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Tax Alert – Key announcements of  
Union Budget 2024



# Union Budget 2024-25

## Telecom Sector | Driving domestic value addition remains the key focus

With 'Make-in-India' as the cornerstone of reforms, the budget focuses on strengthening domestic manufacturing



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The telecommunication sector is considered as a gateway to the fast-paced growth of digital services in India. Currently, India is amongst the fastest growing 5G networks in the world resulting in improving India's rank in mobile broadband speed from 118 to 15 in March 2024. In the recent past, this sector has witnessed various structural and procedural reforms aimed at reducing regulatory burden on the service providers thereby promoting a transparent and pro-industry ecosystem.

The increasing significance of this sector is reflected in the non-tax revenue receipts of the government on account of communication services. The receipt budget depicts a significant increase of 28.5% in revenue on account of license fee, SUC etc.

In Budget 2024, enhanced budget allocation towards Bharatnet project and additional capital infusion in BSNL, reflects a determined approach of the Government to increase the penetration of broadband services in rural areas. This also translates to significant opportunities for domestic equipment manufacturers; who will be prioritized based on their local value addition, as mandated by PMI guidelines. Further, the measures such as increase in custom duties on import of PCBA and exemption of BCD on rare earth minerals like lithium, copper, cobalt etc., seems to be in the direction of encouraging domestic manufacturing.

Given above, the Budget 2024 is a progressive and forward-looking budget for the telecom sector, geared towards enhanced focus on employment generation, import substitution and bolstering domestic manufacturing.

## Key amendments

### Policy updates

- ▶ Enhanced budget allocation towards Bharatnet, Incentive schemes and capital infusion in BSNL to provide impetus on domestic value addition in view of preference to Make-in-India policy
- ▶ FDI and ODI regulations to be simplified to facilitate inflow and promote the use of INR for overseas investment
- ▶ For enhancing 'Ease of Doing Business', the Government is working on the Jan Vishwas Bill 2.0. Further, it was stated that the states will be incentivized for implementation of their Business Reforms Action Plans and digitalization
- ▶ Employment linked incentive scheme introduced with a focus on employment generation and skilling

### Direct Tax

- ▶ Comprehensive review and simplification of Income-tax Act, 1961 to be undertaken
- ▶ VSV Scheme 2024 proposed to be introduced for resolution of certain pending income tax disputes
- ▶ Corporate Tax rate for foreign companies to be reduced from 40% to 35%
- ▶ Rationalization and simplification of Capital Gains provisions:
  - ▶ Tax rate on LTCG to be 12.5% in respect of all category of assets. Further, exemption limit on LTCG in case of listed securities to be increased from INR1,00,000 to INR1,25,000
  - ▶ Tax rate on STCG to be increased to 20% for certain financial assets
  - ▶ For LTCG, period of holding for listed securities to be 12 months and for all other assets, it is proposed to be 24 months
  - ▶ Unlisted bonds and debentures proposed to be deemed to be short-term capital asset irrespective of the holding period
  - ▶ Indexation benefit to be discontinued for all class of assets

The above-mentioned amendments proposed to effective from 23 July 2024

- ▶ Scope of safe harbour rules to be expanded
- ▶ Buy back provisions to be abolished and income received on buyback of shares to be taxable in the hands of the recipient as deemed dividend. Cost of acquisition to be considered as capital loss and will be eligible for set off and carry forward. This amendment is proposed to be effective from 1 October 2024
- ▶ FMV of equity shares under offer for sale in an IPO to be considered as cost of acquisition adjusted with the Cost Inflation Index up to FY 2017-18
- ▶ Certain TDS defaults to be decriminalized
- ▶ Extended time limit applicable in some cases for initiating re-assessment proceedings to be reduced from 10 years to five years and three months. This amendment is proposed to be effective from 1 September 2024
- ▶ More officers to be appointed for speedy disposal of pending appeals before CIT(A) especially those with large tax effect

## Highlights



Comprehensive review and simplification of Income Tax Act, 1961



Rationalization and simplification of Capital Gains provisions



Reduction in Corporate tax rate for Foreign Companies

# Key amendments

## Indirect Tax

► Customs:

- To bolster domestic manufacturing of PCBA, custom duty on PCBA of specified telecom equipment has been increased from 10% to 15%
- The key parameters for domestic production and export of mobile phones suggests that the industry has matured. In view of the same, following changes in Basic Customs Duty have been made:

