KPMG

India Union Budget 2023-24

Leveraging global opportunities

#UnionBudget2023 | #KPMGBudgetLive

February 2023
-
home.kpmg/in

bit.ly/3k9q12P
Access
Budget microsite

Foreword

In many ways, India stands on a strong wicket from an economic point of view. Even though economic growth is yet to return to pre-pandemic levels, business sentiment remains positive.

The Union Budget therefore seeks to build on the foundation laid earlier, and aims to provide stability and continuity, improve ease of doing business, and augment domestic value addition.

In addition to changes to the direct and indirect tax laws, there were several other important announcements in the Budget which will have a significant impact on India's growth story. These include boosting agricultural credit, promotion of the cooperative sector, support for Micro, Small and Medium Enterprise (MSMEs), tourism and green growth.

The Budget also sees capital investment as a key driver of growth and employment and has increased outlays by 33 per cent to a whopping INR10 lakh crore.

The tax proposals in the Budget were focused on rationalisation and simplification albeit with some important changes which are discussed in detail later in this document. Apart from an overhaul of the new tax regime applicable to individuals, the Budget maintained its focus on supporting MSMEs and start-ups, as well as on dispute resolution, and improving compliance.

The indirect tax proposals are mainly focused on 'Make in India' initiative of the Government to promote exports, boost domestic manufacturing, enhance domestic value addition, with special emphasis on green energy and green mobility.

From a Goods and Services Tax (GST) standpoint, most of the amendments such as decriminalisation of offences, clarity in definitions of OIDAR/ non-taxable online recipient, etc. have been aligned to GST Council recommendations. Few major changes include provisions empowering common GST portal to share data with other notified systems and restriction of input tax credit on goods/ services used for Corporate Social Responsibility (CSR) activities.

However, one area which did not find mention in the Budget is the implementation of the Organisation for Economic Co-operation and development (OECD's) Global Minimum Tax (or GLoBE rules) in India. With many countries initiating public consultation processes, it was widely expected that this Budget would provide a timeline for its enactment in India.

Macroeconomic indicators as well as the key direct and indirect tax proposals in the Budget are set out below.

Economic survey 2023 – An optimistic view of India's growth

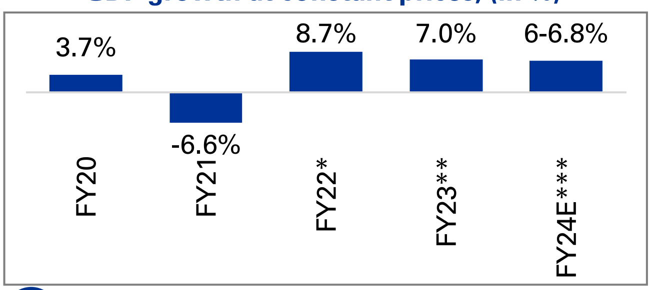
India to witness a steady Gross Domestic Product (GDP) growth

- The Indian economy is forecasted to log a baseline Gross Domestic Product (GDP) growth of 6.5 per cent for FY24, with FY23 growth expected to be 7.0 per cent. The forecast is broadly in line with the International Monetary Fund's (IMF's) projection of 6.1 per cent growth for FY24. Nominal GDP growth is also expected to be 10.5 per cent in FY24. [1,2]

Growth driven by domestic demand

- Factors such as higher capital expenditure by the government, a revival in private consumption, a strengthening of corporate balance sheets, and credit growth to the Micro, Small, and Medium Enterprises (MSME) sector (over 30.5 per cent, on average during Jan-Nov 2022) are key growth factors propelling the economy in the current financial year.

GDP growth at constant prices, (in %)

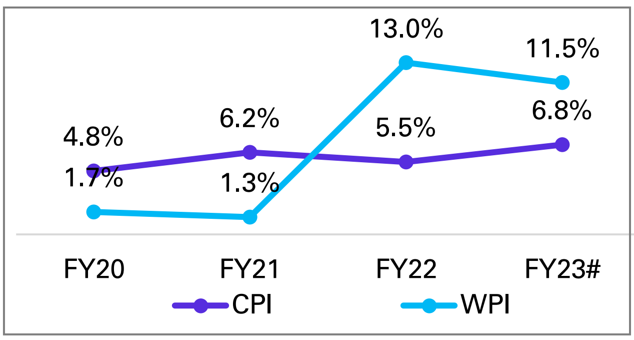


- The lending capacity of banks having cleaner balance sheets, the ability of companies with lower debt to borrow, and the government's digital investments are three key growth magnets for the coming years.

Global headwinds may impact consumer and wholesale price indices

- For FY23 the Reserve Bank of India (RBI) has projected a Consumer Price Index (CPI) of 6.8 per cent, driven by high food and energy prices.[3] Although it is outside the RBI's target range, it is better than other world economies.
- India's Wholesale Price Index (WPI) and CPI remained high during FY22 mainly due to supply chain disruptions and elevated commodity prices following the Russia Ukraine geopolitical situation.

Average inflation (in %)



Notes: * represents provisional estimates, ** represents first advance estimates and *** represents projected values. # represents values from April to December 2022

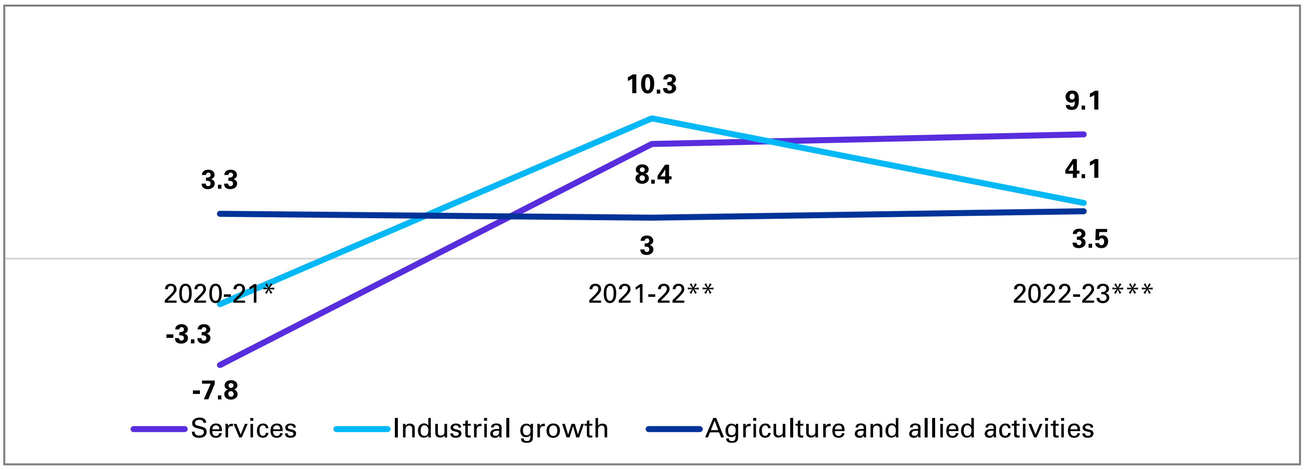
1. Economic survey 2022-23, Ministry of Finance, Accessed on 31 January 2023
2. SUMMARY OF THE ECONOMIC SURVEY 2022-23, Ministry of Finance, Accessed on 31 January 2023
3. Economic survey 2022-23, Ministry of Finance, Accessed on 31 January 2023

