

Budget

2020

2021

2022

2023

2024



Technology: Unleashing the potential



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India's technology prowess continues to make its remarkable advancements evidenced by the surge in digital payments, growth of e-commerce players and digital start-ups.

The Hon'ble FM in her speech stated "Our vision for the Amrit Kaal includes technology-driven and knowledge-based economy", which echoes Government's focus on making India a leading digital force in the world. Budget 2023 brings forth the importance of AI in the technology sector by announcing the establishment of three 'Centres of Excellence' for AI to enable 'Make AI for India' and 'Make AI work for India'. The Government has introduced the National Data Governance policy which will enable access to anonymized data. With ease of doing business being the central focus and technology being the core enabler, introduction of Entity Digi Lockers, setting up of Central Data Processing Centre and rolling out of next-generation Common IT Returns will further strengthen the Digital India Initiative of the Government.

Recognising that technology has not only contributed to the economic growth of the country but has also made governance easier and approachable, the proposal to enable loss making start-ups to raise capital and carry forward losses to meet their cash burn within the first 10 years shows the Government's intention to partner and promote the sector. Two new provisions for TDS on online gaming - levy of 30 per cent on payment of net winnings in a financial year and removal of the current Rs 10,000 threshold for the levy of TDS have been proposed. For SEZ Units claiming tax holiday, time limit for bringing consideration against export proceeds into India has been introduced.

How does the budget impact Technology sector?

Key amendments

Direct Tax

- ▶ **SEZ proposals**
 - ▶ For units claiming tax holiday under Section 10AA of the Act, the following has been inserted with effect from 1 April 2024:
 - ▶ Definition of 'export turnover' has been amended to exclude insurance, telecommunication and freight charges incurred in foreign currency.
 - ▶ ROI to be filed as per provisions of Section 139(1) of the Act.
 - ▶ Timelines for realization of export proceeds proposed to be amended to 6 months or as allowed by RBI. Consideration deemed to be received in India if credited to a separate bank account maintained with any bank outside India with approval of RBI.
- ▶ **TDS and taxability on net winnings from online games**
 - ▶ New Section 194BA of the Act is proposed to be introduced w.e.f. 1 July 2023 for deduction of tax at source on winnings from online games.
 - ▶ TDS at the rate of 30% on net winning at the time of withdrawal or at the end of the financial year, whichever is earlier.
- ▶ **Introduction of the authority of Joint Commissioner (Appeals)**
 - ▶ To reduce the pendency of appeals at Commissioner (Appeals) level, new appellate authority having power similar to Commissioner (Appeals) introduced for disposal of cases involving small tax demand disputes.
- ▶ **Alignment of timeline provisions under Section 153 of the Act**
 - ▶ For AY 2022-23 onwards, time available for completion of assessment relating to the AY commencing on or after the 1 April 2022 has been increased from 9 to 12 months from the end of the AY in which the income was first assessable.
- ▶ **Furnishing of ROI under reassessment proceedings**
 - ▶ ROI in response to a notice under Section 148 of the Act shall be furnished within 3 months from the end of the month in which such notice is issued, or within timelines as may be allowed by the Assessing Officer on a request made in this behalf by the taxpayer.
 - ▶ This amendment will take effect from the 1 April 2023.
- ▶ **Facilitating tax credit for the income reported in the past**
 - ▶ To enable the taxpayer claim credit for income reported in the past, it is proposed to insert sub-section (20) in section 155 of the Act.
 - ▶ This would enable the taxpayer to claim tax credit in the AY in which such income has been included in the ROI.

Highlights

Changes in section 10AA introduced



TDS on winnings from online gaming

Time limit for completion of assessment

9 → **12**
months months

3
months

Time limit for filling of ITR under re-assessment proceedings

Highlights



MSMEs-
Deduction allowed
on actual
payment basis

31 March 2023 → 31 March 2024

3 years to **10** years to
Relaxation from 51%
shareholding

- ▶ The taxpayer to make an application in the prescribed form to the Assessing Officer within 2 years from the end of financial year in which such taxes were withheld.
- ▶ Interest on refund arising from the rectification will be allowed from the date of the application to the date of grant of the refund.
- ▶ The amendment will take effect from 1 October 2023.
- ▶ **Promoting timely payment to MSMEs**
 - ▶ Deduction for payments made to MSMEs has been brought under the purview of Section 43B of the Act i.e. to be allowed on actual payment basis.
 - ▶ This amendment to effect from 1 April 2024 and will accordingly apply to AY 2024-25 and subsequent AYs.
- ▶ **Provisions for tech start-ups**
 - ▶ For start-ups to be eligible for tax deductions under Section 80-IAC of the Act, threshold for incorporation extended up to 31 March 2024.
 - ▶ Relaxation from 51% shareholding continuity condition for carry forward and set-off of losses incurred during 7 years from date of incorporation for eligible start-ups now extended to 10 years from date of incorporation.
 - ▶ This amendment will take effect from 1 April 2023 and will accordingly apply from AY 2023-24 onwards.

