1 February 2024

Tax alerts - Key announcements of interim Budget 2024

Interim Budget 2024

Macro fiscal developments

Healthy balance between fiscal consolidation and enabling growth

Key takeaways

- The interim budget indicates a nominal GDP growth of 10.5% for FY25. Combining this with MoF's estimate of the real GDP growth at 7%, the underlying assumption for the implicit price deflator (IPD)-based inflation is at 3.3% for FY25.
- After the peak witnessed in the Covid year of FY21, the GoI has successfully but incrementally reduced its fiscal deficit to GDP ratio closer to the FRBM norm.
- At the same time, not much compromise has been made to capital expenditure growth, which prioritizes infrastructure spending.

Tax revenues

- Gross tax revenue (GTR) growth is budgeted at 12.5% in FY24 (RE) and 11.5% in FY25 (BE). This is primarily driven by higher buoyancy of direct taxes at 1.94 in FY24 (RE) and 1.24 in FY25 (BE).
- Given the high buoyancy of direct taxes, the actual GTR growth may turn out to be higher than budgeted. Any additional revenues over and above the budgeted amounts can then be directed towards augmenting capital expenditure growth.
- There is also a budgeted improvement in growth and buoyancy of indirect taxes, primarily driven by a positive growth in union excise duties in FY25 after two successive years of contraction.

Highlights

Fiscal deficit consolidation
5.8% (FY24) to 5.1% (FY25) and further to 4.5% (FY26)

Strong Capex growth
28.4% in FY24 (RE) and 16.9% in FY25 (BE)

Gross Tax Revenue growth is budgeted at 11.5% in FY25

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Continued thrust on capital expenditure

- The share of revenue expenditure in total expenditure has consistently fallen from 84.4% in FY22 to 76.7% in FY25 (BE). This has created space for a strong increase in capital expenditure.
- Although capex growth has witnessed an easing from 28.4% in FY24 (RE) to 16.9% in FY25 (BE), this may be partially neutralized by the continuation of the interest-free loans to states for their capital expenditure.
- Considering GoI's capital expenditure relative to GDP, this ratio has increased from 2.7% in FY23 to 3.2% in FY24 (RE) and is budgeted to increase further to 3.4% in FY25 (BE).

Social sector spending

- Despite being a pre-election Budget, the GoI has contained its social sector spending.
- Social sector spending on selected 10 major schemes (including MGNREGA, National Health Mission, National Education Mission, Pradhan Mantri Krishi Sinchai Yojna, Pradhan Mantri Awas Yojana) together amount to nearly INR4.3 lakh crore which is 12% of GoI's primary expenditure in FY25 (BE), representing only a modest increase from the corresponding figure of 11.4% in FY24 (RE).

Highest priority to fiscal consolidation

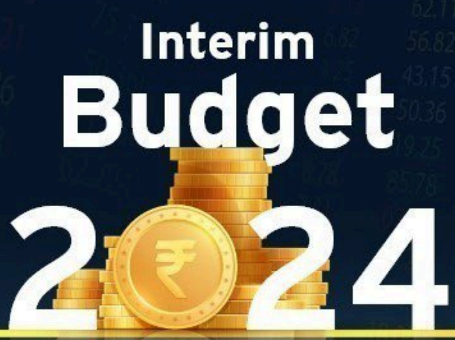
- The **fiscal** deficit to GDP ratio is budgeted to fall by 70 basis points to 5.1% of GDP in FY25 (BE) from 5.8% in FY24 (BE).
- The Budget shows commitment towards restoring the fiscal consolidation path by indicating a fiscal deficit target of 4.5% by FY26.

The long-term view

- The Budget establishes a healthy balance of pursuing fiscal consolidation while not compromising on growth.
- As GoI's fiscal deficit to GDP falls, both gross and net market borrowings to fall in FY25 (BE) from their FY24 (RE) levels. This would facilitate a lowering of the interest rate, facilitating private investment.
- Over the longer term, the GoI has laid out a detailed plan of productivity and efficiency enhancing measures to augment physical, social, and digital infrastructure.