- In FY24 inflation estimates are likely to be lower on account of anticipated slowdown in advanced economies such as the US. However, re-emergence of COVID-19 as in China's case can trigger supply chain disruptions and hence drive overall inflation. China's return to normalcy could also drive commodity demand and prices.

Sectoral outlook – Positive growth outlook for services, industrial, and agricultural sector

- The services sector witnessed a strong rebound in growth in FY22 with a Gross Value Added (GVA) of 8.4 per cent in FY22 compared to the -7.8 per cent GVA seen in FY21.
- The progress was led by growth in contact intensive services sub sectors such as tourism, retail trade, hotel, entertainment, and recreation. The momentum is expected to continue in FY23 with GVA in services expected to reach 9.1 per cent.[3]
- The industrial GVA for FY23 is projected to be 4.1 per cent, driven by government measures including the Make in India initiative and Production Linked Incentive (PLI) scheme as well as increased capex in the sector to generate employment and build domestic manufacturing capacity.[4]
- The agriculture sector is projected to grow in FY23, facilitated by government measures such as Minimum Support Price (MSP), crop diversification and the creation of the Agriculture Infrastructure Fund.

Services, industrial and agriculture and allied activities growth rate of GVA at Basic Prices (in %)



Notes: * represents first revised estimates, ** represents provisional estimates, and *** represents first advance estimates
3. Economic survey 2022-23, Ministry of Finance, Accessed on 31 January 2023
4. Economic survey 2022-23, Ministry of Finance, Accessed on 31 January 2023

Optimism on foreign exchange reserves

The Economic survey is also optimistic that the country's foreign exchange reserves would be sufficient to finance the current account deficit (CAD) and manage the volatility of the rupee through intervention in the forex market.

Buoyancy in tax collections

GST revenue collections had increased from INR0.9 lakh crore in FY18 to INR1.49 lakh crore in FY23 despite the pandemic's effects. The impact of tax reforms such as corporate tax cut was also seen, with corporate tax collections seeing a rise.

Sustainable climate action

On the international climate action front, India has actively championed the creation and strengthening of intergovernmental bodies. However, affordable and sufficient funding remain a key factor affecting the country's climate action initiatives, with the country having met its climate requirements from domestic sources alone. Efforts to mobilise private capital through means such as sovereign green bonds is also underway, so that climate action goals are met.

In line with the fiscal deficit target

The government is on track to achieve its fiscal deficit target for FY23 in spite of additional fiscal constraints that were presented by the global geopolitical scenario. The fiscal performance was aided by a rebound in economic activity and buoyancy in tax revenues.

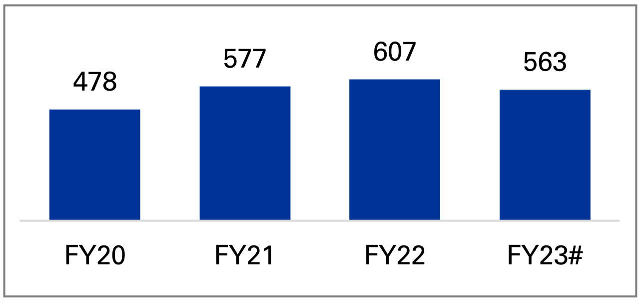
Uptick in exports

The effects of the slowdown in global trade was visible in India's merchandise exports growth in 2022. Merchandise exports recorded a value of USD332.8 billion during the period from April to December 2022, as compared to USD305.0 billion in the corresponding period the previous year.[5]

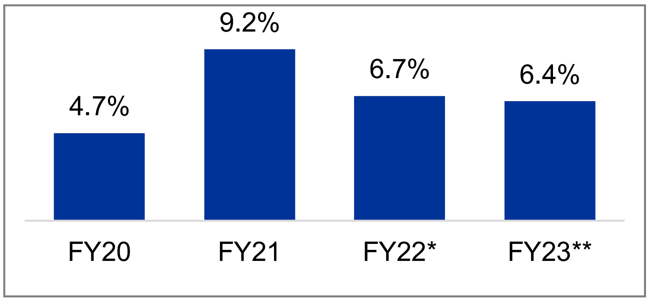
Improved health of private and public banking sector

A strong credit supply by the banking sector resulting from improved financial health of both corporates and banks was observed in FY23. In the case of real cost of credit not rising and inflation falling in FY24, a brisk growth in bank credit growth could be expected as per the economic survey.

Forex reserves (USD billion), year end



Fiscal deficit (% of GDP)



Notes: # represents December end values, * represents provisional actuals, ** represents budget estimates
5. Economic survey 2022-23, Ministry of Finance, Accessed on 31 January 2023

Budget 2023: Laying the foundation to a five trillion economy and a key investment destination

The budget, intends to fortify India as a key investment destination. It reassures India's growth story in an otherwise turbulent global macro economic scenario. The Union Budget 2023 is a well-rounded inclusive and forward-looking budget that is focused on capex and green growth. The budget aims to ensure higher disposable income to taxpayers through initiatives such as the proposed tax relief under the new regime, thereby spurring domestic consumption.

