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Tax Alert - Key announcements of  
Union Budget 2024



# Union Budget 2024-25

## Technology - Fuelling India's growth

### Key Tax and Policy reforms impacting the Technology Sector



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India stands as a testament to the transformative power of technology and innovation. As one of the largest exporters of IT and BPO services globally, the nation has not only demonstrated its strength but has also carved a niche for itself in the international arena.

The technology landscape is rapidly evolving and becoming more skill-intensive. India is well-positioned to cater to these emerging demands, thanks to its deep-rooted success in the technology sector, focus on creating upskilling/ reskilling initiatives and the overall success of the GCC landscape in the recent years.

Some of the key announcements in this Union Budget relevant for the Technology sector are allocation of funds towards India AI mission, data governance and management by utilization of sectoral databases and technology tools under the Digital India mission, digitalization of taxpayer services and, establishment of an integrated technology platform for IBC ecosystem.

With these concerted policy efforts, India is poised to continue its ascent as a global hub for technology and innovation.

# How does the budget impact Technology sector?

## Key amendments

### Direct Tax

- ▶ Comprehensive review of ITL
  - ▶ The Finance Minister announced a comprehensive review of ITL, aiming to make it more concise, lucid and clear. This is expected to be completed within six months.
- ▶ Reduction in TDS rate on e-commerce transactions from 1% to 0.1%
  - ▶ TDS rate on payment by e-commerce operator to e-commerce participant for online sale of goods or provision of services is reduced from 1% to 0.1%.
  - ▶ This amendment will be effective from 1 October 2024
- ▶ Withdrawal of EL on e-commerce supply of goods or services
  - ▶ Any consideration received or receivable by a non-resident e-commerce operator from online supply of goods or services or facilitating online supply of goods or services, on or after 1 April 2020 was chargeable to EL at 2%.
  - ▶ This stands withdrawn from 1 August 2024
  - ▶ Consequential exemption from taxation under ITL is withdrawn
- ▶ Buy-back of shares to be taxable as dividend in the hands of recipient
  - ▶ Buy-back of shares will be taxed as a dividend in the hands of the shareholder, without any benefit of a deduction for cost/expenses
  - ▶ Cost of acquisition of shares will be treated as a capital loss
  - ▶ Consequential applicability of buy-back tax and exemption under ITL is also withdrawn
  - ▶ This amendment will be effective from 1 October 2024
- ▶ Reduction in corporate tax rate for foreign companies
  - ▶ The corporate tax rate in the case of foreign companies has been reduced from 40% to 35%

## Highlights



Comprehensive review of the existing Income-tax law

Reduction in TDS rate on e-commerce transaction

1%  0.1%



Withdrawal of Equalization levy

- ▶ **Rationalization and simplification of capital gains taxation**
  - ▶ Streamlining of holding periods to 12 months for all listed financial assets and 24 months for all unlisted financial assets and non-financial assets for the purpose of capital gains
  - ▶ Removal of the indexation benefit for long-term capital gains
  - ▶ Tax rate for LTCG proposed at 12.5% on all categories of assets
  - ▶ Tax rate for STCG on sale of securities (with payment of STT) is proposed to be increased from 15% to 20%
  - ▶ This amendment will be effective from 23 July 2024
  
- ▶ **Removal of exemption for gift by corporate**
  - ▶ Exemption under section 47(iii) is now restricted to the gift of assets by individuals or Hindu Undivided Family (HUF)
  - ▶ This amendment will be effective from 1 April 2024
  
- ▶ **Abolition of Angel Tax**
  - ▶ Private companies are subject to Angel Tax when the share issue price exceeds fair market value
  - ▶ This stands abolished from 1 April 2024
  
- ▶ **Other key amendments**
  - ▶ Re-introduction of Vivad Se Vishwas Scheme with the objective of reducing litigation and settling of pending disputes
  - ▶ Reduction of the period of limitation for passing an order deeming an assessee to be in default for failure to deduct tax, from seven years to six years from the end of financial year
  - ▶ Time limit for appeal before ITAT is revised to two months from the end of the month in which order sought to be appealed is communicated to the taxpayer or Principal Commissioner or Commissioner of Income Tax as the case may be
  - ▶ Overhaul of the reassessment regime and reduction of the time period
  - ▶ Simplification of claiming credit of TCS in calculating TDS for salaried employees
  - ▶ Expected expansion of coverage of safe harbor rules and streamlining of the transfer pricing assessment procedure
  - ▶ Powers of the TPO have been enhanced to examine Specified Domestic Transactions as well

