns commencing manufacturing or production by 31 March 2024 has not been extended however). Necessary amendments in GST law for making the ISD mechanism mandatory has been proposed in the budget.

While continuing with the government's commitment for infrastructure development, the Finance Minister disclosed an 11% surge in the upcoming year's capex outlay, reaching ₹11.1 lakh crore. The Finance Minister also introduced a housing scheme for the deserving middle class, focusing on those living in rented houses, slums, chawls, or unauthorised colonies. Prime Minister Modi stated that this initiative would assist them in acquiring or constructing their own homes. Amid various announcements benefiting youth, the impoverished, women, and farmers, Sitharaman highlighted the extension of Ayushman Bharat healthcare coverage to all ASHA and Anganwadi workers and helpers.

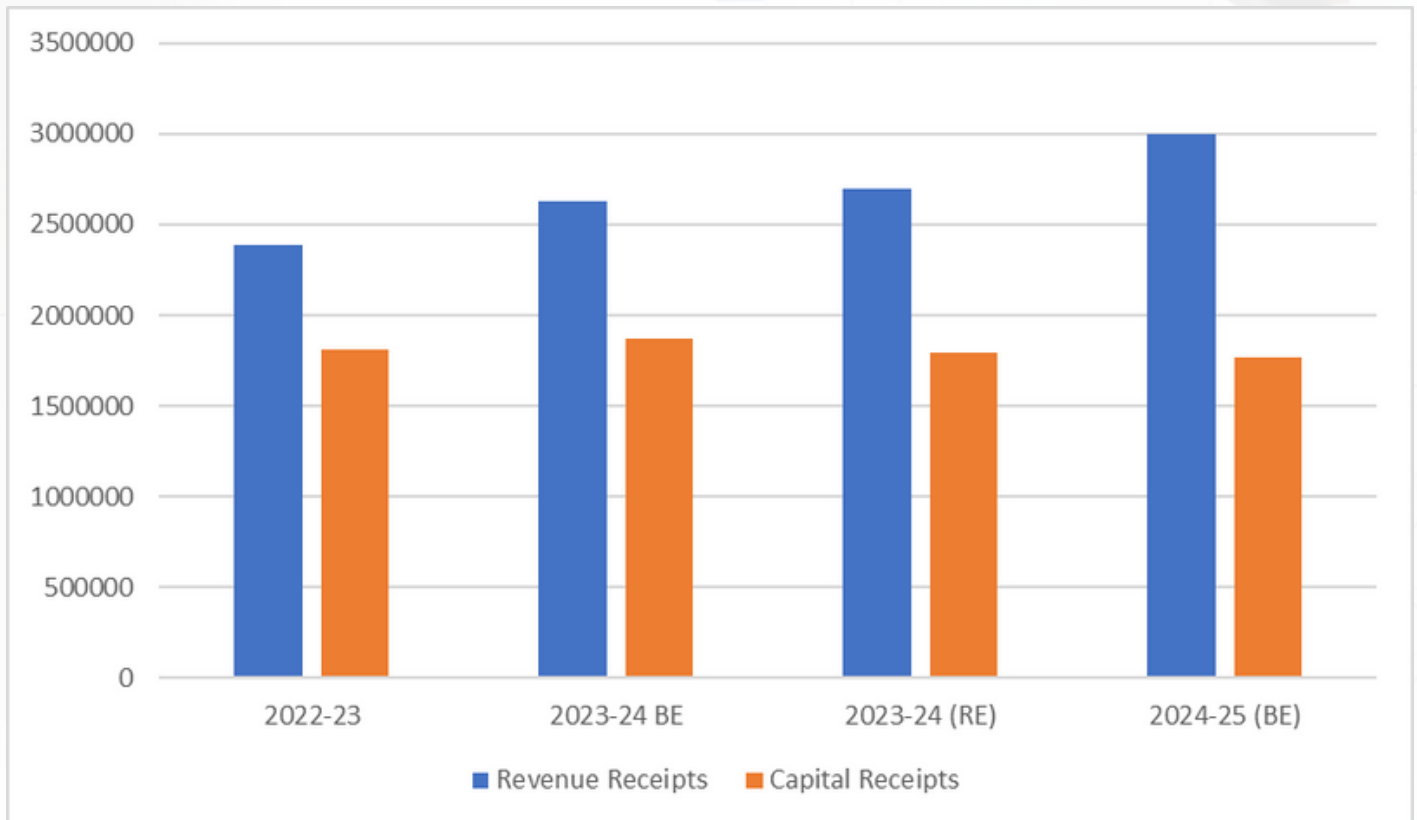
BUDGET AT A GLANCE

The Finance Minister said that the Revised Estimate of the total receipts other than borrowings is Rs 27.56 lakh crore. The Revised Estimate of the total expenditure is Rs 44.90 lakh crore. The revenue receipts at Rs 30.03 lakh crore are expected to be higher than the Budget Estimate, reflecting strong growth momentum and formalization in the economy.