The INR10 lakh crore capital investment will start a virtuous cycle and trigger a multiplier effect. A 33 per cent increase in outlay, will also serve as a catalyst for increased consumption. The outlay is expected to be 3.3 per cent of GDP in FY24,the highest capex hike. New income tax slabs were also introduced under the new tax regime, which is gradually positioned to become the default one for taxpayers

The railways sector has been provided with a massive impetus, with an outlay of INR2.4 lakh crore in FY24, the highest ever for the sector. An INR75,000 crore outlay for critical transport has been allocated as part of the first and last mile connectivity. Priority will also be given to costal shipping for energy efficient transportation, which will lower logistics costs for producers and aid Make in India. The defence budget has also seen a hike of 13 per cent, with INR1.62 lakh crore earmarked for capital expenditure. The fiscal deficit target for FY24 has been set at 5.9 per cent, with the long-term (2025-26) target set at 4.5 per cent. A revamped credit guarantee for MSMEs has also been announced, with a corpus infusion of INR9,000 crore. This will provide a growth impetus for the MSMEs.

Clean energy is also a key area of focus for the budget, with an INR35,000 crore outlay provided for energy transition. There is also a target to achieve green hydrogen production of 5 MMT by 2030. The National Green Hydrogen Mission, having an outlay of INR19,700 crore is expected to drive the transformation of the economy to a low carbon intensity one.

Easing the credit cycle, reduction of custom duties and enhanced outlay of INR 1.3 lakh crores comprising of grants provided to States should also accelerate the capital formation process and facilitate inclusive growth.

Women empowerment has also seen focus with the Mahila Samman Bachat Patra – a one time, two-year small savings scheme of upto INR2 lakh for women.

Some of the additional highlights seen in the Union Budget 2023 are:

Establishment of agri-startups and agri focused fund

- Agriculture Accelerator Fund and digital public infrastructure to encourage agri-based startups and enable inclusive farmer-centric solutions

- Agriculture credit target would be raised to INR20 lakh crore with a focus on animal husbandry and fisheries
- 10,000 bio input resource centres are also planned to be set up.
- These will help drive food security and nutrition. It will also drive exports in addition to driving entrepreneurship in the agricultural sector.
- The government will assist 1 crore (100 million) farmers transition to natural (or chemical-balanced) farming over the next three years.

Increased capital outlay on infrastructure

- An Urban Infrastructure Development Fund to boost infra development.
- Plan for 50 new airports, helipads, and aerodromes to bolster connectivity.

Technology initiatives to spur skilling and education

- Establishment of three centres of excellence for artificial intelligence to enable Make AI for India and Make AI work for India.
- Setting up of a National Digital Library for children and adolescents and encouragement for states to initiate physical libraries at panchayat and ward level.

Research and innovation in pharma and healthcare

- Launch of a new programme to promote research in pharmaceuticals via centres of excellence will lead to innovations in better healthcare delivery
- Mission to eliminate sickle cell anaemia by 2047
- For the pharma and healthcare sector, R&D innovation will be promoted via excellence centres. New nursing colleges will boost skillsets of workforce and improve healthcare delivery.

Focus on new age technologies such as 5G

- Setting up of 100 labs to develop 5G applications, covering areas such as precision farming, smart classrooms, and healthcare. This will aid economic growth by creating new industries, products and business models thereby improving productivity and reducing costs.

Tourism promotion in mission mode

- Development of Unity mall, launch of one district one product scheme and development of 50 select tourist destinations as a complete package for domestic and foreign tourists. Tourism is a significant driver of economic and social development. It stimulates economic growth by generating income, employment, investment and exports.
- Winds of change have begun to blow for the travel and tourism sector post the COVID-19 pandemic and would gather further momentum now.

Deposit limits raised for senior citizens

- Deposit limit increased to INR9 lakh from INR4.5 lakh for a single account holder and INR15 lakh from INR9 lakh for joint account holders in the government backed small saving scheme

Tribal development and welfare

- The Pradhan Mantri PVTG will lead to the upliftment and improvement in the socio-economic condition of tribal groups

Exemption on lithium-ion cell machinery to enhance electric vehicle mobility

- Exemption from import duties on lithium-ion cell battery from 21 per cent to 13 per cent to drive the adoption of electric vehicles in the country and provide a boost to battery manufacturing

Ease of doing business

- EODB measures, a stable tax regime will help achieve investor confidence and sustained economic growth.
- Conscious effort to address challenges around ease of doing business with 39,000 compliances reduced and over 3,000 legal provisions decriminalised. This aims to encourage the establishment of new businesses.

The seven 'Saptarishis' of the Union Budget

Inclusive development

- Focus on agriculture and cooperative development.
- Targeted funding of INR20 lakh crore agricultural credit.
- Development of nursing colleges, training programs, and excellence centres for improved healthcare infrastructure.
- Generate employment opportunities and improve standard of living.

Reaching last mile

- Teachers to be recruited for 740 Eklavya Model Residential schools.
- Particularly Vulnerable Tribal Groups (PVTG) mission to be launched.
- Financial support for drought prone areas of Karnataka.

Infrastructure & investment

- Infrastructure investments aimed at driving employment and growth
- Significant capital investment outlay increase to INR10 lakh crore, a 33 per cent growth.
- INR2.4 lakh crore capital outlay for railways – the highest ever.
- 100 transport infrastructure projects identified across multiple sectors for end-to-end connectivity.
- Establishment of UIDF for developing urban infrastructure in tier 2 and 3 cities.

Unleashing potential

- Focus on trust based governance.
- Streamline process: setting up specialised AI centres, Phase 3 of e-courts, and labs for 5G services.
- Allocating R&D grant for Lab grown diamonds (LGD) sector.

Green growth

- PM-PRANM scheme planned to incentivise the use of alternative fertilisers among states and Uts.
- Promotion of a circular economy via 500 new 'Waste to Wealth plants'
- Notification of a green credit programme under Environmental Protection Act
- Mangrove plantation along the coasts to be initiated under MISHTI and optimal wetland usage via Amrit Dharohar to be taken up.
- Other initiatives include promotion of battery energy storage systems and costal shipping, funding for replacing old vehicles, and setting up 10,000 bio-inputs research centres.

Youth power

- Formulation of the National Education Policy for youth empowerment, skilling, and policies that facilitate job creation at scale.
- Launch of PMKVY 4.0 which includes new courses such as coding, AI and 3D printing.
- National Apprenticeship Promotion Scheme to offer stipend to 47 lakh youth over three years.

Financial sector

- Establishment of national financial information registry to drive lending, financial stability and inclusion.
- Central data processing centre to be set up for speeding up administrative work under Companies Act.
- Credit guarantee scheme for MSMEs to continue, with INR2 lakh crore additional collateral-free guaranteed credit expected for the sector.
- Mahila Samman Bachat Patra – one time, two-year small savings scheme of upto INR2 lakh for women.
- Maximum deposit limit for senior citizens savings scheme enhanced from INR15 lakh to INR30 lakh.

