

23 July 2024

Tax Alert - Key announcements of  
Union Budget 2024



Union ₹ Budget

2024-25

## Modi Government 3.0 continues its focus on defense modernization and self-reliance; momentum strengthens on gearing up of border infrastructure



**Ganesh Raj**

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Finance Minister of India presented the Union Budget 2024 on 23 July 2024, allocating INR6,21,940 crore to the Ministry of Defence, which is 13% of the total budget.

While the overall allocation between capital and revenue expenditure remains the same compared to the Interim Budget, there is a marginal increase (0.06%) towards investment in public sector enterprises. Focus on defense modernization continues with INR1,72,000 crore allocation towards capital expenditure, a 5.78% increase over FY 23-24 (BE). Increase of 4.68% in revenue expenditure over FY 23-24 (BE), indicates a nominal increase in allocation for stores and spares, repairs, and other services.

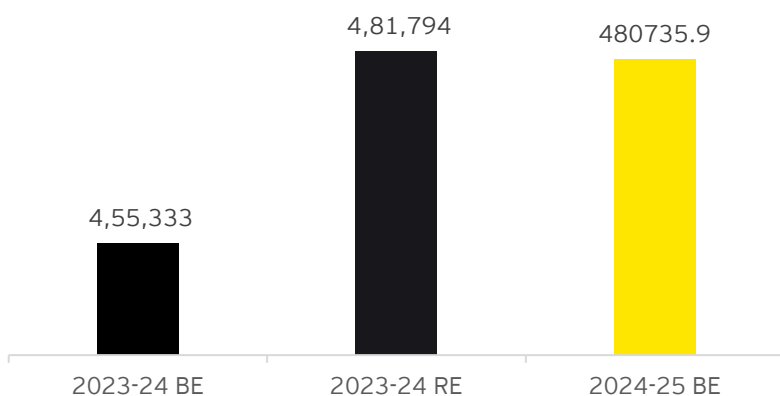
The allocation towards R&D in the 2024-25 (BE) stands at INR13,208 crore, which is 3% higher than 2023-24 (BE). Moreover, support for prototype development under the 'Make' Procedure has risen by approximately 46% for 2023-24 (BE). There is a substantial increase of 30% in allocation towards Border Roads Organisation (BRO) to maintain momentum on the gearing up of border infrastructure.

Nil BCD on import of components and consumables for manufacturing of specified vessels and on technical documentation and spare parts for construction of warships is a welcome move to promote domestic manufacturing of warships. Further, extension of current Customs Duty exemption available on the specified products is in line with the industry expectation.

# How does the budget impact Defense sector?

- ▶ Defense allocation is accounted for under four demands for grants:
  - ▶ Demand No 19 - Ministry of Defence (Civil)
  - ▶ Demand No 20 - Defense services (revenue)
  - ▶ Demand No 21 - Capital outlay on defense services
  - ▶ Demand No 22 - Defense pensions
- ▶ The total defense budget (excluding defense pensions) for Financial Year 2024-25 is US\$57.58 billion (INR4,80,736 crore).
- ▶ Budgetary allocation towards capital and revenue expenditure stands at US\$20.60 billion (INR1,72,000 crore) and US\$33.86 billion (INR2,82,773crore), respectively.

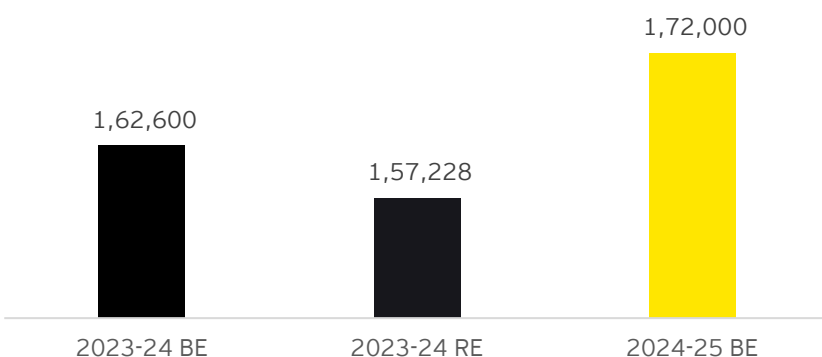
## Total defense expenditure (excluding defense pensions) (INR crore)



## Brief on capital expenditure

- ▶ Modernization 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\$20.60 billion (INR1,72,000 crore).
- ▶ Current capital budget in INR terms is 5.78% higher than that of 2023-24 (BE).

