

23 July 2024

Tax Alert - Key announcements of
Union Budget 2024



Union ₹ Budget

2024-25

Infrastructure| Collaborative participation for sustained development

Vision for resilient India



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The Honourable Finance Minister, in the 7th consecutive budget, lays down a well-defined strategy to steer India's economy on a path of growth. Amidst the complexities of global geopolitical unrest and the logistical disruptions experienced in the Mediterranean region, India has witnessed a robust real GDP growth of 8.2% in FY24, marking the third consecutive year where growth has exceeded 7%. Further, the inflation has been kept under check to achieve the target 4%.

Budget 2024-25, core to the vision of Viksit Bharat, maintains the same amount of allocation of INR11.11lakh crore for the infrastructure sector (as announced in the interim budget). As per the Economic Survey for 2024, the private sector's investment between 2019 to 2023 has remained less than a quarter of the total contribution. To encourage higher private participation and to optimize the working capital requirements, the Government has proposed to promote viability gap funding. On similar lines for an all-rounded development of state infrastructure, long term interest-free loans are proposed for state governments.

Announcements for development of plug and play industrial parks, industrial corridors, roads, etc. are expected to create opportunities for generating employment, improving connectivity, and promoting tourism which shall further boost the Indian economy. Policy announcements and tax proposals related to the infrastructure sector have been discussed in this alert.

Key amendments

Direct Tax

Tax rates

- ▶ Domestic companies
 - ▶ No changes in tax rates proposed for domestic companies
- ▶ Foreign companies
 - ▶ Effective 1 April 2024, the rate of income-tax chargeable on income of FCo (other than that chargeable at special rates) is proposed to be reduced from 40% to 35%. Thereby reducing the maximum effective tax rate to 38.22% from 43.68%

Tax proposals for cruise shipping (effective from 1 April 2025):

- ▶ New presumptive tax regime - deeming 20% of the specified amounts as income of non-residents engaged in the business of operating cruise ships
- ▶ Tax exemption - subject to conditions, granted to foreign company in respect of lease rentals from non-resident company engaged in operating domestic cruise ships in India

Withdrawal of Equalisation Levy

- ▶ Equalisation Levy of 2% on NR e-commerce operators has been withdrawn with effect from 1 August 2024

Rationalization of capital gains taxation

- ▶ Capital gains tax rates
 - ▶ Currently, short-term capital gains are taxed at 15% or applicable slab rate and long-term capital gains are taxed at 10% or 20%, depending on residential status of the taxpayer and category of asset
 - ▶ Now, with an intent to rationalize the tax rates, following changes have been proposed:
 - ▶ Short-term capital gains tax on STT paid equity shares, units of equity oriented mutual fund and unit of a business trust will be raised from 15% to 20%. Other short-term capital gains shall continue to be taxed at applicable slab rate
 - ▶ Long term capital gains tax on all category of assets will be 12.5%
 - ▶ The above amendment is effective 23 July 2024
- ▶ Holding period of assets
 - ▶ Currently, holding period for different classes of assets varies from 12 months to 36 months
 - ▶ Now, there will be only two holding periods, 12 months and 24 months, for determining short-term and long-term capital gains
 - ▶ For all listed securities, the holding period will be 12 months and for all other assets, it will be 24 months
 - ▶ Unlisted bonds and debentures will be deemed to be short-term irrespective of the holding period
 - ▶ The above amendment is effective 23 July 2024

Highlights



INR11.11 lakh crore allocated to capex (3.4% of GDP)



INR1.5 lakh crore to states as long-term interest free loans to support resource allocation



Balancing public investment with private sector participation

40%  35%

- ▶ Indexation benefit for capital gains computation
 - ▶ Currently, indexation is available for all assets except units, bonds and debentures
 - ▶ Indexation now proposed to be removed for all category of assets
 - ▶ This amendment will be effective 23 July 2024

Removal of angel tax provisions

- ▶ Currently, angel tax is applicable for companies on receipt of consideration in excess of fair market value for issue of shares to investors
- ▶ Now, angel tax has been proposed to be removed and amendment will be effective from 1 April 2025

Taxation of buy-back proceeds as dividend for shareholders

- ▶ Currently, buy-back tax is payable by domestic companies at the rate of 23.30% on buy-back of shares and the same is exempt in the hands of shareholders
- ▶ It is proposed that buy-back tax will be abolished and income will be taxable in the hands of the shareholders as “deemed dividend”
 - ▶ No deduction for expenses will be available against such dividend income
 - ▶ Domestic company to withhold tax at 10% from payment to resident shareholders
 - ▶ Cost of acquisition of shares will result in capital loss and allowed to be set-off and carry forward against capital gains
- ▶ The above amendment is effective 1 October 2024

Rationalization of reassessment provisions

- ▶ Time limit for issue of notice for reassessment proceedings reduced from 10 years to five year and three months
- ▶ The amended provisions will apply from 1 September 2024