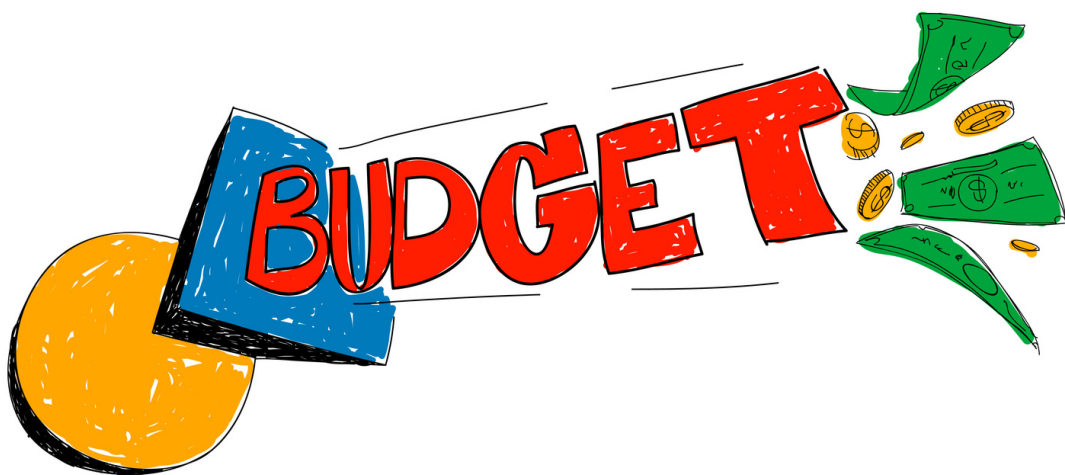
Revenue and Capital Receipts

In ₹ crore



Revenue and Capital Receipts

In ₹ crore

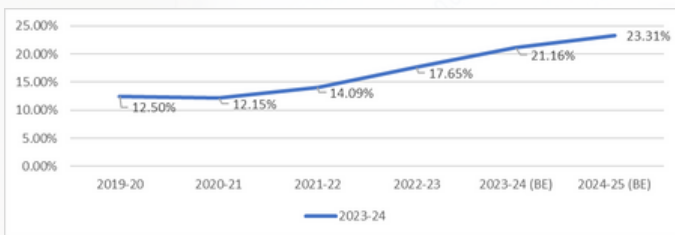


Capital Expenditure

Capital expenditure outlay was raised to ₹11.11 lakh crore for FY2024-25 from the ₹10 lakh crore in the previous fiscal. The proportion of capital expenditure (excluding grant in aid) to total expenditure stands at 23.31% and pegged at 3.4% of GDP. This is in line with the trend of increasing capital expenditure for building infrastructure in the past few years.

Capital Expenditure

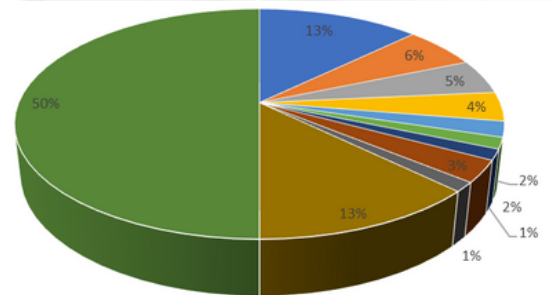
as % of total expenditure (does not include grants in aid)



In 2024-25, the total expenditure is estimated at ₹ 47.66 lakh crore, a 6.1% increase over the revised estimates of 2023-24.



Composition of Expenditure in Interim Union Budget 2024-25



- Interest
- Defence
- Tax Administration
- Home Affairs
- Education
- Transport
- Subsidy (Fertilizer, Food, Petroleum)
- Agriculture & Allied Activities
- Transfer to States
- Others



FINANCE BILL HIGHLIGHTS:

1. No Changes in Income Tax rates have been prescribed.
2. Exemptions under Section 10(4D) in relation to the income derived on the transfer of Capital Assets on a Recognised Stock Exchange in an IFSC to continue if investment division of offshore banking unit commences operations on or before Mar 31, 2025 (erstwhile Mar 31, 2024).
3. Exemption under Section 10(4F) to continue for a non-resident by way of royalty or interest on account of the lease of an aircraft or a ship paid by a unit in IFSC if the unit has commenced its operation on or before Mar 31, 2025 (erstwhile 31 March 2024).
4. Exemption under Section 10(23FE) for the income of Sovereign Wealth Fund and other specified funds in the nature of dividend, interest, and long term capital gains for the investments made in India to continue if the investment is made on or before Mar 31, 2025 (erstwhile 31 March 2024).
5. Timeline to develop a scheme for faceless, effective, and technology-enabled transfer pricing assessment/ audits and raising objections before the Dispute Resolution Panel extended till Mar 31, 2025 (erstwhile 31 March 2024).
6. Structural changes in Section 206C(1G) TCS provisions to align the same with the Finance Ministry's Press Release.
7. No change in the sunset clause for the concessional tax rate of 15% for manufacturers under 115BAB and thus the reduced corporate tax rate of 15% will not be available for commencement of business post 1st April 2024.



8. Extension for the tax deduction under Section 80LA for the unit of an IFSC where income arises from the transfer of an asset, being an aircraft or ship and commencing operation before Mar 31, 2025 (erstwhile 31 March 2024).
9. Write-off of old disputed income-tax demand: Rs.25,000 upto FY 2009-10 and Rs.10,000 for FYs 2010-11 to 2014-15.
10. The definition of eligible start-up under Section 80-IAC changed to include a start-up which is incorporated upto Mar 31, 2025 (erstwhile 31 Mar, 2024).
11. Timeline to develop a scheme for ITAT appeals and disposal for greater efficiency, transparency and accountability extended till Mar 31, 2025 (erstwhile Mar 31, 2024).
12. Definition of ISD and manner of distribution of credit by ISD amended.
13. Penalty prescribed for failure to observe the 'special procedure' for manufacturers of tobacco, pan masala etc.

DIRECT TAX PROPOSALS

1. Tax Rates:

No changes have been prescribed in the Income Tax Rates either for Individuals or for corporates.

Personal Taxation

Personal Taxation shall continue as per the changes prescribed by the Finance Act 2023.



Income Tax Rates for Individuals/HUF

For AY 2023-24 and 2024-25, Individual, HUF, AOP, BOI and Artificial Juridical Persons (AJP) taxpayers have an option to choose from two sets of rates. This means that such taxpayers may opt either of the two sets of rates which results in a lower tax incidence upon him.



A) Default Scheme of Taxation [Section 115BAC]:

Finance Act 2020 had introduced section 115BAC providing the Individual taxpayers and HUF, an option to pay tax at reduced rates. Further, Finance Act, 2023 has amended the slab rates provided u/s 115BAC and provided that AOPs/ BOIs and AJPs shall also be taxed as per the provisions of section 115BAC. The rates prescribed by section 115BAC as amended by Finance Act, 2023 and continued to be so vide Finance Bill, 2024 are as follows:

Net Income Range	Income Tax Rate
0 – 3 Lakhs	Nil
Above 3 Lakhs – 6 Lakhs	5%
Above 6 Lakhs – 9 Lakhs	10%
Above 9 Lakhs – 12 Lakhs	15%
Above 12 Lakhs – 15 Lakhs	20%
Above 15 Lakhs	30%

However, to avail these rates of taxation, the eligible taxpayers are required to forego certain deductions and/or exemptions that have been mentioned in Section 115BAC.

B) Optional Rates provided under First Schedule of the Finance Act, 2023:

General Rates:

Net Income Range	Income Tax Rate
Up to ₹ 2,50,000	Nil
Above 2,50,000 up to 5,00,000	5%
Above 5,00,000 up to 10,00,000	20%
Above 10,00,000	30%

For resident senior citizen, i.e., every individual, being a resident in India, who is of the age of 60 years or more but less than 80 years at any time during the previous year:

Net Income Range	Income Tax Rate
Up to ₹ 3,00,000	Nil
Above 3,00,000 up to 5,00,000	5%
Above 5,00,000 up to 10,00,000	20%
Above 10,00,000	30%

For resident super senior citizen, i.e., every individual, being a resident in India, who is of the age of 80 years or more at any time during the previous year:

Net Income Range	Income Tax Rate
Up to ₹ 5,00,000	Nil
Above 5,00,000 to 10,00,000	20%
Above 10,00,000	30%

Thus, the Individual, HUF, AOP, BOI and AJP taxpayers can choose to pay tax at the rates prescribed as per the First Schedule or the rates mentioned u/s 115BAC, whichever results in a lower tax incidence upon them. For availing the optional rate of tax, the eligible taxpayers are required to exercise the option on or before the due date specified for filing the return of income.



