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Tax alerts - Key announcements of interim Budget 2024



Interim Budget 2024

Extended benefits | Ease of doing business | Innovation & growth

Policy and tax reforms impacting Start-up sector



Surabhi Marwah

Partner and Co-leader EY Private Tax, Partner people advisory EY India

The Hon'ble Finance Minister as part of the Budget speech today reiterated the importance of innovation as a foundation of development for our country, which has been ably facilitated by our start-up ecosystem. The importance of start-ups in successfully generating employment as well as serving the entrepreneurial aspirations of the youth of the country was also duly recognised.



K T Chandy

Partner and Co-leader EY Private Tax EY India

The Interim Budget, while steering clear of introducing significant amendments, has however provided certain positive relief measures for the start-up sector. The extension of time-limit for incorporation of eligible start-ups for claiming profit-linked tax holiday deduction to 31 March 2025 is certainly a welcome measure for the sector, ensuring continued tax benefits.



Swathanth Rajasekaran

Partner, Tax & Regulatory Services EY India

Having said the same, the Budget nevertheless has continued to keep up with the convention of past Interim Budgets, that is, introducing minimal amendments. Therefore, the anticipation around the Final Budget which shall be presented post general elections remains heightened, with the hopes of addressing some of the long-term asks of the start-up ecosystem.

How does the budget impact Start-up sector?

- ▶ **Extension of time-limit from 31 March 2024 to 31 March 2025 for incorporation of eligible start-ups for claiming profit linked tax deduction under Section 80-IAC**
 - ▶ Section 80-IAC provides for 100% deduction on profits and gains generated by an eligible start-up for three consecutive assessment years out of ten years beginning from the year of incorporation.
 - ▶ Currently, the conditions for qualifying as eligible start-up inter-alia provide that such start-ups should be incorporated before 1 April 2024.
 - ▶ In order to further boost the start-up eco-system in India and to provide them with competitive advantage, the period by which the start-ups have to be incorporated, for the purpose of qualifying as eligible start-ups is proposed to be extended from 31 March 2024 to 31 March 2025 i.e., to include start-ups incorporated before 1 April 2025.
 - ▶ This amendment also means that the eligible start-ups which are incorporated before 1 April 2025 also stand to enjoy other beneficial tax measures which are currently available such as deferral of ESOP taxation under Section 192(1C), relaxation on carry-forward and set-off of losses under Section 79, angel tax exemption.
- ▶ **Extension of the investment window from 31 March 2024 to 31 March 2025 for the purpose of making eligible investments in infrastructure focused investment entities (as defined in Section 10 (23FE)) by certain specified person**
 - ▶ Section 10(23FE) of the ITL provides for an exemption to specific entities such as sovereign wealth fund and pension fund of foreign nations on specified sources of income arising from specified investment made in India within a specified period. The said exemption is provided subject to fulfilment of various conditions laid down.
 - ▶ Currently, one of the conditions laid down is that the specified investment must be made before 1 April 2024.
 - ▶ In order to further incentivize the infrastructure sector, the investment window mentioned above has been extended to 31 March 2025, i.e., to include investments made before 1 April 2025.
 - ▶ This amendment will in-turn boost the flow of capital into the infrastructure sector of the country.

Highlights



**31 March 2024 to
31 March 2025**

**100%
profit linked deduction**



**Investment window ->
31 March 2025**

Key policy announcements - relating to start-ups

- ▶ A corpus of INR1 lakh crore is proposed to be established to provide long-term financing or refinancing to sunrise domains with long tenors and low or nil interest rates.
- ▶ A new scheme is proposed to be established for strengthening deep-tech technologies for defence purposes.
- ▶ Focus on roof-top solarization and strengthening of Electric Vehicle eco-system are some of other announcements that formed a crucial part of the Hon'ble Finance Minister's budget speech today. While specific policy measures were not mentioned, these announcements shed some light on the direction of thinking of the government, which shall present some interesting opportunities for the start-up sector.

Impact analysis

Since inception, the start-up India initiative has rolled out several programs with the objective of supporting entrepreneurs, creation of jobs and building a robust start-up ecosystem. The Indian start-up sector has been very vocal about its expectations from the Budget 2024. The budget wish-list included an elaborate set of requirements including extension of reduced corporate income tax regime for manufacturing start-ups (Section 115BAB), introduction of single window mechanism for claiming tax and regulatory incentives, aligning of capital gains tax rates with capital gains tax rate on listed shares and more selective tax scrutiny.

The Interim Budget 2024 has been encouraging for start-ups by extending the time-limit for start-up tax exemption and thereby providing ease of doing business, which will eventually increase the free cash flows available for their growth and expansion. However, from the long-term perspective, the Government needs to address some of the imperative asks from the start-up community, in order ensure that the sector's resources are duly focussed towards aiding the 'Panhamrit' goals to foster sustained economic growth and boost innovation.

The sector continues to anticipate for the Final Budget which will be presented post the general elections to expect implementation of some of the long-term asks as mentioned above.

Glossary

CBDT - Central Board of Direct Taxes

EGR - Electronic Gold Receipts

FB - Finance Bill

MAT - Minimum Alternate Tax

MSME - Micro, Small and Medium Enterprise

MSME Act- Micro, Small and Medium Enterprise Development Act 2006

NR - Non-resident

ITL - Income-tax Act 1961 read with Income-tax Rules 1962

PE - Permanent Establishment

WHT - Withholding taxes

AIDC - Agriculture Infrastructure and Development Cess

BCD - Basic Customs Duty

CESTAT - Customs, Excise and Service Tax Appellate Tribunal

CGST Act - Central Goods and Services Tax Act, 2017

GST - Goods and Services Tax

IGST - Integrated Goods and Services Tax

ITC - Input Tax Credit

SWS - Social Welfare Surcharge

APA - Advance Pricing Agreement

FRBM - Fiscal Responsibility and Budget Management

GoI - Government of India

GST - Goods and Services Tax

GTR - Gross tax revenues

IPD - Implicit price deflator

CIT(A) - Commissioner of Income Tax (Appeals)

SDT - Specified Domestic Transaction

TP - Transfer Pricing

TPO - Transfer Pricing Officer



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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

Ground Floor
67, Institutional Area
Sector 44, Gurugram - 122 003
Haryana
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, Fairdeal Complex
Holding No. 7, SB Shop Area
Bistupur, Jamshedpur - 831 001
East Singhbhum Jharkhand
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

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