

Budget

2020

2021

2022

2023

2024

Technology: Unleashing the potential



Ritika Loganey Gupta

Partner - Tax & Regulatory Services
EY - India

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



For details on other sectors and solutions visit our website https://www.ey.com/en_in/tax/union-budget-2023
Download the [EY India Tax Insights App](#) for detailed insights on tax and regulatory reforms.

Our offices

Ahmedabad

22nd Floor, B Wing, Privilon
Ambli BRT Road, Behind Iskcon
Temple, Off SG Highway
Ahmedabad - 380 059
Tel: + 91 79 6608 3800

Bengaluru

12th & 13th floor
"UB City", Canberra Block
No.24 Vittal Mallya Road
Bengaluru - 560 001
Tel: + 91 80 6727 5000

Ground Floor, 'A' wing

Divyasree Chambers
11, Langford Gardens
Bengaluru - 560 025
Tel: + 91 80 6727 5000

Chandigarh

Elante offices, Unit No. B-613 &
614
6th Floor, Plot No- 178-178A
Industrial & Business Park,
Phase-I
Chandigarh - 160 002
Tel: + 91 172 6717800

Chennai

Tidel Park, 6th & 7th Floor
A Block, No.4, Rajiv Gandhi Salai
Taramani, Chennai - 600 113
Tel: + 91 44 6654 8100

Delhi NCR

Golf View Corporate Tower B
Sector 42, Sector Road
Gurugram - 122 002
Tel: + 91 124 443 4000

3rd & 6th Floor, Worldmark-1
IGI Airport Hospitality District
Aerocity, New Delhi - 110 037
Tel: + 91 11 4731 8000

4th & 5th Floor, Plot No 2B
Tower 2, Sector 126
Gautam Budh Nagar, U.P.
Noida - 201 304
Tel: + 91 120 671 7000

Hyderabad

THE SKYVIEW 10
18th Floor, "SOUTH LOBBY"
Survey No 83/1, Raidurgam
Hyderabad - 500 032
Tel: + 91 40 6736 2000

Jamshedpur

1st Floor, Shantiniketan Building
Holding No. 1, SB Shop Area
Bistupur, Jamshedpur - 831
001
Tel: + 91 657 663 1000

Kochi

9th Floor, ABAD Nucleus
NH-49, Maradu PO
Kochi - 682 304
Tel: + 91 484 433 4000

Kolkata

22 Camac Street
3rd Floor, Block 'C'
Kolkata - 700 016
Tel: + 91 33 6615 3400

Mumbai

14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (W), Mumbai - 400 028
Tel: + 91 22 6192 0000

5th Floor, Block B-2
Nirlon Knowledge Park
Off. Western Express Highway
Goregaon (E)
Mumbai - 400 063
Tel: + 91 22 6192 0000

Pune

C-401, 4th floor
Panchshil Tech Park, Yerwada
(Near Don Bosco School)
Pune - 411 006
Tel: + 91 20 4912 6000

Ernst & Young LLP

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EYG member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP is one of the Indian client serving member firms of EYGM Limited. For more information about our organization, please visit www.ey.com/en_in.

Ernst & Young LLP is a Limited Liability Partnership, registered under the Limited Liability Partnership Act, 2008 in India, having its registered office 9th Floor, Golf View Corporate Tower B, Sector 42, Golf Course Road, Gurugram, Haryana - 122 002.

© 2023 Ernst & Young LLP. Published in India. All Rights Reserved.

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.

ey.com/en_in

[@EY_India](https://twitter.com/EY_India) [in](https://www.linkedin.com/company/ey) EY [YouTube](https://www.youtube.com/channel/UCv31111111111111111111) EY India [f](https://www.facebook.com/eycareers) EY Careers India [ig](https://www.instagram.com/ey_indiacareers) @ey_indiacareers