

1 February 2024

Tax alerts - Key announcements of interim Budget 2024



# Interim Budget 2024

## Government strives to prioritize defence modernization, boosts indigenous manufacturing and aim for launch of deep-tech initiatives



**Ganesh Raj**  
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The Finance Minister presented the Interim Budget on 1 February 2024, allocating INR621,540 crores to Ministry of Defence, the highest amongst all ministries, amounting to ~13% of the total budget.

With continued commitment to defence modernization, ~28% has been allocated for capital expenditure which is an increase of 5.78% over 2023-24 (BE). The revenue expenditure accounts to ~45%, which is an increase of 4.68% compared to 2023-24 (BE), indicating a nominal increase in allocation for stores & spares, repairs and other services.

Emphasizing co-development and indigenous manufacturing of aircraft and aeroengines, the government has earmarked INR40,778 crores for this purpose. Additionally, the 'Agnipath Scheme' witnesses an increased outlay of INR1,713 crores in comparison to the previous year.

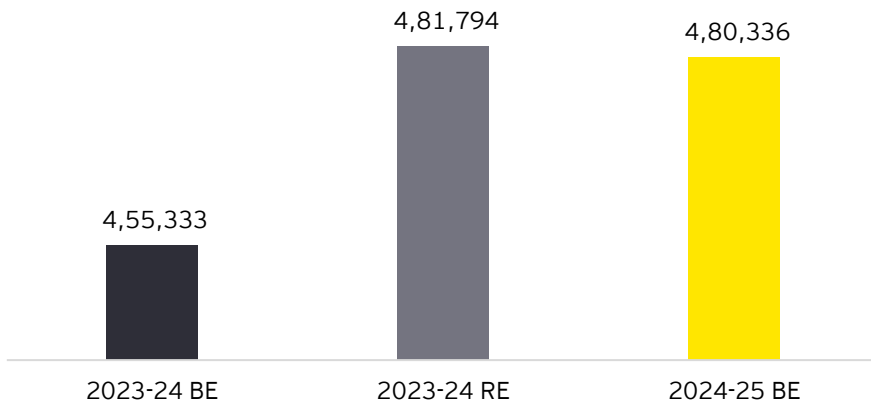
In a new initiative, the government plans to introduce a scheme aimed at fortifying deep-tech technologies for defence purposes, signalling a commitment to expediate self-reliance in this sector.

# How does the budget impact the defence sector?

- ▶ Defence allocation is accounted for under four demands for grants:
  - ▶ Demand No 19 - Ministry of Defence (Civil)
  - ▶ Demand No 20 - Defence Services (Revenue)
  - ▶ Demand No 21 - Capital outlay on defence services
  - ▶ Demand No 22 - Defence Pensions

The total defence budget (excluding defence pensions) for Financial Year 2024-25 amounts to US\$57.87 billion (INR480,336 crores). Budgetary allocation towards capital and revenue expenditure stands at US\$20.72 billion (INR172,000 crores) and US\$34.07 billion (INR282,773 crores) respectively.

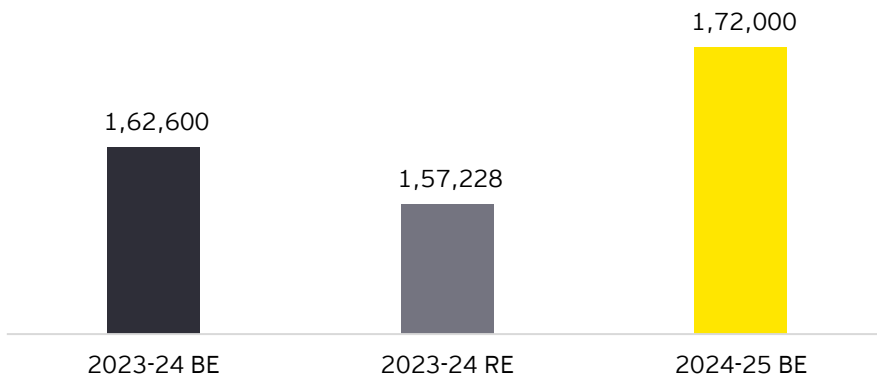
## Total defence expenditure (excluding defence pensions) (INR crores)



## Brief on Capital Expenditure

- ▶ Modernisation of military forces is primarily driven by the capital outlay within each year's budget. Budgetary allocation towards capital expenditure for this year is US\$20.72 billion (INR172,000 crores).
- ▶ Current capital budget in INR terms is 5.78% higher than that of 2023-24 (BE).