In addition to the rates of tax specified above for default as well as optional tax regime, following shall also be levied upon the taxpayers:

• **Surcharge:**

10% of Income Tax where total income exceeds ₹ 50 Lakh;
15% of Income Tax where total income exceeds ₹ 1 crore;
25% of Income Tax where total income exceeds ₹ 2 crore; and
37% of Income Tax where total income exceeds ₹ 5 crore.

• **Health & Education Cess:**

4% of Income Tax and surcharge



2. Petty Income Tax disputed Demands to be cancelled:

- To avoid devoting significant time and energy on resolution/ recovery of petty demands FM proposes to end petty disputed income-tax demands under which demands up to ₹ 25,000 for FYs upto FY 2009-10 and demands upto ₹ 10,000 for FYs 2010-11 to 2014-15 shall be waived.
- This move shall result in benefitting around 1 crore taxpayers.

3. TCS provisions to be aligned with changes made by the Government's Press Release:

- As part of the Finance Act, 2023 the certain changes were announced to the system of Tax Collection at Source (TCS) on payments under the Liberalised Remittance Scheme (LRS) and on overseas tour program packages. These were to take effect from 1st July 2023. It was also announced in March that credit card payments would be brought under the LRS.
- However, in light of the various comments and suggestions of stakeholders, the government vide its press release dated 28th June 2023, made some changes to the timelines by which such provisions were to be made applicable.
- Now, to provide statutory backing to the changes made vide the press release, the government has introduced the provisions in the Finance Bill, 2024.



4. Sunset clauses extended to Mar 31, 2025 for startups' deduction, IFSC units:

- Keeping the investment and start-up ecosystem at the forefront, the government has proposed to extend the sunset clause from Mar 31, 2024 to Mar 31, 2025 for the following:
 - (i) Section 10(4D) - with regard to commencement of operations by 'investment division of offshore banking unit' located in IFSC,
 - (ii) Section 10(4D) - with regard to commencement of operations by Category-I FPI,
 - (iii) Section 10(4F) - commencement of operations by IFSC unit paying income to non-resident i.e. royalty or interest earning on account of lease of aircraft or ship,
 - (iv) Section 10(23FE) - making of investment by specified persons such as Abu Dhabi Investment Authority, sovereign wealth funds or foreign pension funds and
 - (v) Section 80LA - with regard to commencement of operations by the IFSC unit earning income from transfer of aircraft or ship; Also proposes to extend Section 80-IAC deduction to startups incorporated upto Mar 31, 2025.

- The extension of the sunset clause for IFSC and start-ups was expected and delivered by the finance minister.
- However, it is hard to decode the rationale of not extending the sunset clause (March 31, 2024) for new manufacturing units under section 115BAB. This seems contrary to the policy of the Government to promote manufacturing in India under the PLI scheme.



5. Resolution of Tax Disputes:

- Timelines for transfer pricing assessments, proceedings before dispute resolution panel and tax tribunals have been extended to March 31, 2025. This is a pragmatic step because it is better to give adequate time to the relevant authorities to examine the pending matters in-depth.



INDIRECT TAX PROPOSALS

1. Definition of 'Input Service Distributor' (ISD) and provision governing manner of distribution of credit by ISD amended:

- Finance Bill proposes amendment in the definition of 'Input Service Distributor' (ISD) and provision governing manner of distribution of credit by ISD.
- The amendments proposed in the Finance Bill 2024 focus on making ISD mandatory prospectively. The changes in Section 2(61) redefine "Input Service Distributor," emphasizing its role as an office of the supplier responsible for receiving tax invoices related to input services. This includes services liable to tax under specific sections of the GST Act.
- Simultaneously, Section 20 undergoes substitution, outlining the obligations of an Input Service Distributor. The revised Section 20 mandates that any office of the supplier, receiving tax invoices for distinct persons under Section 25, must register as an ISD. The ISD is then obligated to distribute the input tax credit for such invoices.
- Furthermore, the amended Section 20 delineates the distribution process, specifying that the Input Service Distributor shall distribute the credit of central tax or integrated tax as per prescribed conditions. This includes credits related to services subject to levy of GST under reverse charge U/s 9(3) and 9(4) of CGST Act 2017.



2. Penalty prescribed for non-adherence to 'special procedure' for manufacturers of tobacco, pan masala etc:

- The new provision has been proposed to be inserted relating to Penalty for failure to register certain machines used in manufacture of goods as per 'special procedure' for manufacturers of tobacco, pan masala etc. announced during 49th and 50th GST Council Meetings.
- Proposes that "In addition to the penalty, every machine not so registered shall be liable for seizure and confiscation";

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