Implementation the key to success

The Union Budget 2023 is the last full budget of the current government before general elections in 2024 and was presented at a time of global macroeconomic turbulence due to factors such as the Russia-Ukraine situation. The growth showcased by the economy however, points to the country having pushed through the downturn created by the COVID-19 pandemic. Seeming losses such as the fall in net revenues by INR35,000 crore would also in fact be reaching individual taxpayers, and thereby driving savings and spending in the economy.

Budget, in multifarious ways, increases competitiveness of the Indian economy. Efficient implementation is, however, crucial.

Direct tax

Personal taxes

- Income tax slabs, rates, surcharge, cess and rebate remain unchanged under the old tax regime.
- Changes proposed under new tax regime:
  - Basic exemption limit enhanced to INR 300,000 from existing INR 250,000
  - The proposed tax rates and slabs are as under:

Taxable Income (INR)	Tax Rate (%)
Upto 300,000	Nil
300,001 – 600,000	5 per cent
600,001 – 900,000	10 per cent
900,001 – 1,200,000	15 per cent
1,200,001 – 1,500,000	20 per cent
Above 1,500,000	30 per cent

  - The new tax regime to become the default tax regime unless the taxpayer opts otherwise
  - Increase in rebate from tax enhanced to INR 25,000 from INR 12,500 where total income does not exceed INR 700,000 (enhanced from INR 500,000)
  - Surcharge rates for income exceeding INR 50,000,000 reduced to 25 per cent from 37 per cent
  - Standard deduction for salaried individuals and pensioners made available under new tax regime.
- Specified sum of money received outside India by not ordinarily resident from residents deemed to accrue/arise in India.
- Maturity proceeds (i.e. other than proceeds received upon death) from a life insurance policy (other than a Unit Linked Insurance Policy (ULIP)) issued on or after 01 April 2023 is taxable, if the aggregate annual premium (on all policies except ULIP) exceeds INR 500,000 in any of the tax years during the term of any of those life insurance policies. Such maturity proceeds net of non-tax deducted premium would be taxable as income from other sources in the year of receipt.
- Method of ascertaining perquisite value of rent free/ concessional accommodation to be prescribed
- Specific provisions to withhold tax at maximum marginal rate on provident fund withdrawal for non-Permanent Account Number (PAN) cases omitted.

Start-ups

- The date of incorporation for eligible start-ups for claiming tax holiday extended by one more year i.e. start-ups incorporated till 31 March 2024 to be now eligible.
- Benefit for carry forward of business losses on change in shareholding of eligible start-ups increased from seven years of incorporation to ten years.

Issue of shares to non-residents

- Issuance of shares to non-residents brought under the ambit of section 56(2)(viib) where issuance is at a price which exceeds fair value computed as per prescribed rules.

Presumptive taxation

- No set-off of brought forward business loss and / or unabsorbed depreciation to be allowed while computing the presumptive profits of non-residents engaged in provision of services / facilities for exploration of mineral oils etc.
  A similar amendment is proposed for foreign companies engaged in the business of civil construction etc. in connection with certain turnkey power projects.
- Threshold limits for presumptive taxation scheme for eligible businesses and eligible professionals increased as under (subject to conditions):
  - For eligible businesses, limit increased from INR2 crore to INR 3 crore
  - For eligible professionals, limit increased from INR 50 lakh to INR 75 lakh.

Taxation of non-monetary benefits

- Benefit or perquisite in cash or partly in cash and kind arising from business / profession is clarified to be business income.
- TDS at 10 per cent is applicable on benefit or perquisite arising from business/ profession which is provided in cash or partly in cash and kind.

Business deduction and computation

- Deduction in respect of delayed (beyond period prescribed under MSMED Act, 2006) payment to MSMEs to be allowed in the year of actual payment. Extended time relaxation until the due date of return filing not available in such cases.

Tax incentives

- Concessional tax regime of 15 per cent for setting-up of new manufacturing units extended to cooperative societies set up and registered on or after 1 April 2023, and which commence manufacturing on or before 31 March 2024.

Taxation of income from business trusts

- Repayment of debt to be taxable as income from other sources in the hands of unit holders which is currently not taxed both in the hands of business trust as well as the unit holders.
- In case of redemption of units, cost of acquisition allowed as a deduction.

Capital gains

- Similar to goodwill, cost of acquisition and cost of improvement of self-generated intangible assets and other rights to considered as 'nil' while computing capital gains on their disposal.
- Capital gains arising on account of sale of market linked debentures to be taxed as short-term capital gains at applicable rates without allowing deduction of Securities Transaction Tax (STT) paid.
- Deduction under sections 54 and 54F available for reinvestment in a residential house to be capped at INR 10 crore.
- Interest on housing loan already claimed under other specified provisions to not be included in the cost of acquisition or cost of improvement for the purpose of computation of capital gains arising on the transfer of such asset.
- For computing capital gains in the hands of Individuals and Hindu Undivided Family (HUFs) in the case of Joint Development Agreements, full value of consideration will include consideration received in cash or cheque or draft or any other mode.
- Conversion of physical gold into Electronic Gold Receipts and *vice versa*, not to be regarded as 'transfer' for the purpose of capital gains.

International Finance Service Centre (IFSC) related tax incentives

- In order to avoid double taxation, exemption provided to non-resident Offshore Derivative Instrument (ODI) holder on distribution of income by an Offshore Banking Unit (OBU) of a IFSC subject to OBU discharging the tax on the underlying transaction from ODI.
- Sunset clause on tax exemption on relocation to IFSC by offshore funds further extended to 31 March 2025.

Special provisions in relation to NBFCs

- Owing to reclassification of NBFCs by the RBI, relevant NBFCs categorisation to be notified for:
  - Applicability of special provisions for interest income earned on bad and doubtful debts by a NBFC and
  - Interest deduction in the hands of borrowers on payment basis.

Business reorganisations

- Framework laid down to enable assessment / re-assessment by tax authorities where modified income-tax return is filed pursuant to a business reorganisation.