Cost of acquisition for equity shares under offer for sale in an IPO

- ▶ On withdrawal of long-term capital gain exemption on listed shares in 2018, specific provisions were introduced to provide for the computation of cost of acquisition, considering fair market value as on 31 January 2018
- ▶ The provisions created ambiguity for computation of such fair market value of equity shares transferred pursuant to an offer for sale under an IPO
- ▶ Now, fair market value of such equity shares will be the cost of acquisition adjusted with the Cost Inflation Index upto FY 2017-18. The amendment will take effect retrospectively from AY 2018-19

Simplification of income tax law

- ▶ Comprehensive review of the Income Tax Act, 1961 to be completed within six months for:
 - ▶ Making the Act concise, lucid, easy to read and understand
 - ▶ Reducing disputes and litigation
 - ▶ Providing certainty to taxpayers

Rationalization of prosecution provisions for delay in deposit of WHT

- ▶ Currently, ITL contains prosecution provisions for delay in deposit of WHT within the prescribed time limit
- ▶ Now, an exemption from such prosecution provisions has been introduced where WHT has been deposited on or before the due date for filing the WHT return for that quarter
- ▶ This amendment will take effect from 1 October 2024

Vivad Se Vishwas Scheme 2024 to address rising litigation and facilitate dispute resolution

- ▶ Vivad Se Vishwas Scheme, 2024 introduced and shall come into effect once notified. The scheme will be applicable for appeals filed before Commissioner (Appeals), DRP, ITAT, HC and SC. The table below summarizes the timelines and corresponding settlement of demand to avail the scheme:

Nature of tax arrears	Appeal filing period	If scheme availed on or before 31 December 2024, required settlement would be:	If scheme availed on or after 1 January 2025, required settlement would be:
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

- ▶ Settlement amount payable to be reduced to 50% in following cases:
 - ▶ Where appeal/ writ/ SLP is filed by tax authorities
 - ▶ Where the issue is covered by a favourable ITAT/ High Court decision in taxpayer's own case
- ▶ This scheme shall come into effect from the date on which it is notified by the Central Government

Rationalization of WHT rates on payments to residents (other than salaries)

Section	Nature of payment	Existing rate	Proposed rate	Effective from
194D	Payment of insurance commission to a person other than company	5%	2%	1.04.2025
194DA	Payment in respect of life insurance policy	5%	2%	1.10.2024
194G	Payment of commission, remuneration or prize on sale of lottery tickets	5%	2%	1.10.2024
194F	Payments for re-purchase of units of mutual fund or Unit Trust of India	20%	Omitted	1.10.2024
194H	Payment of commission or brokerage	5%	2%	1.10.2024
194-IB	Payment of rent by certain individuals or HUF	5%	2%	1.10.2024
194M	Payment of contractual fee, commission, brokerage or professional fee by individual/ HUF	5%	2%	1.10.2024
194-O	Payment by e-commerce operator to e-commerce participant	1%	0.1%	1.10.2024
194T	Payment of salary, remuneration, interest, bonus or commission by partnership firm to partners	NIL	10%	1.04.2025

Indirect Tax

Customs

- ▶ BCD exemption extended to import of:
 - ▶ Specified capital goods and parts thereof for use in the manufacture of solar cells and panels
 - ▶ Components and consumables for manufacture of specified vessels
 - ▶ Technical documentation and spare parts for construction of War Ships
- ▶ Initial period for re-export of articles of foreign origin (including vessels) imported into India for repairs extended from six months to one year, further extendable by one year
- ▶ BCD exemption for import of below extended upto 31 March 2029
 - ▶ Spare parts and consumables for repairs of ocean going vessels registered in India
 - ▶ Capital goods, raw materials and spares for repairs of ocean going vessel

Excise

- ▶ Time period for submission of the final mega power project certificate extended from 120 months to 156 months
- ▶ Clean Environment Cess has been exempted on excise goods lying in stock as on 30 June 2017 subject to payment of GST compensation cess on supply of such goods on or after 1 July 2017

Goods & Services Tax

- ▶ Future Litigation Framework
 - ▶ From FY 2024-25 onwards, single limitation period of 3.5 years (from date of annual return filed) for all cases (irrespective of cases involving fraud or wilful misstatement or not)
 - ▶ Staggered relaxation of penalty to continue - distinct for fraud and other cases
 - ▶ Definitive time limit set for passing orders - 12 months from the date of notice (discretion to extend by 6 months)
- ▶ Resolving past tax controversy
 - ▶ Waiver of interest and penalty - to be effective from date to be notified
 - ▶ Period covered from 1 July 2017 to 31 March 2020
 - ▶ Benefit available:
 - ▶ For matters under Section 73 (at any stage) and includes proceedings ultimately concluded as per Section 73
 - ▶ Payment of full tax demand by notified date - additional conditions to be prescribed
 - ▶ Erroneous refund cases excluded. Refund of interest and penalty already paid not available
 - ▶ Appeals or writ petitions need to be withdrawn. Matters concluded under this provision cannot be appealed
 - ▶ For department appeals upheld, remaining tax to be paid in three months from the date of order