## Capital expenditure (INR crore)



## Highlights



**13% of the total budget**

FY 24-25

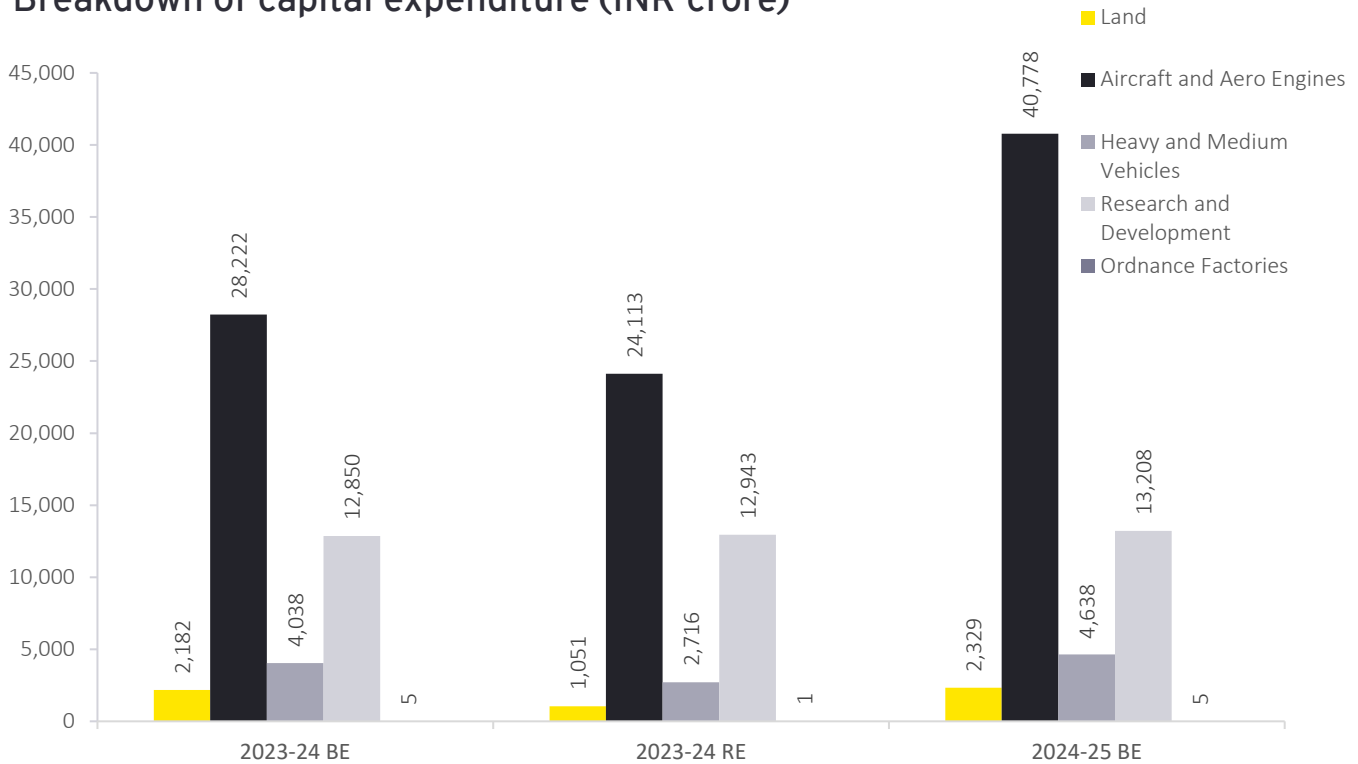


5.78% increase in capital outlay allocation and 4.68% in revenue (in INR terms)

Allocation kept at the same level as the Interim Budget

- ▶ Closer examination of capital expenditure in INR terms shows an increase of 42% and 15% for aircraft and aero-engines and heavy and medium vehicles over 2023-24 (BE) for the defense services, respectively.
- ▶ The allocation for Naval Fleet is INR23,800 crore for 2024-25 (BE), a decrease of ~1.7% over 2023-24 (BE).