Carry forward of losses to facilitate strategic disinvestments

- Definition of strategic disinvestments which are eligible for carry forward and set-off of accumulated losses and unabsorbed depreciation in cases of amalgamation or demerger relaxed to specifically cover disinvestment by government or public sector companies of their investment in a non-public sector entity.
  - Applicability of condition relating to reduction of shareholding below 51 per cent restricted only to cases where pre-divestment holding is more than 51 per cent
  - Condition relating to transfer of control relaxed to allow transfer of control in any combination i.e. by either or all transferor(s).
- Carry forward and set-off of accumulated losses and unabsorbed depreciation permitted in case of amalgamation of a banking company within 5 years of strategic disinvestment.

Thin capitalisation

- Relaxation from applicability of thin capitalisation provisions to be extended to certain classes of notified NBFCs.

Reduction in timeline for furnishing TP report

- The time allowed to an assessee to furnish transfer pricing documentation and information during the course of relevant proceedings to be reduced from 30 days to 10 days. The assessee's right to seek extension of upto 30 days continues.

Winnings from games including online gaming

- Sections 194BA and 115BBJ proposed to provide for Tax Deduction at Source (TDS) and taxability at rate of 30 per cent in case of net winnings from online games. Tax to be deducted at the time of withdrawal and/or at the end of financial year.
- Winnings from lottery or crossword puzzle or horse race or any other game to be considered on an aggregate basis to test the threshold for TDS applicability.

Assessment procedures

- Assessing officer empowered to direct the assessee to get the inventory valued by a nominated cost accountant.

Litigation and Dispute Management

- A Joint Commissioner / Additional Commissioner is proposed to be appointed for handling certain classes of appeals. Threshold limit for the disputed demand to be prescribed.
- Expansion of appealable orders before the Income-tax Appellate Tribunal (ITAT) in the following cases-
  - Penalty order passed by Commissioner of Income-tax (Appeal) [CIT(A)] under certain categories
  - Revision order passed by certain income tax officers.
- Filing of memorandum of cross-objections extended to all cases before the ITAT.
- Time limit for completing the regular assessment proceedings extended to 12 months (from 9 months) from the end of the AY (applicable from AY 2022-23).
- Central Government is empowered to amend any direction issued (prior to the limitation date prescribed under respective provision) under various faceless schemes and e-proceedings.
- Provisions relating to reassessment proceedings amended to provide time limit for filing a return in response to notice under section 148 of the Act within 3 months from the end of month in which notice is issued or the extended time allowed by the Assessing Officer. Returns filed beyond the above period shall not be treated as return under section 139. In certain search/survey cases a period of 15 days shall be excluded for the computation of time limit for issuance of notice under section 148 of the Act. Chief Commissioner / Director General can act as specified authorities (granting approval for 148/148A purpose) even in the presence of Principal Chief Commissioner or Principal Director General.
- For matters before the Interim Board for Settlement, time-limit extended to 30 September 2023 for amending an order or rectification applications.

Assessment in search and seizure cases

- Time limit for completing the pending assessment and re-assessment proceedings as on the date of search extended by 12 months.
- Tax officers authorised to seek assistance of domain experts and other professionals necessary to undertake the search and seizure.
- Meaning of 'last authorisation' is provided for the purpose of reckoning the timelines for completing assessment or reassessment in search cases.

TDS and Tax Collection at Source (TCS)

- Interest on listed debentures brought within the ambit of TDS.
- TCS rate increased from 5 per cent to 20 per cent on certain foreign remittances without any threshold limit w.e.f 1 July 2023.
- Exemption from TDS on payment of interest on listed debentures to a resident is proposed to be withdrawn.

Refund of excess tax

- W.e.f 1 October 2023, an assessee can make an application to claim TDS credit for income already disclosed in the return of income of past years in the prescribed form to the Assessing Officer within 2 years from the end of the financial year in which such tax was deducted at source. Further, the provisions of rectification shall also apply and the assessee also can make an application for rectification and the period of 4 years shall be reckoned from the end of the financial year in which such tax has been deducted. Interest on refund arising out of the above rectification shall be for the period from the date of the application to the date on which refund is granted.

Penalty relating to 285BA reporting

- For the purpose of Statement of Financial Transaction (SFT) and FATCA/CRS reporting, the Reporting Financial institution has been subjected to additional penalty of INR 5,000 for every inaccurate reportable account.
- This covers inaccuracies due to incorrect information provided by account holders.
- Penalty imposed on the Reporting Financial Institution can be recovered from the account holders.

Penal provisions for non-compliance

- Where the benefit / consideration / winning is provided in kind in the context of section 194R, 194S or 194BA, a failure to pay the TDS or failure to ensure payment of said TDS, to attract penalty in the hands of payer (equivalent to TDS amount).
- W.e.f 1 April 2023, additional penalty of INR 5,000 to be levied on certain financial institutions in case of an inaccuracy in statement of financial transaction submitted owing to false information submitted by the account holder. Further, in such cases the penalty can be recovered by the financial institution from the account holder.

Clarificatory provisions

- Section 234B interest applicable on difference between the assessed tax and advance tax already claimed in the earlier return in case of updated returns.
- Special Economic Zone (SEZ) tax holiday available only if the return is furnished within the due date specified under section 139(1).
- Specific time period provided for remittance of export proceeds of SEZ unit into India – within 6 months from end of the FY or such further period provided by competent authority.
- Export proceeds kept in a separate bank outside India with RBI approval are deemed as received in India.
- Grant of refund to assessee may be withheld in certain cases with prior approval of PCIT/CIT till completion of assessment proceedings. Additional interest on refund is not available for such period.
- W.e.f. 1 April 2023 "specified person" in section 206AB and 206CCA of the Act to exclude a specified category of person who is not required to furnish the return of income and who is notified by the Central Government in the Official Gazette in this behalf.

Not-for-Profit Sector

- No deductions for re-depositing into corpus / repayment of loans where application from such sources were made prior to 1 April 2021. Deduction shall be available provided funds are re-deposited back to the corpus / loans are repaid within 5 years.
- Only 85 per cent of funds contributed to other charitable organisations out of current year's income to be allowed as an application for the contributing charitable organisation.
- Double registration requirements (i.e. provisional and regular) rationalised to permit single regular registration valid for 5 years in the case of organisations that have commenced their activities.
- Organisations established under Central or State Acts for achieving public functions / services including housing and infrastructure planning, specifically exempt.
- Inaccurate furnishing of information during provisional registration to be a ground for cancellation of registration.
- Exit tax provision expanded to include charitable organisations who have not re-registered under new provisions by 25 November 2022 or who do not apply for renewal of registration post expiry of current registration.
- Forms for accumulation of income to be filed 2 months prior to the due date of filing return of income.
- Exemption benefits not available in case of filing updated returns where original return is not filed within the due dates.