## Highlights



Simplification of capital gains taxation regime



Abolition of Angel Tax



Procedural changes to promote ease of doing business

## Indirect tax

- ▶ IT and Electronics Industry: focus on domestic value addition and rate rationalization
  - ▶ BCD exempted on oxygen-free copper and for certain parts used in the manufacture of resistors and connectors
- ▶ BCD exemption extended up to 31 March 2029, on certain goods, such as:
  - ▶ Capital good/ machinery used by the IT/ Electronics industry, subject to actual user condition
  - ▶ Specified equipment, raw materials, computer software imported for publicly funded R&D projects/ research institutions
- ▶ Other key amendments
  - ▶ Rationalization of GST and Customs Duty rates to eliminate reverse duty, minimize conflicts, streamline trade and extend GST coverage to all remaining sectors
  - ▶ BCD exempted/ lowered to 2.5% and SWS exempted for critical minerals used in the high-tech electronics sector to enhance availability in India
  - ▶ Time period of duty-free re-import of exported goods, under warranty, extended from three years to five years (extendable by two more years)
  - ▶ GST Compensation Cess exempted retrospectively from 1 July 2017 on imports by SEZ units or developers for authorized operations
  - ▶ Time limit for availment of GST ITC during the initial four years of implementation extended to 30 November 2021
  - ▶ Interest and penalty waiver to be granted in bona fide cases for FY2017-18 to FY2019-20 if the entire tax demand as per notice or order is paid by the date to be notified
  - ▶ Power to be granted to the Government for non-recovery of duties not levied or short-levied as a result of general practice
  - ▶ Common time limit to apply for issuance of demand notices and demand orders, from FY 24-25 onwards (irrespective of whether cases involve fraud, suppression, willful misstatement or not)

## Key Policy announcements

- ▶ Technology as an enabler for key reforms covering:
  - ▶ Allocation of INR551 crore towards "India AI" mission
  - ▶ Creation of a centrally sponsored scheme for skilling 20 lakhs youth over a five-year period
  - ▶ Data governance and management by utilization of sectoral databases and technology tools under the Digital India Mission
  - ▶ Digitalization of taxpayer services to make all customs and Income Tax services paperless within the next two years
  - ▶ Establishment of integrated technology platform for IBC ecosystem to improve consistency, transparency and have a better oversight

## Highlights



Rationalisation of Customs Duty - Focus on domestic value addition



Duty-free re-import under warranty for longer period - Boosting global customer confidence on 'Made in India'

**3** years  **5** years

Common time limits for GST adjudication - involving fraud or willful misstatement or not

## Impact analysis

India's commitment to promote foreign investment can be witnessed by some of the Budget announcements such as abolition of angel tax, withdrawal of equalization levy, reduction of corporate tax rate for foreign companies, rationalization of litigation provisions, paperless taxpayer services, etc which shall reduce overall compliance burden and foster transparency.

Proposal to undertake a comprehensive review and simplification of the existing Income-tax Act, 1961, in a time bound manner, is a welcome move. It will be critical to involve stakeholder consultations as part of this reform exercise.

Much anticipated topics such as introduction of BEPS Pillar 2 rules, data privacy rules, labor law reforms, DESH bill did not find a mention in this Budget. Industry would expect that these reform measures would form part of the Government's action plan in the coming months.

Overall, the Budget proposals represent the Government's commitment to maintain fiscal consolidation path, simplify taxation rules, promote employment generation and ease of doing business, thereby lays out a roadmap for "Viksit Bharat".

# Glossary

AI - Artificial Intelligence

BCD - Basic Customs Duty

BEPS - Base Erosion and Profit Shifting

BPO - Business Process Outsourcing

CGST Act - Central Goods and Services Tax Act, 2017

DESH Bill - Development of Enterprise and Services Hub Bill

EL - Equalization Levy

GCC - Global Capability Centers

GST - Goods and Services Tax

IBC - Insolvency and Bankruptcy Code

IGST - Integrated Goods and Services Tax

IT - Information Technology

ITAT - Income Tax Appellate Tribunal

ITC - Input Tax Credit

ITL - Income-tax Act, 1961

LTCG - Long-term Capital Gains

R&D - Research & Development

STCG - Short-term Capital Gains

SWS - Social Welfare Surcharge

TCS - Tax Collected at Source

TDS - Tax Deducted at Source

TPO - Transfer Pricing Officer

SEZ - Special Economic Zone



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