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Tax Alert - Key announcements of
Union Budget 2024



Union  Budget

2024-25

Government enables strong rural and urban consumption push through its priorities

Strategic initiatives unveiled for agriculture, rural development, manufacturing, employment and skilling



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Budget 2024 charts out the course towards the ambitious "Viksit Bharat" vision, encapsulating strategic initiatives aimed at agriculture reforms, bolstering employment, enhancing skills, nurturing MSMEs, and invigorating innovation, R&D and next generation reforms. Consumer products and retail sector should benefit from resultant buoyancy in consumption in rural and urban areas.

The recalibration of the individual new tax regime also should help increase disposable incomes. In a move that heralds cost savings for consumers, Budget also announces a reduction in import duties on mobile phones, PCBA, chargers, certain precious metals, etc.

Abolition of the angel tax regime, coupled with significant simplification efforts—including withdrawal of the equalization levy, reduced tax rates for foreign companies, and streamlined TDS rates—heralds a new dawn for ease of doing business in India. Proposed safe harbor rules for the diamond industry should also help.

To summarize, the Government has taken focussed steps on rural development, manufacturing, skilling etc which should provide an upliftment to the sector and pave the way for sustainable growth in the years to come.

How does the budget impact consumer products and retail sector?

Key amendments

Policy

- ▶ Allocation of around INR1.52 lakh crore for agriculture and allied sectors
- ▶ Five schemes and initiatives to facilitate employment (including participation of women in the workforce), skilling and other opportunities will target 4.1 crore youth over the next five years, with a budgetary allocation of INR2 lakh crore.
- ▶ Government will launch three schemes for employment-linked incentives, one-month wage to first-time enrollers in EPFO, incentives to employer linked with the employment of first-time employees, and support to employers providing additional employment.
- ▶ As part of skilling, 20 lakhs youth will be skilled over a five-year period and 1,000 industrial training institutes will be upgraded in hub-and-spoke arrangements.
- ▶ Skilling and educational loans will be provided with government guarantees, financial support and subsidies.
- ▶ Financial support will be provided for setting up 50 multi-product food irradiation units in the MSME sector. Additionally, 100 food quality and safety testing labs will be set up in collaboration with NABL.
- ▶ E-commerce export hubs will be set up in PPP mode to enable MSMEs and traditional artisans to sell their products in international markets.
- ▶ Further, credit guarantee schemes for MSMEs will be introduced, providing a guarantee cover of INR 100 crore for higher loan amounts.

Direct Tax

- ▶ **Corporate Tax**
 - ▶ Tax rates for foreign companies will be reduced from 40% to 35% (excluding surcharge and cess).
- ▶ **Abolishment of Angel Tax**
 - ▶ Any consideration for the issue of shares received by a domestic company in which the public is not substantially interested from residents is taxable under section 56(2)(viib) of the Act to the extent that the consideration exceeds the fair market value
 - ▶ The said provision is proposed to have a sunset clause and will not be applicable effective Assessment Year 2025-26
- ▶ **Abolishment of e-commerce equalization levy**
 - ▶ Currently, a 2% equalization levy is applicable on consideration received or receivable by a non-resident e-commerce operator from e-commerce supply or services exceeding INR2 crore in a year
 - ▶ In light of ambiguity and increased compliance burden, it is now proposed that 2% equalization levy will no longer be applicable
 - ▶ This amendment is effective from 1 August 2024

Highlights



INR2 lakh crore

Five schemes and initiatives introduced for employment, skilling and other opportunities



INR1.52 lakh crore for agriculture and allied sectors



MSME

Raised loan limits and credit guarantees to be provided



Abolishment of Angel tax and e-commerce Equalisation levy

- ▶ **Buy-back of shares to be taxed in the hands of the shareholders as dividend income**
 - ▶ Any sum paid by a domestic company for the buy-back of shares shall be treated as dividend in the hands of its shareholders and taxable at applicable rates
 - ▶ No deduction for expenses against such dividend income
 - ▶ Domestic company will withhold tax at 10% from payment to resident shareholders
 - ▶ Cost of acquisition of shares bought back would generate a capital loss, which shall be eligible for setoff against any other capital gain
 - ▶ This amendment is effective from 1 October 2024

▶ **Rationalizing of withholding tax rates:**

Section	Current rate of TDS (%)	Proposed rate of TDS (%)	With effect from
Section 194-O - Payment of certain sums by e-commerce operator to e-commerce Participant	1	0.1	1 October 2024
Section 194H - Payment of commission or brokerage	5	2	1 October 2024

- ▶ **TCS introduced on luxury goods:**
 - ▶ It is proposed to amend the TCS provisions to levy TCS on any other goods of value exceeding INR10 lakh, as may be notified by the Central Government
 - ▶ Such goods would be in the nature of luxury goods
 - ▶ This amendment is effective from 1 January 2025
- ▶ **Diamond sector: foreign mining companies selling raw diamonds in the country can now benefit from safe harbor rates. Detailed guidelines to be notified.**