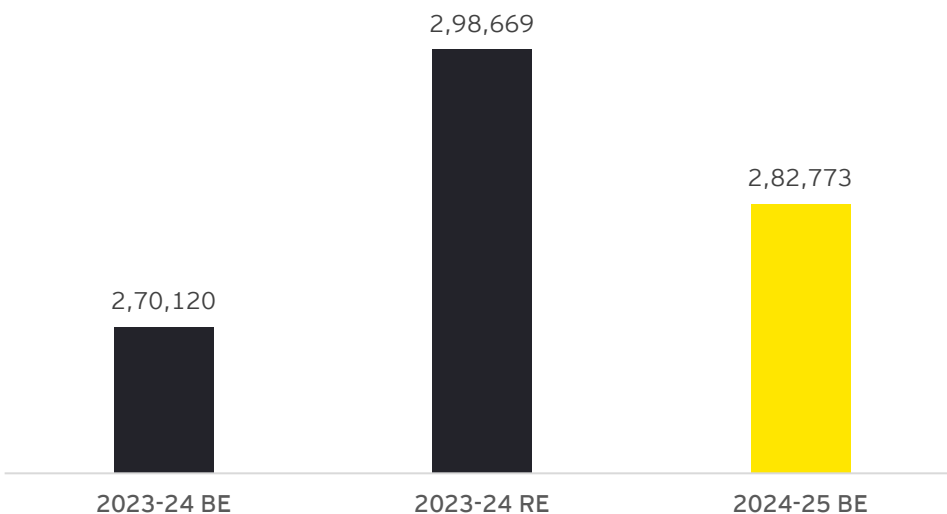
### Breakdown of capital expenditure (INR crore)