- ▶ Other key amendments
 - ▶ Time for filing appeals in GSTAT
 - ▶ Three-month time period for filing appeals before GSTAT to start from a date to be notified
 - ▶ Authorized representatives allowed to appear for summons before proper officer
 - ▶ Reduction in the amount of pre-deposit for filing of appeals with appellate authority - notably 10% from present 20% for Tribunal appeal
 - ▶ Time of supply for reverse charge services from unregistered suppliers to be earlier of date of payment or the date of self invoice
 - ▶ Time limit to avail ITC for 1 July 2017 to 31 March 2021 extended to 30 November 2021 (no refund of tax paid or ITC reversed)
 - ▶ ITC will be restricted where the tax is paid under section 74 of CGST Act for demands upto FY 2023-24. However, such restriction will not be applicable where the tax is paid pursuant to detention, seizure or confiscation
 - ▶ TDS return are mandatorily to be filed even if there are no deductions made in any month

Policy updates

- ▶ Government committed to invest in the sector and promote viability gap funding, enable policies and regulations to encourage private participation
 - ▶ Industrial parks:
 - ▶ Facilitate development of investment-ready 'plug and play' industrial parks with complete infrastructure in or near 100 cities, in partnership with the states and private sector, through better use of town planning schemes
 - ▶ 12 new parks proposed to be sanctioned under the National Industrial Corridor Development Programme
 - ▶ Reforms relating to ownership, lease and flag of ships to be proposed with an objective to provide an impetus to the Indian shipping industry and generating employment
 - ▶ Formulate a plan for all-round development (including infrastructure) plan for Purvodaya (i.e. Eastern region of India) covering Bihar, Jharkhand, West Bengal, Odisha, etc.
 - ▶ Announcements to facilitate infrastructure developments in Bihar:
 - ▶ Support development of an industrial node at Gaya to catalyze industrial development of the eastern region
 - ▶ Support development of road connectivity projects namely Patna-Purnea Expressway, Buxar-Bhagalpur Expressway, Bodhgaya, Rajgir, Vaishali and Darbhanga spurs and additional 2-lane bridge over river Ganga at Buxar at a total cost of INR26,000 crore
 - ▶ Construct new airports, medical colleges and sports infrastructure in Bihar
 - ▶ Additional allocation to be provided to support capital investments; requests for external assistance from multilateral development banks to be expedited
 - ▶ Government to fund development of essential infrastructure like water, power, railways and roads in Koppa party node on the Vishakhapatnam-Chennai Industrial Corridor and Orvakal node on Hyderabad-Bengaluru Industrial Corridor in Andhra Pradesh to fulfil commitments under the Andhra Pradesh Reorganization Act
 - ▶ Government to seek legislative approval to bring in efficiency and flexibility to fund lease of aircrafts, ships and pooled funds of private equity through a 'variable company structure'

Impact analysis

The Government has continued to prioritize substantial capital investments in the infrastructure sector to elevate the nation's GDP and spur job creation. Budget proposals are forward-looking with strategic initiatives aimed at balancing public and private investment in infrastructure including viability gap funding and framework for market financing, tax reforms aimed to attract foreign investment in India's infrastructure growth. Further, the Government's commitment to introduce reforms pertaining to the ownership, leasing, and flagging of ships to a great extent shall help in increasing India's share in the global shipping industry.

Steps being undertaken for digitization of land records in urban areas with potential of further reduction in higher stamp duty levied by state Governments will encourage faster deployment of funds for development. Further, putting together a mechanism to track demand for infrastructure, utilization of facilities and collecting financial data under a single access point will help in optimal allocation of scarce resources and prioritization of infrastructure projects based on sub-sectors and regions.

Overall, it is a directional budget designed to sustain growth momentum, generate employment with added emphasis on equipping India's youth with the skills through higher involvement of private sector. Deployment of CSR spend towards reskilling the youth is a positive initiative.

Glossary

AY - Assessment year

BCD - Basic Customs Duty

CGST - Central Goods and Services Tax.

Capex - Capital Expenditure

CSR - Corporate Social Responsibility

DRP - Dispute Resolution Panel

FCo - Foreign company

FY - Financial Year

GDP - Gross Domestic Product

GST - Goods and Services Tax

GSTAT - Goods and Services Tax Appellate Tribunal

HC - High Court

HUF - Hindu Undivided Family

IFSC - International Financial Services Centre

INR - Indian Rupee

IPO - Initial public offering

ITAT - Income-tax Appellate Tribunal

ITC - Input Tax Credit

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

NR - Non-Resident

SC - Supreme Court

SLP - Special leave petition

STT - Securities Transaction Tax

TDS - Tax Deducted at Source

TP - Transfer Pricing

WHT - Withholding taxes



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