1 February 2024

Tax alerts - Key announcements of interim Budget 2024



Direct Tax

No substantial amendments have been proposed to direct tax laws, barring certain extension of sunset clauses for few tax holiday/exemption provisions.

Key takeaways

Direct tax

- No changes to corporate tax rates
- Sunset dates for various provisions extended from 31 March 2024 to 31 March 2025, notably being provisions pertaining to commencement of operations in the IFSC, incorporation of certain start-ups being eligible for tax holiday, investment by sovereign wealth funds/pension funds. No extension provided for domestic manufacturing companies for availing 15% concessional tax rate benefit.
- Sunset date for notification of faceless schemes extended to 31 March 2025. These schemes are for undertaking transfer pricing assessment, dispute resolution, and tribunal appeals.
- Relief announced earlier through press release of Finance Ministry dated 28 June 2023 on Tax collection at source (TCS) provisions on LRS remittances and purchase of overseas tour package codified in law.
- FM also announced withdrawal of petty, non-verified, non-reconciled or disputed direct tax demands up to INR25,000 pertaining to the period up to Tax Year 2009-10 and up to INR10,000 for Tax years 2010-11 to 2014-15. Expected to benefit about 10 million taxpayers.

Corporate tax

- No changes in tax rate proposed.
- For domestic companies, for lower basic tax rate of 25% in Tax year 2024-25, the base year for turnover less than INR400 crore is shifted ahead by one year to FY 2022-23. Accordingly, a domestic company having turnover not exceeding INR400 crore in Tax year 2022-23 will be liable to basic tax rate of 25% in Tax Year 2024-25 (regardless of the quantum of turnover in Tax Year 2023-24 or Tax Year 2024-25).

Highlights

Sunset dates for various provisions **extended**

No changes to corporate tax rates

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- Sunset dates under the Income-tax Act, 1961 extended from 31 March 2024 to 31 March 2025 for the following:

Sr. No	Provision	Criterion for which extension is granted
1.	Exemption to specified income earned by Investment division of non-resident International Financial Services Centre (IFSC) Banking Unit	Date of commencement of operations to claim exemption by Investment Division of Offshore Banking Unit in IFSC
2.	Exemption of income of a Non-Resident (NR) by way of royalty or interest on account of lease of an aircraft/ship paid by a unit of an IFSC	Date of commencement of operations for IFSC unit to enable NRs to claim exemption on aircraft/ ship lease
3.	Capital gain exemption on transfer of leased ship/aircraft by a IFSC unit	Date of commencement of operations for IFSC Unit.
4.	Exemption to Sovereign Wealth Fund (SWF)/Pension Fund (PF)/ wholly owned Subsidiary of Abu Dhabi Investment Authority (ADIA) on specified investments	Date for investment by SWF/PF/ subsidiary of ADIA for exemption
5.	Deduction of 100% of profits of eligible start up from eligible business for a period of three consecutive tax years out of 10 tax years beginning from the tax year in which the eligible start-up is incorporated	Date of incorporation for eligible start-ups to claim deduction

- Contrary to industry expectations, sunset date of 31 March 2024 for commencement of manufacture/production by new domestic manufacturing companies and resident co-operative societies for availing a concessional base tax rate of 15% not extended.
- Sunset date for notification of Faceless scheme for undertaking transfer pricing assessment, dispute resolution proceedings and appeals to Tribunal extended from 31 March 2024 to 31 March 2025.
- To improve taxpayer services, FM in the Budget Speech announced withdrawal of petty, non-verified, non-reconciled or disputed direct tax demands up to INR25,000 pertaining to the period up to Tax Year 2009-10 and up to INR10,000 for Tax Year 2010-11 to Tax Year 2014-15.
- **Changes to TCS provisions**
    - The Finance Act (FA) 2023 amended provisions relating to TCS on remittances under Liberalized Remittance Scheme (LRS) and purchase of overseas tour program package (OTPP).
    - The amendments enhanced the TCS rate on LRS from 5% to 20% (except in case of remittances for education and medical purposes) and removed threshold limit of INR700,000. It also enhanced the TCS rate on sale of OTPP to 20%. This caused widespread concern and ambiguity amongst various stakeholders who made representations and suggestions to the Central Government (CG). In deference to the representations by various stakeholders, the Finance Ministry issued Press Release on 28 June 2023 announcing the decision to make, inter alia, following changes in TCS on LRS and OTPP:
        - Restoration of threshold of INR700,000 to attract (a) TCS on LRS and (b) TCS at higher rate of 20% on sale of OTPP.
        - Deferral of effective date of higher TCS rate from 1 July 2023 to 1 October 2023