## Capital expenditure (INR crores)



## Highlights



**5.78% increase in Capital outlay allocation and 4.68% in revenue (in INR terms)**

### Capital Budget allocation

**Aircraft & Aeroengines - INR40,777.86 crores**

**Heavy & Medium Vehicles - INR41,837.88 crores**

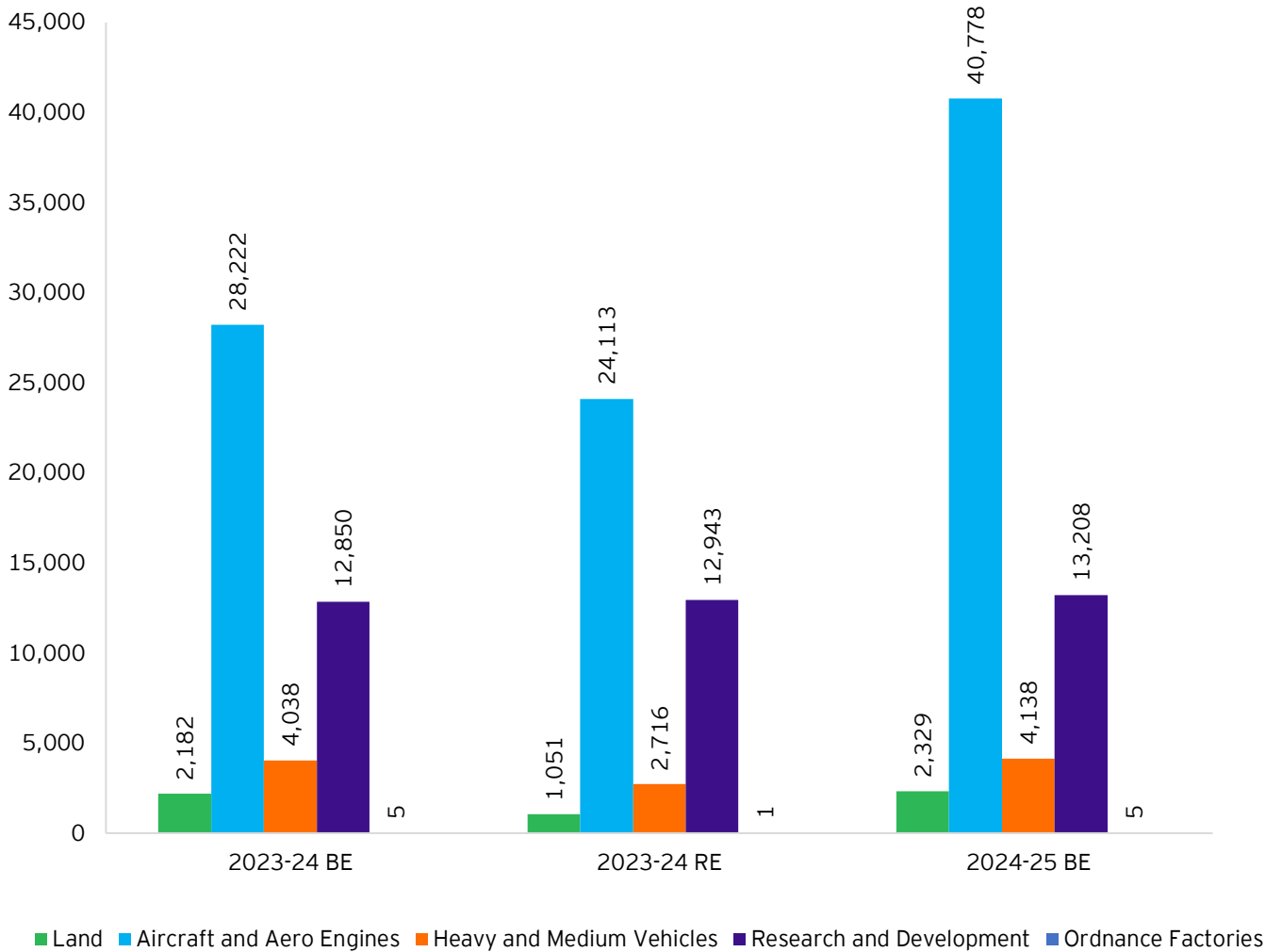
**Naval Fleet - INR23,800 crores**



**With a focus on R&D, the government plans to introduce a new scheme for deep-tech technologies**

- ▶ Closer examination of capital expenditure in INR terms shows an increase of 44.5% for aircraft and aeroengines and 2.5% increase for heavy and medium vehicles over 2023-24 (BE).
- ▶ For Land, there is an increase of 6.7% standing at INR2,329 crores for 2024-25 (BE).
- ▶ The allocation for Naval Fleet is INR23,800 crores for 2024-25 (BE), a decrease of 1.7% over 2023-24 (BE).
- ▶ The Research and Development (R&D) budget has witnessed a nominal increase of 2.8% over 2023-24 (BE).
- ▶ Assistance for prototype development under make procedure has witnessed an increase of 38.6% from 2023-24 (BE).

