INTERIM UNION BUDGET 2024-2025

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ahead of the curve

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Interim Budget Assayer

India Interim Budget 2024

Background

On the backdrop of resounding victories in the state legislative elections, the Hon'ble Finance Minister (**FM**) appeared rather confident and presented a forward looking but stable budget before the general elections in May 2024. Contrary to the economic pundits, who were expecting certain populist measures, her budget sans any populist policies or schemes.

The FM began the presentation by highlighting some of the key policies of the government which had led to the growth of the general public and the Indian economy at large. The FM coined 'Viksit Bharat by 2047' as the new motto of the Government, which can be translated 'Developed India @ 2047'.

To highlight the government's achievement, the FM drew several financial comparisons between the current state of economy and the status between FY 2013-14 and FY 2023-24 to underline the commendable growth facilitated by this Government. It's noteworthy to mention that FDI inflow between 2014 and 2023 is USD 596 billion, which is almost double than the inflow between 2005 and 2014.

The Government acknowledged the change in geopolitical affairs on account of on-going wars and conflicts. These conflicts have heightened the competition for critical minerals and technologies and consequently the prices of essential goods. These geo-political conflicts coupled with Covid pandemic had severely impacted the global economy with high inflation/interest rates against low growth. While India was able navigate the impact without substantial damage, they have certainly dented India's ambitious growth plans.

In a major boost to tech sector, the FM had announced INR 1 lakh crores (approximately USD 125 Billion) of corpus for long-term financing for technological research. This fund entails 50 years of interest-free loans, long-term financing and re-financing with a long tenor and low/NIL interest rates. This should augur well for sunrise sector. Further, the capex spending for FY 2024-25 has once again been raised by 11 % to INR 11 lakh crores (USD 1.38 Trillion) as against the increase of 30% in the last year's budget. The spending on capex is expected to have multiplier effect on growth and employment generation.

The reduction the borrowings of the Indian government from the expected INR 15 lakh crores (USD 1.88 Trillion) to INR 14.1 lakh crores (USD 1.76 Trillion) sent out a positive signal to the bond markets as it will facilitate the larger availability of funds for the private sector.

As this is a 'vote on account' budget, no major tax policy changes were announced with respect to income tax as well as Goods and Service Taxes (**GST**) and customs. There have been no changes in the tax rates. Major changes will be announced in the full budget by the new government after the parliamentary elections. In a major relief to small taxpayers, the FM announced to withdraw the litigations wherein the outstanding demand was less than INR 25,000 (till FY 2009-10) and less than INR 10,000 (from FY 2010-11 to FY 2014-15).

The Budget, however, proposes to rationalize some of the existing provisions that have been discussed below in the Direct Tax and Indirect Tax sections.

Section A: Direct Tax

a. ***Extension of sunset clauses pertaining to certain deductions/exemptions or issue of guidelines by tax department***

March 31, 2024 was the sunset date for commencement of business operations by various units set up in the IFSC for availing the tax exemption viz. banking unit of a foreign bank, banking units registered as Category I Foreign Portfolio Investor (**FPI**), leasing of aircraft to a unit, etc. In order to promote ease of doing business, the sunset date has now been extended to March 31, 2025.

Sunset date for making investments by pension funds or sovereign wealth funds to avail the tax exemption has also been extended from March 31, 2024 to March 31, 2025.

Along the similar lines, sunset date for setting up a start-up to avail tax holidays for the first three years has also been extended from March 31, 2024 to March 31, 2025.

The timelines for framing of a proper scheme or mechanism for conducting various tax proceedings under the IT Act in a faceless manner (viz. transfer pricing proceedings, proceedings before Dispute Resolution Panel and Income tax Appellate Tribunal) have been extended to March 31, 2025.

b. ***Rationalizing Tax Collected at Source (TCS) provisions relating to Liberalized Remittance Scheme (LRS)***

Section 206(1G) of Income tax Act, 1961 (**IT Act**) was amended vide Finance Act, 2023 last year thereby increasing the rate of tax collection at source (**TCS**) with respect to:

- overseas tour program package, and
- other payments under Liberalised Remittance Scheme (**LRS**) of the RBI (except for education/ medical treatment)

from 5% to 20% w.e.f. July 1, 2023. Even the threshold limit of INR 7 lakh (USD 8,750) for exemption from TCS on LRS payments (except education/ medical treatment) was removed w.e.f. July 1, 2023.