Indirect Tax

- ▶ E-Commerce Operator liable to penalty for allowing supplies by unregistered persons or inter-state supplies by composition taxpayers.
- ▶ Composition dealer permitted to make intra-state supply of goods through E-Commerce Operator.
- ▶ Scope of OIDAR services expanded to cover supplies with or without human intervention, whose delivery is mediated by information technology over the internet or an electronic network and the nature of supply is impossible in the absence of information technology.
- ▶ The condition of receipt of OIDAR services for purposes other than business and commerce, industry, or any other business or profession is proposed to be removed and would cover any unregistered person receiving OIDAR services located in taxable territory (including a person solely registered for TDS purposes).
- ▶ Value of supplies in respect of transactions as per Schedule III 8(a) (i.e., supply of warehoused goods to any person before clearance for home consumption) to be prescribed and included in the value of exempt supplies. Such supplies were earlier excluded from the calculation of exempt supplies.
- ▶ Input tax credit denied in relation to CSR expenses.
- ▶ Unconditional exemption from registration provided to persons involved in provision of 100% exempt supplies or non-taxable supplies irrespective of compulsory registration provisions.
- ▶ Outer time limit of 3 years from the due date for filing of returns prescribed for returns such as GSTR-1, GSTR 3B, GSTR 9, GSTR 9C and TCS return.
- ▶ Following activities not to be considered as supply of goods or services effective 1 July 2017:
 - ▶ Supply of goods from a place in non-taxable territory to another place in non-taxable territory without such goods entering into India.

- ▶ Supply of warehoused goods to any person before clearance for home consumption.
- ▶ Supply of goods by the consignee to any other person, by endorsement of documents of title, after the goods have been dispatched from the port of origin located outside India but before clearance for home consumption.

It has been clarified that any tax already paid on such activities will not be refunded.

Other policy related changes

- ▶ Setting up of centre of excellence for artificial intelligence; leading players to partner in research, developing cutting edge application and scalable problems.
- ▶ To set up a Skill India digital platform to enable demand based formal skilling and facilitating access to entrepreneurship schemes.
- ▶ Entity Digi Locker to be setup to facilitate secure online storing and sharing of documents.
- ▶ Unified filing process on common portal for submission of same information to different government agencies as per filer's choice.
- ▶ Setting up of National Financial Information Registry to enable efficient lending, promote financial inclusion and enhance financial stability.
- ▶ Setting up a Central Data Processing Centre for handling data administrative work under Companies Act, 2013.
- ▶ KYC process to be simplified to incorporate a 'risk-based' instead of 'one size fits all' system. Financial sector regulators will also be encouraged to have a KYC system fully amenable to meet the needs of Digital India.
- ▶ For ease of doing business, PAN to be used as a common identifier for all digital systems of specified government agencies.

Impact analysis

The Union Budget 2023 continues its focus on harnessing India's potential and catapulting the nation to the forefront of global technology initiatives. The budget ticks all the expected boxes and focuses on prioritising inclusive development, providing boost to technology sector and encouraging investment.

The enhanced focus on digitalisation such as setting up of digital libraries, digi-locker to be a one-stop KYC maintenance system, setting up centre of excellence for AI and promoting PAN as a common identifier for all digital systems will create more jobs in the technology sector. Key announcements on AI and setting up digital embassies with futuristic technologies are steps in the right direction to help India emerge as a global technology leader. Initiatives to reduce the compliance burden and de-criminalise several regulatory provisions are key steps to improve the ease-of-doing-business parameters. The Budget aims to maintain, further simplify and rationalise various provisions to reduce the compliance burden and promote the entrepreneurial spirit. Recognising IT/ ITES SEZs contribution to foreign exchange earnings, they have been called upon once again to realise foreign exchange within a specified time frame now. The sector now is eagerly awaiting the DESH Bill to get into a higher gear, which industry expects soon as an enabler for optimum infrastructure utilisation thereby increasing exports.

Overall, the budget maintains the country's robust growth for tech industry as it provides strong impetus on infrastructure, technology and entrepreneurship thereby unleashing its potential in the economy.

Glossary

Act - Income Tax Act, 1961

AI - Artificial Intelligence

AY - Assessment Year

DESH - Development of Enterprise and Service Hub

CSR - Corporate Social Responsibility

FM - Finance Minister

GSTR - Goods and Service Tax Return

IT - Income Tax

IT/ITES - Information Technology/Information Technology Enabled Services

KYC - Know Your Customer

MSME - Micro, Small & Medium Enterprises

OIDAR - Online Information Database Access and Retrieval services

PAN - Permanent Account Number

RBI - Reserve Bank of India

ROI - Return of Income

SEZ - Special Economic Zone

TCS - Tax Collected at Source

TDS - Tax Deducted at Source



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