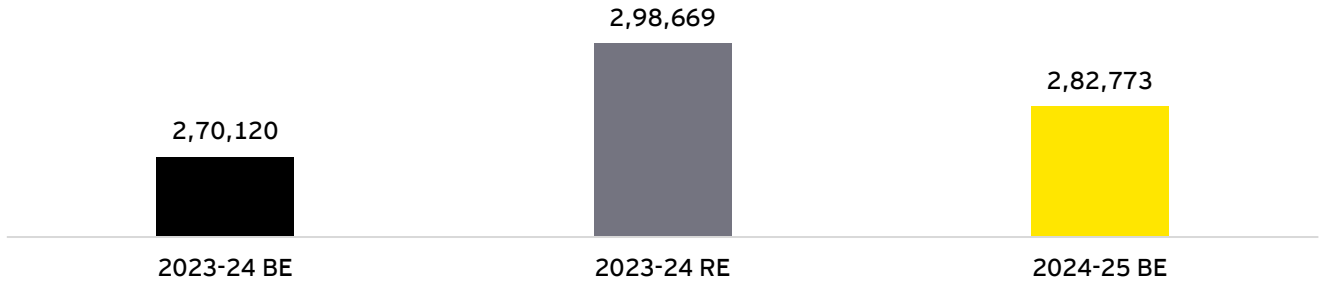
**Breakdown of capital expenditure (INR crores)**



## Brief on Revenue Expenditure

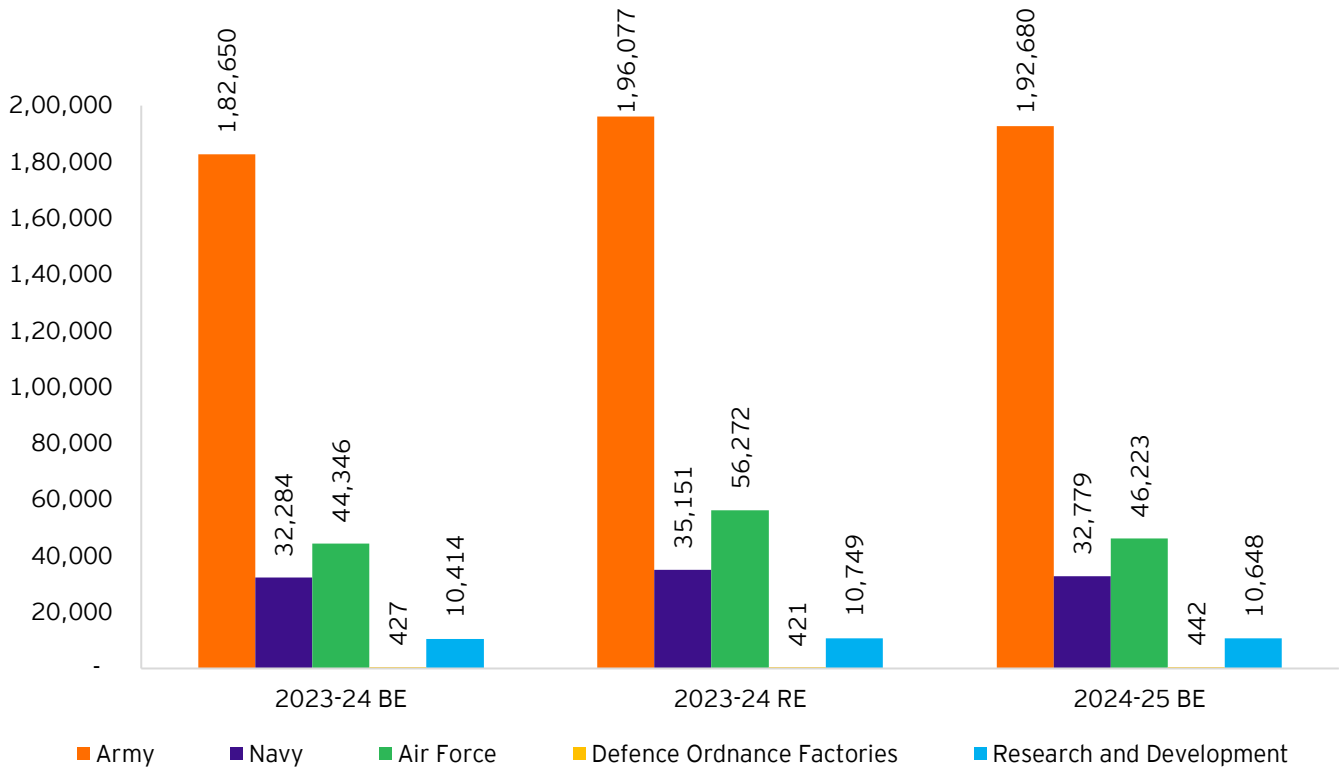
- ▶ Revenue budget estimates for 2024-25 have increased by 4.68% as compared to 2023-24 (BE).