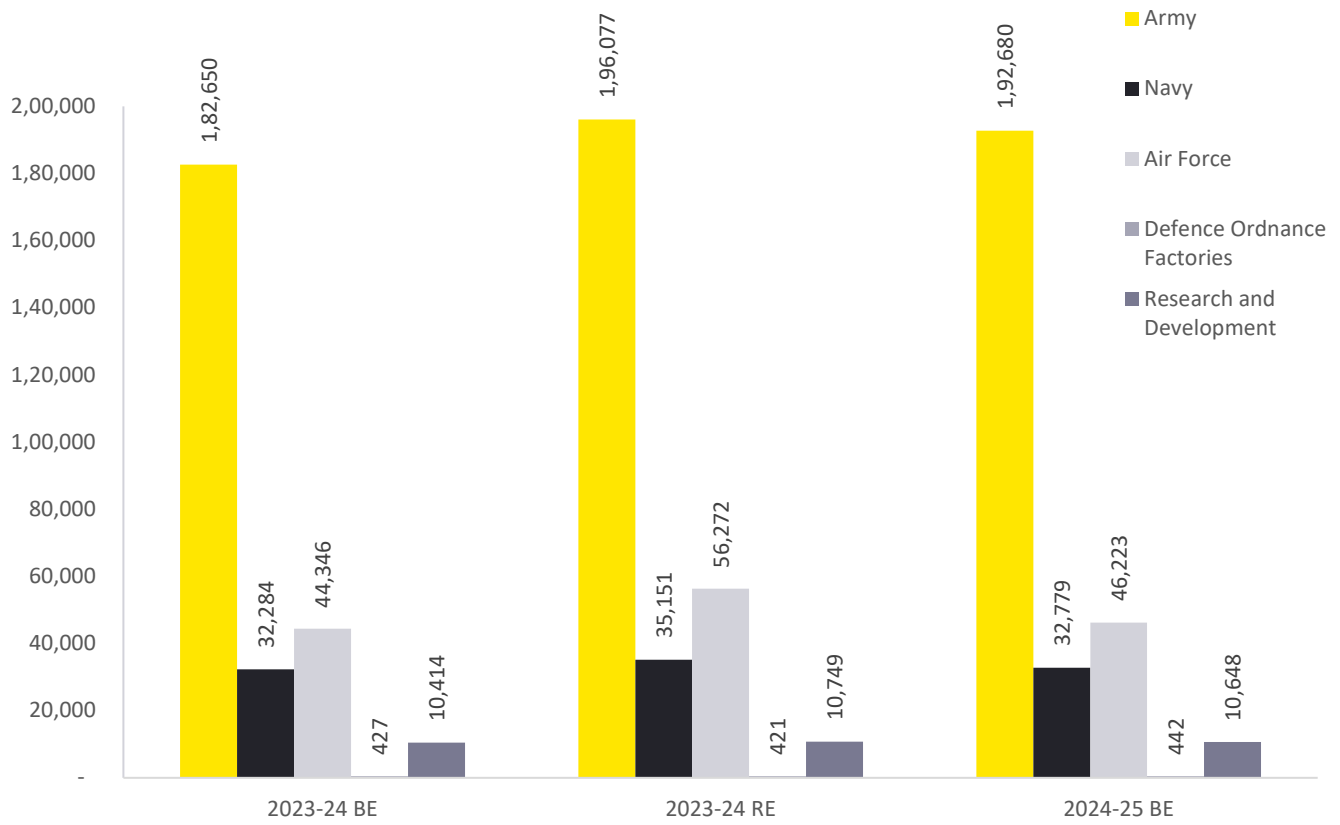
### Brief on revenue expenditure

- ▶ Budgetary allocation towards revenue expenditure for this year is US\$33.86 billion (INR 2,82,773 crore), an increase of 4.68% higher than that of 2023-24 (BE).
- ▶ Allocation to revenue expenditure, i.e., stores, works, repairs and refits for this year is INR69,571.4 crore for 2024-25 (BE).
- ▶ This is a decline of 0.5% over 2023-24(BE) and a substantial decline of over 2023-24(RE).
- ▶ For all the three services, allocation towards works has decreased.

### Revenue expenditure (INR crores)



## Breakdown of revenue expenditure (INR crore)



## Notes and explanations

- USD amounts for 2024-25 have been computed at INR 83.5 whereas USD amounts of 2023-24 have been computed at INR81.69, as on 01 February 2023.

## Tax announcements

Customs Act changes with effect from 24 July 2024

- ▶ Rate of Basic Customs Duty (BCD) on following goods has been reduced to nil:
  - ▶ Components and consumables for use in the manufacture of specified vessels
  - ▶ Technical documentation and spare parts for construction of warships
- ▶ To boost the processing and refining of critical minerals and help secure their availability for space and defense sector, it has been proposed to fully exempt customs duties on 25 critical minerals and reduce BCD on two of them.
- ▶ To promote domestic MRO, duration for export in case of aircraft and vessels imported for maintenance, repair and overhauling has been increased from six months to one year, which shall be further extendable by one year. Currently, articles of foreign origin can be imported into India for repairs subject to their re-exportation within six months extendable to one year.
- ▶ Further, time period for duty-free re-import of goods (other than those under export promotion schemes), which had been exported out from India, for repairs under warranty has been increased from three years to five years, which shall be further extendable by two years.
- ▶ BCD exemption extended up to 31 March 2026, in relation to the following goods covered under certain specified Serial Numbers of Notification No. 50 / 2017 - Customs dated 30 June 2017 ('N/N 50')

S.No.	S.No of N/N 50	Brief description
1	139	Bunker fuels namely IFO 180 CST, IFO 380 CST and VLSFO (CTH 27)
2	279	New or retreated pneumatic tyres of rubber for use in servicing, repair or maintenance of aircraft used for operating scheduled air transport service or scheduled air cargo service, etc.
3	280	New or retreated pneumatic tyres of rubber for use in servicing, repair or maintenance of aircraft imported or procured by Aero Club of India / for flying training purpose / operating non-scheduled ( <i>passenger or charter</i> ) services / AAI for flight calibration purpose
4	534	Parts of gliders or simulators of aircraft (excluding rubber tyres and tubes of gliders)
5	535	Raw materials for manufacture of aircraft and parts of aircraft
6	535A	Parts of aircraft for manufacture of aircraft or for manufacture of parts of aircraft by PSU under the Ministry of Defence
7	536	Parts, testing equipment, tools and toolkits for maintenance, repair and overhauling of aircraft, components or parts of aircraft
8	537	All goods of heading 8802 (except 8802 6000 - Spacecraft)
9	538	Components or parts, including engines, of aircraft of heading 8802
10	539	Satellites and payloads and Ground equipment brought for testing of Satellites and payloads
11	539A	Scientific and technical instruments, etc., for launch vehicles and satellites
12	540	Specified goods imported by scheduled air transporter
13	542	Specified goods imported by Aero Club, Flying Training Institutes
14	543	Specified goods imported by non-scheduled air transporter
15	544	Parts ( <i>other than rubber tubes</i> ), of aircraft of heading 8802
16	546	Parts ( <i>other than rubber tubes</i> ), of aircraft of heading 8802
17	548	Barges or pontoons imported along with ships
18	551	Cruise ships, excursion ships
19	553	Fishing vessels, Tugs and Pusher crafts, light vessels excluding vessels and floating structure imported for break-up
20	555	Vessels like warships, lifeboats, excluding vessels and floating structure imported for break up