▶ **Other Direct Tax amendments:**

- ▶ **LDC for purchase of goods:**
 - ▶ Currently, the application for a nil/ lower tax deduction certificate under Section 197 can be filed only for certain specified payments
 - ▶ The scope of such specified payments has now been expanded to include payments for the purchase of goods of value exceeding INR50 lakh, which are subject to TDS
 - ▶ This amendment is effective from 1 October 2024
- ▶ **Rationalization of reassessment provisions**
 - ▶ Time limit for issuing a notice for reassessment proceedings has been reduced from 10 years to five-year three months
 - ▶ This amendment is effective from 1 September 2024

Highlights



TCS introduced on luxury goods



Rationalization of TDS rates

► **Vivad se Vishwas Scheme, 2024 introduced**

► Broad contours of the scheme is captured below

Nature of tax arrears	Appeal filing period	If scheme availed on or before 31 December 2024	If scheme availed on or after 1 January 2025
Tax, interest and penalty	After 31 January 2020, but on or before 22 July 2024	Disputed tax	Disputed tax + 10% of disputed tax
Tax, interest and penalty	On or before 31 January 2020	Disputed tax + 10% of disputed tax	Disputed tax + 20% of disputed tax
Interest or penalty	After 31 January 2020, but on or before 22 July 2024	25% of disputed interest or penalty	30% of disputed interest or penalty
Interest or penalty	On or before 31 January 2020	30% of disputed interest or penalty	35% of disputed interest or penalty

► This scheme shall come into effect from the date on which it is notified by the Central Government. Detailed guidelines to be notified.

► **Enhancing powers of TPO to examine specified domestic transactions**

- Currently, during the course of a TP assessment, TPO can suo-moto examine international transactions even if they are not referred by the Assessing Officer or not reported in Form 3CEB
- Now, these powers have been extended to specified domestic transactions as well

Indirect Tax

► Rate of BCD for the following commodities have been reduced with immediate effect from 24 July 2024

Chapter heading, sub heading/ Tariff Item	Commodity	From	To
2929 10 90	Methylene Diphenyl Di-isocyanate for use in the manufacture of Spandex Yarn	7.50%	5% (Subject to conditions)
41	Wet white, Crust and finished leather for manufacture of textile or leather garments, leather/ synthetic footwear or other leather products, for export	10%	NIL
38,48 or any other Chapter	Certain additional accessories and embellishments for manufacture of textile or leather garments, leather/ synthetic footwear or other leather products, for export	As applicable	NIL
0505 10	Real down filling material from duck or goose for use in the manufacture of textile or leather garments for export	30%	10%
7108	Gold bar	15%	6%
7108	Gold dore	14.35%	5.35%
7106	Silver bar	15%	6%
7106	Silver dore	14.35%	5.35%
7110	Platinum, Palladium, Osmium, Ruthenium, Iridium	15.40%	6.40%
8517 13 00,8517 14 00	Cellular mobile phone	20%	15%
8504 40	Charger/adapter of cellular mobile phone	20%	15%

- ▶ Rate of AIDC duty for the following commodities have been reduced with immediate effect from 24 July 2024

Chapter heading, sub heading/ Tariff Item	Commodity	From	To
7108	Gold bar	5%	1%
7108	Gold dore	4.35%	0.35%
7106	Silver bar	5%	1%
7106	Silver dore	4.35%	0.35%
7110	Platinum, Palladium, Osmium, Ruthenium, Iridium	5.40%	1.40%

Impact analysis

Overall, the budget represents a balanced approach, aiming to stimulate economic activity while laying the groundwork for long-term development. The focus on agriculture, infrastructure, job creation, skill development, MSMEs and innovation aligns with the broader goals of enhancing productivity and competitiveness in the global market.

Tax reforms and simplifications are anticipated to be positively received by both individuals and corporates, creating a more attractive climate for investment and expansion. Notably, the reduction of TDS for e-commerce participants addresses a significant concern within the industry, given their relatively thin profit margins.

The budget also commits to simplifying the Act and FDI and ODI regulations. Although specific details are still forthcoming, any amendments to FDI policy, particularly regarding multi-brand retail trading, are likely to be embraced by the sector. Additionally, the introduction of safe harbor provisions for foreign mining companies selling raw diamonds in India is expected to provide tax clarity and promote industry growth.

Glossary

Act - Income-tax Act, 1961

AIDC - Agriculture Infrastructure and Development Cess duty

BCD - Basic Customs Duty

EPFO - Employees' Provident Fund Organisation

FDI - Foreign Direct Investment

MSME - Micro, Small and Medium Enterprise

NABL - National Accreditation Board for Testing and Calibration Laboratories

LDC - Lower Deduction Certificate

ODI - Overseas Direct Investment

PPP - Public Private Partnership

R&D - Research and Development

TCS - Tax Collected at Source

TDS - Tax Deducted at Source

TP - Transfer Pricing

TPO - Transfer Pricing Officer



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