Others

- For the purposes of deductibility of preliminary expenses, requirement of service providers being approved by Central Board of Direct Taxes (CBDT) done away with for certain services. New filing requirements proposed to claim such preliminary expenses.
- Exemption to certain notified news agencies set up solely for collection and distribution of news to be withdrawn from AY 2024-25.
- Provisions relating to application for lower TDS under section 197 now made available to income from units of business trust.
- Removal of certain funds from the ambit of deduction under section 80G.
- Any person responsible for paying to a non-resident (not being a company or to a foreign company) any income in respect of units of certain mutual funds or specified companies shall be eligible to apply tax treaty relief at the time of tax deduction at source. w.e.f. 1 April 2023 if the tax treaty provides a rate lower than 20 percent, subject to payee furnishing tax residency certificate.

Indirect tax

Goods and Services Tax

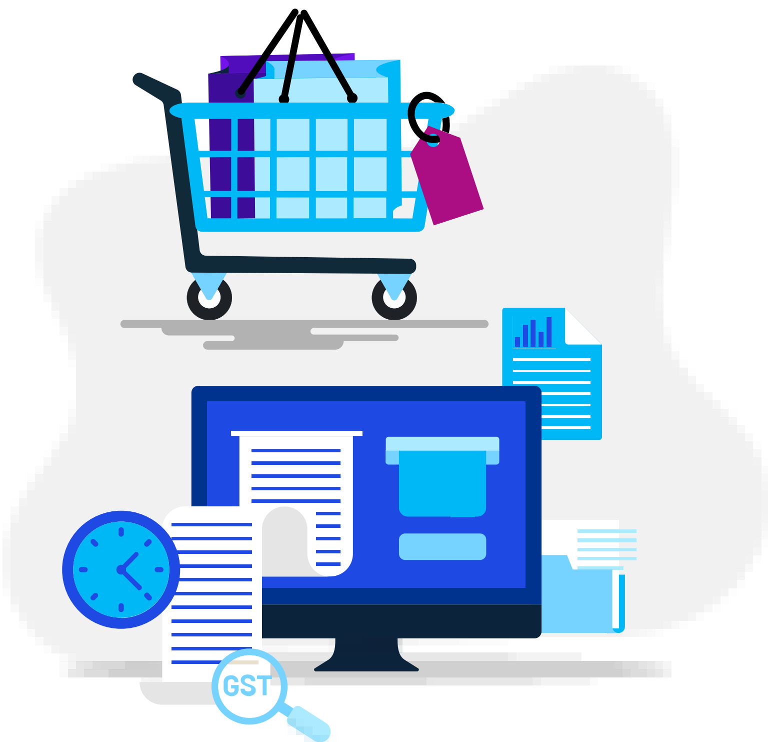
- Amendment in definition of the term 'online information and database access or retrieval services' ('OIDAR') and non-taxable online recipient ('NTOR') as follows:–
  - OIDAR definition amended to remove condition of supply being essentially automated and involving minimal human intervention
  - NTOR defined as any unregistered person receiving OIDAR services located in taxable territory
  - The condition regarding supply being for non-business purposes removed.
- Key amendments for E-commerce operators ('ECOs'):
  - Penal provisions introduced for ECOs (upto amount of tax) for allowing supplies by unregistered persons (other than specifically exempted persons), inter-state supplies by ineligible persons and furnishing any incorrect details in TCS statement (GSTR-8)
  - Registered persons engaged in supply of goods through ECOs allowed to opt for composition levy.
- Place of supply ('POS') for services by way of transportation of goods, where both the supplier and recipient are located in India de-linked from destination of goods.
  - For B2B supplies- POS shall be location of service recipient
  - B2C supplies- POS shall be location at which goods are handed over for transportation.
- ITC restriction on supplies received for corporate social responsibility activities required under Companies law.
- ITC reversal in respect of prescribed supplies of warehoused goods to any person before clearance for home consumption.
- Maximum time limit of '3 years from due date' has been prescribed for filing of following returns/ statements (with powers to extend such time limit):
  - GSTR – 1 and 3B (Monthly returns)
  - GSTR – 9 and 9C (Annual returns)
  - GSTR – 8 (Statement for TCS).
- Power granted to prescribe the manner and conditions for computation of interest in case of delayed refunds.

- Section 23 (Persons not liable for registration) of the CGST Act to have an overriding effect w.e.f. 1 July 2017 over other provisions for obtaining registration.
- Few clarificatory changes/alignments:
  - Payment of tax along with interest in case of non-payment of consideration within 180 days
  - Removal of reference of provisional acceptance of ITC from refund provisions
  - Retrospective applicability (from 1 July 2017) of amendments to Schedule III covering specified transactions (including supply of goods in non-taxable territory, supply of warehoused goods, supply before clearance for home consumption). No refund eligible where tax already collected
- Provisions incorporated empowering the common portal to share data furnished by taxpayers with other systems notified by Government. Such details to be shared post obtaining consent of supplier/recipient as applicable.

Amendments relating to offences and penalties

- Decriminalising of certain offences such as, preventing officer from discharge of duties, tampering or destroying material evidences and failure to supply any required information.
- The monetary threshold for imprisonment for offences increased from INR one crore to INR two crore, except for offences related to issuance of invoices without supply.
- Option of compounding restricted in respect of offences relating to issuance of invoices without supply of goods or services.
- The minimum and maximum amounts for compounding of offences reduced to 25 per cent and 100 per cent of tax involved, respectively.

(Changes to be effective from a date to be notified, except for retrospective amendments).



Customs

Amendments (effective from enactment of the Bill)

Customs Act, 1962

- Validity period of two years, not applicable on exemptions issued in relation to:
  - any multilateral or bilateral trade agreement
  - obligations under international agreements, treaties, conventions or such other obligations including with respect to United Nations agencies, diplomats and international organisations
  - privileges of constitutional authorities
  - schemes under the Foreign Trade Policy such as Advance Authorisation, EPCG, EOU/STPI
  - Central Government schemes with more than two years validity
  - re-imports, temporary imports, goods imported as gifts or personal baggage
  - any duty of customs under any law for the time being in force, including integrated tax leviable, other than under Section 12 of the Customs Act.