HSN	Commodity	Basic custom duty (%)	
		From	To
8517 13 00, 8617 14 00	Cellular Mobile Phone	20	15
8504 40	Charger/ Adapter of cellular mobile phone	20	15
8517 79 10	Printed Circuit Board Assembly (PCBA) of cellular mobile phone	20	15

- Exemption from custom duty on import of rare earth minerals (Lithium, Nickel, Cobalt, Copper etc.) to be used in strategic sectors such as telecommunication, space, high-tech electronics etc. to secure availability of minerals
- The aforementioned changes in customs duty rates are effective from 24 July 2024
- With a view to rationalize exemptions, sunset date of certain exemption notifications has been proposed

► Goods and Services Tax:

- Section 128A has been inserted to provide conditional waiver of interest and penalty for demands from financial year 2017-18 to 2019-20 if full tax liability is paid before a specified date
- Section 11A has been inserted to empower Government to regularize non-levy or short levy of GST due to general trade practice
- Insertion of sub-section (5) and (6) of Section 16 to provide relaxation in time limits to avail ITC for financial year 2017-18 to financial year 2020-21 up to 30 November 2021

## Highlights



Reduction in custom duty of mobile phone and parts



Government empowered to regularize non levy/ short levy of GST due to general trade practice



Conditional waiver of interest and penalty for demands from July 2017 to March 2020

## Impact analysis

The full Budget 2024, presented by the Union Finance Minister – Ms. Nirmala Sitharaman, continues to steer on the path of 'Viksit Bharat' as envisaged in the interim budget presented in February earlier this year. Further, it is needless to mention that the path to a developed nation shall be paved by a robust telecom sector. The telecom sector is always considered as one of the strategic sectors relevant for the growth story of the Indian economy and hence, in the recent past, we have seen a slew of reforms announced by the Government to enhance transparency and ease of regulatory burden on the industry players.

The continuous reforms in this sector have resulted in the increase of overall teledensity (number of telephones per 100 population) from 75.2% in March 2014 to 85.7% in March 2024. Further, the internet subscribers jumped from 25.1 crore in March 2014 to 95.4 crore in March 2024. The same is on account of data cost being reduced substantially over the past decade, thereby improving the average wireless data usage per subscriber.

The Government's next ambition is to indigenize telecom equipment as it is a strategic sector from a national security and growth perspective. In the recent past, we have seen concentrated efforts towards promoting 'Make-in-India'. The PLI scheme introduced for promoting domestic manufacturing of the telecom and networking gear has been able to garner an investment of INR3402 crore. However, since the development of technology (research and development) requires huge investment, certain key high-value components (such as chips) are still imported from outside India. To address this, the Government has decided to allocate 5% of the annual collections from USOF towards R&D in telecom sector.

The increase in budgetary allocation towards Bharatnet and technology upgradation to BSNL has attracted the attention of the industry as Government is one of the significant customers for the telecom equipment manufacturers. The strengthening of PMI framework coupled with the PLI scheme and increase in import duties can help realizing the vision of Make-in-India for the world.

The increase in custom duties on PCBA may result in increased cost for the telecom service providers who are in the process of rolling out of 5G networks. The vision of the Government is to increase the participation of India in Global Value Chain, thereby promoting domestic manufacturing.

In a nutshell, Budget 2024 demonstrates the government's continued commitment to building a 'Viksit Bharat' through a robust telecom sector. The substantial growth in teledensity and internet subscribers is testimony about the success of government policies and continuous reforms. While challenges remain, like dependence on imported high-value components and potential cost increases for service providers, initiatives like increased budget allocation towards R&D and PLI scheme in the sector offer promising pathways. It shall be critical to balance the affordability with domestic manufacturing ambitions of the Government. Ultimately, the success of these reforms will hinge on their ability to foster a thriving telecom ecosystem that fuels India's journey towards a developed nation.

# Glossary

BCD - Basic Customs Duty

BSNL - Bharat Sanchar Nigam Limited

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

FDI - Foreign Direct Investment

FMV - Fair Market Value

FY - Financial Year

GST - Goods and Services Tax

IPO - Initial Public Offer

ITC - Input Tax Credit

ITAT - Income Tax Appellate Tribunal

LTCG - Long-Term Capital Gains

ODI - Overseas Direct Investment

PCBA - Printed Circuit Board Assembly

PLI - Production Linked Incentive

PMI - Preference to Make in India

R&D - Research and Development

STCG - Short-Term Capital Gains

SUC - Spectrum Usage Charges

TDS - Tax Deducted at Source

USOF - Universal Service Obligation Fund

VSV - Vivad Se Vishwas



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