- BCD exemption extended up to 31 March 2029, in relation to the following goods:

S.No.	Notification No.	Description/ Subject
1	Serial No. 549 of Notification No. 50 / 2017 - Customs dated 30 June 2017	Capital goods, raw materials and spares for repairs of ocean-going vessels
2	Serial No. 550 of Notification No. 50 / 2017 - Customs dated 30 June 2017	Spare parts and consumables for repairs of ocean-going vessels registered in India
3	Notification No. 16/ 1965 - Customs dated 23 January 1965	Goods exported to foreign countries for display in show-rooms of the Government of India
4	Notification No. 80/ 1970 - Customs dated 29 Aug 1970	Goods supplied freely under warranty as replacement for defectives ones in lieu of earlier imported goods
5	Notification No. 147/ 1994 - Customs dated 13 July 1994	Firearms and ammunition when imported for use by a renowned shooter
6	Notification No. 134/ 1994 - Customs dated 22 June 1994	Specified capital goods and other ancillary items imported for repairs
7	Notification No. 39/ 1996 - Customs dated 23 July 1996	Specified imports relating to Defense, internal security forces and Air force
8	Notification No. 50/ 96 - Customs dated 23 July 1996	Specified equipment, instruments, raw materials, components, pilot plant and computer software when imported for publicly funded R&D projects
9	Notification No. 51/ 96 - Customs dated 23 July 1996	Scientific and technical instruments, apparatus, equipment, accessories, etc., when imported by publicly funded research institution
10	Notification No. 23 / 2016 - Customs dated 1 March 2016	Parts of aircraft when imported into India under Standard Exchange Scheme
11	Notification No. 37 / 2017 - Customs dated 30 June 2017	Imports in relation to defense and international security forces, including medals, decorations, personal effects of Defense personnel, bona fide gifts from foreign donors, stores and goods for trials, demonstration
12	Notification No. 35 / 2017 - Customs dated 30 June 2017	Aviation Turbine Fuel in the tanks of the aircrafts of an Indian Airline or of the Indian Air force

- Exemption from BCD, IGST and Compensation Cess shall be available on re-import into India of the following goods subject to fulfillment of prescribed conditions;

S.No.	Description of goods	Conditions
1.	Lubricating Oil falling within Chapter 27 of First Schedule to Customs Tariff Act, 1975, imported in engines of aircraft registered in India or any aircraft of Indian Air force	No drawback of Customs Duty or refund of IGST was allowed on duty paid lubricating oil in the engines of such aircraft at the time of its departure from India

S.No.	Description of goods	Conditions
2.	Fuel other than Aviation Turbine Fuel in the tanks of aircraft of Indian Airline or Indian Air force	<ul style="list-style-type: none"> <li>(i) Quantity of said fuel is equal to the quantity of the same type of fuel which was taken out of India in the tanks of aircraft of the same Indian Airline or of Indian Air force and on which Customs Duty or IGST had been paid</li> <li>(i) Customs Duty rate or IGST leviable on such fuel is the same at the time of arrivals and departures of such aircraft and</li> <li>(i) No drawback of Customs Duty or refund of IGST was allowed on such fuel at the time of departures of such aircraft from India</li> </ul>

► The following exemptions shall lapse with effect from 30 September 2024:

S. No.	Notification Reference	Description
1	Notification No. 151 / 94 dated 13 July 1994	Exemption to imports of duty paid fuel and lubricating oil on aircraft taken during the outward flight, goods imported by United Arab Airlines, aircraft engines, spares imported by Indian Airlines and Air India International
2	Notification No. 26- Customs dated 19th February 1962	Import duty under the Sea Customs Act on catering cabin equipment, food and drink on re-importation by aircraft of the Indian Airlines Corporation from foreign flights

## Goods and Services Tax (GST) Act

- ▶ New Section 11A is being inserted to empower the Government to regularize non-levy or short levy of Central tax due to any general practice prevalent in trade.
- ▶ Time of supply in respect of services received from unregistered person and attracting reverse charge will be earlier of:
  - ▶ Date of payment
  - ▶ Date of issuance of self-invoice
- ▶ Refund of integrated tax as well as of unutilized ITC on export of goods shall not be available where the subject goods attract export duty. Similar restriction will be placed on refund when taxpayer supplies such goods to Special Economic Zone (SEZ) developer or unit.
- ▶ From FY 2024-25 onwards, a common time limit will apply for issuance of demand notices (42 months from due date of filing relevant annual return) and demand orders (12 months from the date of notice), irrespective of cases involving fraud or willful misstatement or not.
- ▶ Conditional waiver of interest and penalty is proposed to be granted in respect of demand notices/orders (where appeal has not been filed or withdrawn) issued in respect of Non-Fraud cases for the Financial Years 2017-18, 2018-19 and 2019-20, except the demand notices in respect of erroneous refund.
- ▶ In cases where interest and penalty have already been paid in respect of any demand for the said financial years, no refund shall be admissible for the same.