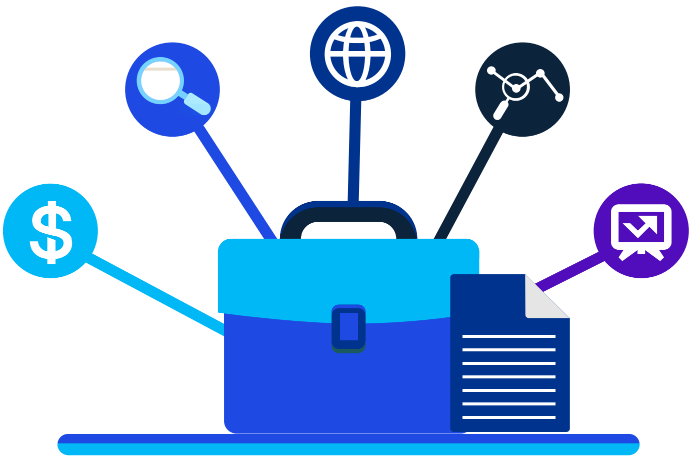
Note - Implication of the above changes would be that the two-year sunset clause will apply to BCD conditional exemptions which are not arising out of exceptions listed under proviso.

- Time limit of nine months for disposal of application by Settlement Commission prescribed; time extendable by three months, otherwise proceedings to abate and to be concluded by original adjudicating authority.

Customs Tariff Act, 1975

Retrospective Amendments (effective from 01 January 1995)

- Provisions related to imposition of Countervailing duty, Safeguard duty and Anti-dumping duty amended to clarify that determination and review refers to 'determination and review' as prescribed under Rules; Similar amendment made in provision dealing with appeals.



Key changes in Tariff rates (effective from 2 February 2023)

S. No	Heading, sub- heading tariff item	Commodity	Duty rates (per cent)	
			From	To
Chemicals				
1.	2902 5000	Styrene	2	2.5
2.	2903 2100	Vinyl Chloride Monomer	2	2.5
Rubber				
3.	4005	Compounded Rubber	10	25 or Rs. 30 per kg, which ever is lower
Electrical Goods				
4.	8414 6000	Electric Kitchen Chimney	7.5	15
Automobiles and Toys				
5.	8712 0010	Bicycles	30	35
6.	9503	Toys and parts of toys (other than parts of electronic toys)	60	70

Key changes in Tariff rates (without any change in effective rates – considering corresponding changes in AIDC and SWS**)*

S. No	Heading, sub- heading tariff item	Commodity	Duty rates (per cent)	
			From	To
Rubber tyres				
1.	4011 3000	New or retreaded pneumatic tyres, of rubber , of a kind used on aircraft of heading 8802	3	2.5
Metals				
2.	7107 0000	Base metals clad with silver, not further worked than semi-manufactured	12.5	10
3.	7108	Gold (including gold plated with platinum) unwrought or in semi-manufactured forms, or in powder form	12.5	10
Aircrafts				
4.	8802 20 00 8802 30 00 8802 40 00	Aeroplanes and other aircrafts	3	2.5

Key changes in Tariff rates (with changes in effective rates – considering corresponding changes in AIDC and SWS)

S. No	Heading, sub- heading tariff item	Commodity	Duty rates (per cent)	
			From	To
Silver				
1.	7106	Silver (including silver plated with gold or platinum), unwrought or in semi-manufactured forms, or in powder form	12.5	10

**AIDC – Agriculture Infrastructure and Development Cess*

***SWS – Social Welfare Surcharge*

Key changes in notifications impacting duty rates (effective from 2 February 2023)

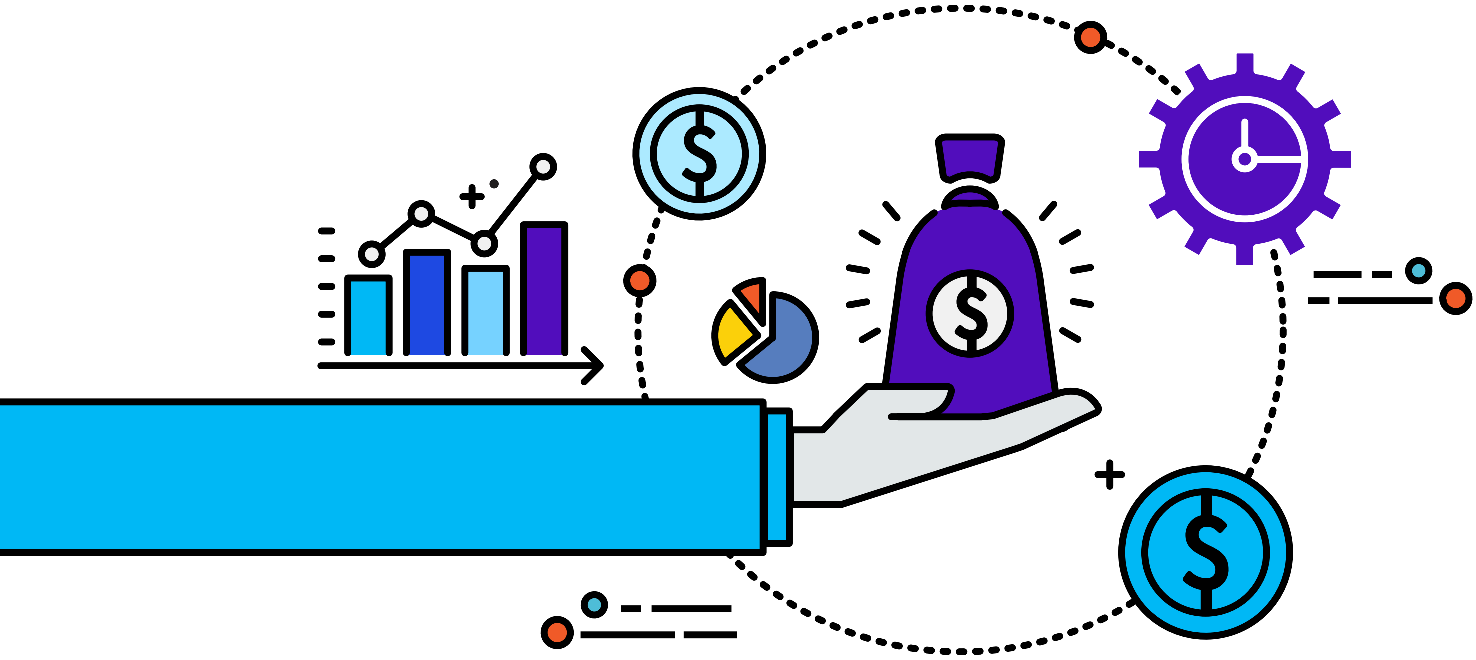
S. No	Heading, sub- heading tariff item	Commodity	Duty rates (per cent)	
			From	To
Agricultural Products and By Products				
1.	1504 20	Fish lipid oil for use in manufacture of aquatic feed	30	15
2.	2207 2000	Denatured ethyl alcohol for use in manufacture of industrial chemicals	5	Nil
Petrochemicals				
3.	2710 1221, 2710 1222, 2710 1229	Naphtha	1	2.5
Gems and Jewellery Sector				
4.	7102, 7104	Seeds for use in manufacturing of rough lab-grown diamonds	5	Nil
IT, Electronics				
5.	Any Chapter	Camera lens and its inputs/parts for use in manufacture of camera module of cellular mobile phone	2.5	Nil
6.	8529	Specified parts for manufacture of open cell of TV panel	5	2.5
Electronic appliances				
7.	8516 8000	Heat coil for use in the manufacture of electric kitchen chimneys	20	15