This has led to widespread controversies considering the practical difficulties involved in collecting and remitting the TCS. This has resulted in the central board of direct taxes (**CBDT**) issuing multiple communications viz. circulars, clarifications, etc. A press release dated June 28, 2023 (**Press Release**) issued by the finance ministry followed by a CBDT circular (circular No. 10 of 2023 dated June 30, 2023 i.e. **Circular**) wherein certain reliefs were provided with respect to such increased TCS rate.

Vide the finance bill presented by the FM earlier today (**the Bill**), the government has incorporated the relaxations provided through the above-mentioned Press Release and the Circular into the Section 206C(1G) of IT Act, as follows:

Particulars	As per Finance Act, 2023	CBDT Circular dated June 30, 2023	Finance Bill, 2024
(1)	(2)	(3)	(4)
LRS for general purposes (other than education/ medical treatment)	Applicable for all remittances w.e.f July 01, 2023. No exemption limit. Rate has been increased to 20%	Reinstated exemption limit of INR 7 lakh for the financial year Reinstated 5% rate above INR 7 lakh till September 30, 2023 Provided 20% rate above INR 7 lakh w.e.f. October 1, 2023	Common exemption limit of INR 7 lakh for all remittances. TCS rate reinstated as 5% (instead of 20%) from July 1, 2023 till September 30, 2023 above INR 7 lakhs. TCS rate of 20% rate for remittances above INR 7 Lakhs w.e.f October 1, 2023.
LRS for education/ medical treatment	Nil upto INR 7 lakh 5% above INR 7 lakh	No change	No change
LRS for education financed by loan from financial institution	Nil upto INR 7 lakh 0.5% above INR 7 lakh	No change	No change
Purchase of overseas tour program package	20% (without threshold)	Reinstated 5% rate upto INR 7 lakh Provided 20% rate above INR 7 lakh w.e.f. October 1, 2023	TCS rate reinstated as 5% instead of 20% below INR 7 lakhs. TCS rate of 20% rate for payment above INR 7 lakhs w.e.f. October 1, 2023

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c. Rationalized surcharge for association of persons, consisting of foreign companies

The Bill has restricted rate of surcharge on withholding taxes to 15% with respect to non-resident association of persons, solely consisting of companies as its members. It marks a difference from the Finance Act 2023, wherein these association of persons were treated on par with individuals and the surcharge on withholding taxes levied were upto 37%.

d. Reduced surcharge for funds set up under International Financial Services Centre (IFSC)

The Bill has extended surcharge benefit to funds registered under IFSC as well. It states that there shall be no surcharge levied on the taxes levied under section 115AD of the IT Act with respect to income from securities, other than capital gains.

Section B: Indirect Tax

a. Changes in relation to Inputs Service Distributor (ISD)

The Bill proposes to substitute the definition of ISD in line with the suggestion provided by the GST Council in its 50th meeting held on July 11, 2023. The envisaged changes broaden the purview of input tax credit eligible for credit distribution by an ISD. Notably, this expansion encompasses services covered under the reverse charge mechanism (**RCM**), which were earlier not covered. Hence, this would allow the offices located in various location, to avail the benefit of input tax credit on services (example legal services, software import services, etc.) which were procured by the head office under reverse charge basis.

b. Manner of distribution of credit by an ISD

Section 20 of the CGST Act provides for the manner of distribution of credit of by an ISD and the prescribes conditions for the manner of distribution. In line with the recommendations made by the GST Council, the

Bill proposes to make ISD registration mandatory for entities having registration in multiple States, thereby increasing the compliance burden. Further, the Bill proposed to remove the current list of conditions that were required to be complied for distribution of credit and provides that the updated list of conditions and restriction would be notified in form of rules.

c. Penalty introduced manufacturers for registering certain machines

The introduction of a new section, 122(A), after section 122 of the CGST Act, marks a substantial step towards regulatory oversight. This section proposes penalties for manufacturers failing to register certain machines used in the manufacture of specified goods (tobacco, pan masala, cigarettes etc.), subject to a specified procedure. The envisaged penalty is set at INR 1 lakh (USD 1,250) for each unregistered machine, in addition to penalties under Chapter XV of the CGST Act. Furthermore, the Bill introduces provisions for the confiscation and seizure of unregistered machinery in the event of non-payment of the requisite penalty or failure to obtain registration within three days of receiving the penalty order. This amendment specifically targets manufacturers engaged in the production of goods such as tobacco, pan masala, cigarettes, etc. to prevent revenue leakage.

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