- The Finance Bill 2024 codifies the above announcements. Accordingly, the applicable TCS rates w.e.f. 1 October 2023 are:

Nature of remittance	Rate w.e.f. 1 October 2023
LRS for education financed by loan from a qualifying financial institution	▸ NIL up to INR700,000 ▸ 0.5% above INR700,000
LRS for medical treatment/education (other than financed by loan from qualifying financial institution)	▸ NIL up to INR700,000 ▸ 5% above INR700,000
LRS for other purposes	▸ NIL up to INR700,000 ▸ 20% above INR700,000
Purchase of OTPP	▸ 5% till INR700,000 ▸ 20% thereafter

Note – The threshold of INR700,000 is common for all LRS remittances and not for the individual category tabulated above

Interim Budget 2024

Indirect Tax

Clarity on claim of GST credit by making ISD provisions mandatory

Key takeaways

Indirect tax

- Credit of tax on procurement of service can now be claimed only by the office benefitting from such service.
- Penalty introduced for non-registration of packing machines by manufacturers of tobacco and tobacco-related products.

- Goods and Services Tax
  - Input Service Distributor
    - The office receiving invoices for or on behalf of distinct persons shall be required to get registered as Input Service Distributor (ISD) and distribute the credit of GST to such distinct persons through the prescribed document.
    - Consequential amendment has been made in the definition of Input Service Distributor.
    - ISD shall distribute the ITC in such manner, within such time and subject to such restrictions and conditions as may be prescribed.
  - Offence related provisions
    - Registered person manufacturing pan masala, chewing tobacco and other tobacco-related products are required to follow special procedure under GST for registration of the machines used in packaging of such goods.
    - New penalty provision is introduced for non-registration of such packing machines by manufacturers in addition to other applicable penalties.
    - A penalty of INR2 lakh (INR1 lakh each under CGST and SGST Act) shall be payable for every machine not so registered.

Highlights

ISD provisions made mandatory

        - In addition to the above, such machines shall also be liable for seizure and confiscation, unless:
            - the penalty so imposed is paid.
            - such machine is registered within three days of the receipt of the order of penalty.
    - The above amendments shall come into force from the date to be notified.

- Customs
    - There are no changes relating to the Customs law, proposed in the interim budget.

Glossary

BE- Budget Estimate

FRBM- Fiscal Responsibility and Budget Management

FY- Financial Year

GDP- Gross Domestic Product

GoI- Government of India

GTR- Gross tax revenue

IPD- Implicit Price Deflator

MGNREGA- Mahatma Gandhi National Rural Employment Guarantee Act

MoF- Ministry of Finance

RE- Revised Estimates

ADIA - Abu Dhabi Investment Authority

CG - Central Government

FA - Finance Act

IFSC - International Financial Services Centre

LRS - Liberalised Remittance Scheme

NR - Non-resident

OTPP - Overseas Tour Program Package

PF - Pension Fund

SWF - Sovereign Wealth Fund

TCS - Tax Collection at Source

GST - Goods and Services Tax

ISD - Input Service Distributor

ITC - Input Tax Credit

CGST - Central Goods and Services Tax

SGST - State Goods and Services Tax

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Download the EY India Tax Insights App for detailed insights on tax and regulatory reforms.

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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

Ernst & Young LLP

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