KPMG

India Union Budget 2023-24

Point of view

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Financial Services

Key announcements for the sector

Key direct tax proposals

- **NBFCs**
  - In the wake of revised framework of NBFCs introduced by RBI and reclassification of NBFCs, the following tax provisions applicable to specified NBFC categories hitherto, to be made applicable to new NBFC categories to be notified for this purpose:
    - Taxability of interest on bad loans (section 43D)
    - Interest deduction to borrowers on payment basis (section 43B)
  - Relief from thin capitalisation provisions (hitherto applicable to banks and insurance companies) to be extended to NBFCs
- **Mutual funds**
  - Treaty relief to be considered for the purpose of tax withholding by mutual funds on income distribution for non-residents
- **Insurance**
  - Proceeds from insurance policies (other than unit linked policies) taxable as "income from other sources" in hands of policyholder if total annual premium from one or more such policies is more than 5,00,000
    - The premium can be netted off from such proceeds, as long as not claimed as deduction in past years
- **IFSC**
  - Tax exemption granted to non-residents on income distributed on offshore derivative instruments, which are issued by an offshore banking unit located in IFSC
  - Tax exemption window for relocation by offshore funds to IFSC extended up to 31 March 2025.
- **Start-ups**
  - The benefit of carry forward of losses incurred by the eligible start-ups during the specified period under section 79 of the Income-tax Act, 1961 (the Act) to be aligned with the time period as prescribed under section 80IAC of the Act – to 10 years from 7 years
  - Window for set-up of new start-ups, eligible for tax exemption to be extended to 31 March 2024 (from 31 March 2023).

- **Others**
  - Gains on transfer of market linked debentures to be treated as short-term capital gains, irrespective of holding period
  - New additional penalty of INR5,000 to be paid by financial institutions in relation to every inaccurate reportable account as part of their annual tax information filings under FATCA/ CRS/ specified financial transactions
    - Where inaccuracy is due to inaccurate information provided by account holder, the financial institution is entitled to recover the penalty from the account holder
  - Enabling provisions for carry forward of losses in the case of amalgamation etc. widened to cover cases of strategic disinvestment by Central Government, State Government or Public Sector Company
  - Clarity provided with regard to tax compliances and assessments in cases of business reorganisation
  - The anti-abuse provision for taxing the consideration for issuance of shares at premium by closely held company exceeding the fair market value of shares as 'income from other sources' to be extended to non-residents
  - Time limit for completion of regular assessments (audits) proposed to be increased to 12 months
  - Credit for TDS pertaining to income disclosed in past years is enabled through application to tax officer within 2 years.
- **Key indirect tax proposals**
  - Input tax credit is proposed to be prospectively restricted in respect of goods or services received for fulfilment of Corporate Social Responsibility (CSR) obligations under section 135 of the Companies Act, 2013
  - Provisions with respect to non-requirement of obtaining GST registration in certain cases is amended retrospectively. Change to provide relief to persons providing only non-taxable/exempt supplies or supplies outside the purview of GST. Indian liaison offices/representative offices of foreign companies to evaluate the impact of the change
  - It is proposed to restrict filing of returns in Form GSTR 1, Form GSTR 3B and Annual return in Form GSTR 9 up to three years from the respective due dates
  - A provision has been inserted for sharing of taxpayer's information available/uploaded on the GST portal, after obtaining consent
  - The Customs duty rate for precious metals (including bullion) are re-calibrated and rationalised upwards.

Implications for the sector

- Increased capital outlay on infrastructure, initiatives in agriculture and agri-tech space and increase in credit guarantee schemes to have a favourable impact on the lending programmes of banks driving financial inclusion and infrastructure
- Focus on financial inclusion and technology as an enabler is now further enhanced by increased focus on financial literacy, simplification of KYC process, updation of individual records, PAN being common identified and unified filing process. All such initiatives combined with existing initiatives of Account Aggregator, UPI and fintech innovation will further boost digitalisation of financial services and its ability to reach the last mile thereby driving financial inclusion
- The honorable Finance Minister announced the setup of a National Data Governance policy which is expected to be a catalyst to usher in a sustainable digital economy growth driving by data. The policy intends to accelerate digital India ecosystem to accomplish efficient delivery of services, enabling data led research, creating a vibrant start-up ecosystem and fostering innovation. The policy along with recent other initiatives like Draft Data Protection Bill provides a strong basis to transform data collection and management systems and processes by building a truly world class data capabilities addressing quality, interoperability, security and privacy requirements. Ethical use of data in alignment to these statutes/regulations/policies and strong public and private sector partnership will be crucial for realising the benefits expected through this policy
- One of the significant items in the budget is taxability of maturity proceeds of life insurance policy (other than proceeds received on death) where premium exceeds INR5,00,000 in a year. Though the provision is with intent to bring parity on taxability of HNI investments, the taxation being levied as “income from other sources” will be at differential parity from long term capital gains. This will have significant impact on the life insurance industry especially with potential impact on HNI’s investment flow in the long-term savings product segment. Another provision that will impact the life insurance sector is default movement to new tax regime. This regime doesn’t allow exemption benefits. Hence, all small earners who were looking at life insurance policies for tax breaks may also turn away from this sector. However, from a long-term perspective, as a shift towards ‘protection’ than ‘investment’ being driver for life insurance is a positive direction for the industry
- Tax benefits from carried forward losses is a significant influencer on valuation during a merger or acquisition. Availability of carried forward tax losses in strategic divestment and subsequent merger (if any) within five years of strategic divestment gives significant flexibility for divestment of public sector banks and a value enhancer for potential bidders / investors.

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