### Revenue expenditure (INR crores)



- ▶ When measured in INR currency terms, Indian Army has witnessed the highest increase of 5.5% in revenue budget amongst the Indian Armed Forces over 2023-24 (BE).
- ▶ There is an increased allocation of 4.2% for Indian Air Force and 1.5% for Indian Navy during the same period.
- ▶ Even after corporatization, the total allocation for ordnance factories has seen a nominal increase by 3.7% over 2023-24 (BE).
- ▶ The R&D budget has been increased by 2.5% over 2023-24 (BE)

### Breakdown of revenue expenditure (INR crores)



### Notes and Explanations

- ▶ US\$ amounts for 2024-25 have been computed at INR82.99 whereas US\$ amounts of 2023-24 have been computed at INR81.69, as on 1 February of respective years.

## Key amendments

### A. Tax amendments

- ▶ No changes in tax rates
- ▶ Sunset clause extended from 31 March 2024 to 31 March 2025 for following tax exemptions linked to commencement of operations by IFSC units engaged in leasing of aircraft.
  - ▶ Tax exemption on royalty and interest income received by a non-resident from an IFSC unit on account of lease of aircraft/ship.
  - ▶ Tax holiday on gains arising on sale of leased aircraft/ship by IFSC unit, within the tax holiday period.
- ▶ Sunset date for incorporation of start-ups eligible for tax holiday extended from 31 March 2024 to 31 March 2025

### B. Policy announcements

- ▶ The Government proposes to launch a new scheme for strengthening deep-tech technologies for defence purposes and for expediting self-reliance in the defence sector.
- ▶ With 149 current airports, the Government aims to continue its push for expansion of existing airports in the country and development of new airports expeditiously.

## Impact analysis

Budget allocation for MoD is INR621,540 crores, being the highest amongst all ministries, amounting to 13% of the total budget. For the purposes of this analysis, we have not considered pay, allowances and pensions. Excluding the same, the MoD budget has increased 5.49% over 2023-24 (BE).

Significant increase is observed for 'Aircraft and Aero Engines' across the three services under the capital outlay. The imminent FMS of MQ 9 Predators is standing out as well as the ongoing negotiations for the GE 414 engines. The other possibilities are for the S-4000 marine engines, besides the regular procurements of Rafale M aircraft for the Navy, and Sukhoi 30 Upgrade.

Border Roads Organisation (BRO) has recorded a nominal 3.08% increase, to maintain momentum on the gearing up of border infrastructure. Defence Minister Rajnath Singh has recently dedicated 75 infrastructure projects built by the BRO which includes 45 bridges, 27 roads, two Helipads and one Carbon Neutral Habitat.

The budget has maintained aid to neighbouring countries wherein Bhutan has received the highest allocation of INR2,068 crores followed by Nepal with INR700 crores, Maldives with INR600 crores and Mauritius with INR370 crores. India has previously gifted Dornier 228 to Sri Lanka, Helicopter to Maldives, Kilo-class submarine to Myanmar, etc.

The government continues to invest in public enterprises, with HAL, picking up the maximum investment of INR1,600 crores, amounting to more than 57% of all the DPSUs. In the last two years, HAL has seen an investment of INR3,368 crores. The other DPSUs have together INR1,180 crores. The revenue expenditure in respect of the ordnance factories that were recently corporatized, have been allocated INR442 crores as part of Demand 20.

The overall R&D expenditure has more than doubled since 2010-2011 from INR10,149 crore to the current INR23,856 crore, an increase of 2.5% from 2023-24 (BE). DRDO's restructuring is also on the anvil and the government appointed nine-member committee has submitted its report in January 2024.

Under Demand 19 i.e., Ministry of Defence (Civil), the budget head 'Secretariat General Services' has been allocated INR3,130.82 crores which translates to an increase of 9.7% over 2023-24 (BE). This provision includes Grants for creation of Capital Assets for Defence Testing Infrastructure Scheme, Defence Corridors and Grant-in-aid for iDEX scheme. 76 new challenges have been launched under the DISC 10 of iDEX scheme, therefore, an increased focus on development of Defence Corridors and GoI schemes including iDEX and DTIS is observed.

Assistance for prototype development under make procedure has witnessed an increase of 50% from 2023-24 (BE) for 'Projects of the Air Force', while allocation for 'Projects of the Army' witnessed a decrease of 90%.

## Glossary

IFSC - International Financial Service Centre

MoD - Ministry of Defence

FMS - Foreign Military Sale

BRO - Border Roads Organisation

HAL - Hindustan Aeronautics Limited

DPSU - Defence Public Sector Undertaking

DRDO - Defence Research & Development Organization

iDEX - Innovations for Defence Excellence

DTIS - Defence Testing Infrastructure Scheme



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