## Direct tax changes

- ▶ Comprehensive review of the Income-tax Act, 1961, is being undertaken which to be completed in six months. The purpose of the activity is to make the Act concise, lucid, easy to read and understand, which will reduce disputes and litigation, thereby providing tax certainty to the taxpayers. It will also bring down the demand embroiled in litigation.
- ▶ Corporate tax rate in the case of foreign companies proposed to be reduced from the existing 40% to 35%. Amendment to be effective from FY 2024-25.
- ▶ Introduction of Direct Tax Vivad se Vishwas Scheme, 2024 for providing a mechanism of settlement of disputed issues. Date of applicability of the scheme is yet to be notified.
- ▶ Withholding tax rates have been reduced for certain domestic payments, such as commission/ brokerage, e-commerce operators, etc.
- ▶ Section 94B restricts the deduction of interest expense in respect of any debt issued by a non-resident, being an associated enterprise of the borrower. It is proposed to exempt a Finance Company in the International Financial Services Centre from the provisions of this section, which satisfy such conditions and carry on such activities as may be prescribed separately.
- ▶ Limitation period for reopening of high value cases involving undisclosed income over INR50 lakh represented in the form of an asset, expenditure or book entry reduced has been reduced from 11 years from the end of the relevant financial year to six years and three months from the end of the relevant financial year



## Impact analysis

Budget allocation for the Ministry of Defence is INR6,21,540 crores, amounting to 13% of the Union Budget. For the purposes of this analysis, we are not discussing pensions. Excluding the same, the MoD budget is INR4,80,735 crore, which has increased by 11.10% over 2023-24 (BE).

The 42% increase in aircraft and aero-engine allocation suggests upcoming acquisitions of platforms like MQ 9B UAS, GE-404/414 engines, and Light Combat Helicopter (LCH). MoD's investment in public enterprises is INR4,748 crore, which is a 7% increase over 2023-24 (BE).

There is a substantial increase of 30% in allocation towards Border Roads Organisation (BRO) to maintain momentum on the gearing up of border infrastructure. There is an increase of 6.3% over 2023-24 (BE) for Indian Coast Guard. This is to cater for an increased surveillance in the Indian Ocean Region, additional infrastructure and committed liabilities.

Assistance for prototype development under 'Make' Procedure has increased by 46% over 2023-24 (BE). This could be towards projects such as High-Altitude Pseudo Satellite, Long Range Land Attack Cruise Missile, Hypersonic Glide Vehicle, Directed Energy Weapons (300 KW and more), Light Weight Tank, Communication System, among others. The launch of Acing Development of Innovative Technologies with iDEX (ADITI) scheme with 17 challenges has seen an overwhelming response from the Indian Industry. This appears to be a contributing factor towards an increase of 24% of Secretariat General Services. R&D budget is INR13,208 crore, which is an increase of 2.8% over 2023-24(BE). As announced in the past years, 25% (INR3,302 crores) of this budget is reserved for industry, startups and academia.

In order to boost processing and refining of minerals, such as lithium, copper and cobalt, which are critical for space and defense sectors and to help secure their availability for domestic manufacturing, customs duties on 25 critical minerals have been fully exempt and reduced with respect to two of them.

Nil BCD on import of components and consumables for manufacturing of specified vessels and on technical documentation and spare parts for construction of warships is a welcome move to promote domestic manufacturing of warships. Further, extension of current Customs Duty exemption available on the specified products is in line with the industry expectation.

# Glossary

MoD - Ministry of Defence

BE - Budgeted Estimate

RE - Revised Estimate

iDEX - Innovations for Defence Excellence

BRO - Border Roads Organisation

R&D - Research and Development

GST - Goods and Service Tax

MRO - Maintenance, Repair and Overhaul

BCD - Basic Customs Duty



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