Key changes in notifications impacting duty rates (effective from 2 February 2023)

S. No	Heading, sub- heading tariff item	Commodity	Duty rates (per cent)	
			From	To
Automobiles				
8.	8703	Vehicle (including electric vehicles) in Semi-Knocked Down (SKD) form	30	35
9.	8703	Vehicle in Completely Built Unit (CBU) form , other than with CIF more than USD 40,000 or with engine capacity more than 3000 cc for petrol-run vehicle and more than 2500 cc for diesel-run vehicles, or with both	60	70
10.	8703	Electrically operated Vehicle in Completely Built Unit (CBU) form, other than with CIF value more than USD 40,000	60	70
11.	39,40,58,70, 72 73,83,84,85, 87,90	Vehicles, specified automobile parts/components, sub-systems and tyres when imported by notified testing agencies for the purpose of testing and/ or certification , subject to conditions	As applicable	Nil
Capital goods				
12.	84, 85	Specific capital goods/machinery for manufacture of Lithium ion cell for use in battery of electrically operated vehicle (EVs)	As applicable	Nil

Key changes in notifications impacting duty rates (no change in effective rates – considering corresponding changes in AIDC and SWS)

S. No	Heading, sub- heading tariff item	Commodity	Duty rates (per cent)	
			From	To
Petrochemicals				
1.	2701, 2702, 2703	Coal, peat, lignite	1	2.5
Metals				
2.	7108	Gold Dore	11.85	10



Illustrative changes in tariff entries in the first schedule – insertion of new entries

S. No	Heading, sub- heading tariff item	Commodity	Unit	Duty rates (per cent)
Chemicals				
1.		--- Goods specified in Supplementary Note 1 and 2 to this Chapter :		
	3808 9141	---- Goods specified in Supplementary Note 1 to this Chapter	Kg.	10
	3808 9142	---- Goods specified in Supplementary Note 2 to this Chapter	Kg.	10
Flat panel display modules				
2.	8524	Flat panel display modules, whether or not incorporating touch-sensitive screens		
		- Without drivers or control circuits :		
	8524 11	-- Of liquid crystals :		
	8524 11 10	--- For the goods of sub-heading 8471 30 or 8471 41	u	15
	8524 11 20	--- For the goods of sub-heading 8517 13 or 8517 14	u	15

Illustrative changes in tariff entries in the first schedule- omission of existing entries

S. No	Heading, sub-heading tariff item	Text
Telephone sets, smartphones and other telephones		
1.	8517 6240	High bit rate digital subscriber line system (HDSL)
2.	8517 6950	Subscriber end equipment

Illustrative changes in tariff entries in the first schedule- substitution of existing entries

S. No	Heading, sub- heading tariff item	Existing text	Substituted text
Telephone sets, smartphones and other telephones			
1.	8517 6230	Modems (modulators-demodulators)	Modems (modulators-demodulators) for xDSL based Wireline Telephony
2.	8517 6270	Multiplexers, statistical multiplexers	Multiplexers, statistical multiplexers for PDH based Wireline Telephony

Central Excise – Tariff

- To promote green fuel, central excise duty exemption provided to Compressed Natural Gas ('CNG') blended with Biogas or Compressed Biogas('CBG') from so much of the duty of excise leviable thereon the amount of GST paid on Bio-Gas/Compressed Bio-Gas which is blended with CNG, subject to certain specified conditions.
- National Calamity Contingent Duty ('NCCD') on specified cigarettes increased; details in the below table.

S. No	Heading, sub- heading tariff item	Commodity	NCCD rates	
			From (INR Per 1000 sticks)	To (INR Per 1000 sticks)
Cigarettes, containing tobacco				
1.	2402 20 10	Other than filter cigarettes, of length not exceeding 65 millimetres	200	230
2.	2402 20 20	Other than filter cigarettes, of length exceeding 65 millimetres but not exceeding 70 millimetres	250	290
3.	2402 20 30	Filter cigarettes of length not exceeding 65 millimeters	440	510
4.	2402 20 40	Filter cigarettes of length exceeding 65 millimetres but not exceeding 70 millimetres	440	510
5.	2402 20 50	Filter cigarettes of length exceeding 70 millimetres but not exceeding 75 millimetres	545	630
6.	2402 20 90	Other cigarettes	735	850
7.	2402 90 10	Cigarettes of tobacco substitutes	600	690

Both the abovementioned changes to take effect from 2 February 2023

Central Sales Tax Act, 1956

- CESTAT is now the appellate authority to deal with specified inter-state sale disputes under the provisions of the Central Sales Tax Act. Further, all appeals pending as on date on which Finance Bill 2023 receives assent, shall be transferred to CESTAT.

Production Linked Incentive scheme

- No budgetary allocation for Production Linked Incentive scheme ('PLI') unlike previous Budgets.
- Customs Duty on imports increased to promote 'Make in India' for sectors such as Toys and Bicycles where PLI is anticipated.

KPMG in India contact

Rajeev Dimri
National Head of Tax
T: +91 124 307 4077
E: rajeevdimri@kpmg.com

home.kpmg/in

Follow us on:
home.kpmg/in/socialmedia

bit.ly/3k9q12P
Access Budget microsite

KPMG Assurance and Consulting Services LLP, Lodha Excelus, Apollo Mills Compound, NM Joshi Marg, Mahalaxmi, Mumbai - 400 011 Phone: +91 22 3989 6000.