



India Union Budget 2024-2025

Point of view

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Financial Services

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Key announcements for the sector

- Capital gains tax: Capital gains tax regime overhauled to streamline multiple rates and holding periods:
 - Rate changes:
 - Long term gains taxable at 12.5 percent across various asset classes (10 per cent / 20 per cent merged into single rate), indexation benefit discontinued with immediate effect
 - Short term gains tax for equity and equity-oriented funds at 20 per cent (increased from 15 per cent);
 - Minimum holding period for long-term assets standardised at 12 months for listed securities and 24 months for all other assets;
 - Unlisted debentures and bonds transferred on or after 23 July 2024 to not qualify as long-term assets (similar to market-linked debentures and units of specified mutual fund)
 - Exclusion from scope of “specified mutual fund” for:
 - i. Mutual fund that invests up to 65 per cent in debt/ money market instruments/ debt funds
 - ii. Fund that invests less than 65 per cent in the mutual funds as mentioned in (i) above (such fund to be eligible for long term capital gains relief)
 - Buyback proceeds taxed as deemed dividend in the hands of shareholders on gross basis; security purchase cost to be claimed as capital loss
 - Securities transaction tax (STT) rate increased:
 - on sale of option - from 0.0625 per cent to 0.1 per cent
 - on sale of future - from 0.0125 per cent to 0.02 per cent
- Angel tax
 - Angel tax provisions (introduced in 2012 to tax premium over fair value of closely held company) proposed to be removed with effect from 1 April 2024 – relief for start-ups.

- IFSC
 - Tax exemption proposed for retail funds and exchange traded funds (ETFs) set up in IFSC
 - Income of core Settlement Guarantee Fund set up in IFSC to be exempt
 - Finance companies in IFSC to be outside the purview of section 94B (thin capitalisation rule/ for restriction on allowance of interest expenditure on borrowing from related party)
 - Venture capital funds (VCFs) in IFSC to be outside the purview of section 68 (an anti-avoidance provision to tax unexplained credits on account of loans/ liabilities)
- Insurance
 - Introduction of provision to disallow non-business expenses in the tax code for life insurers
- Others
 - Corporate tax rate reduction for foreign companies - from 40 per cent to 35 per cent (positive move for foreign banks);
 - Rules to be introduced for information filing by liaison office; penalties for non-compliance
 - Removal of equalisation levy of 2 per cent as applicable to non-resident e-commerce operators for online sale of goods / services– regular tax provisions to apply
 - Measures to bring certainty and simplification
 - reduction of time limits for completion of withholding tax (TDS) assessment from 7 years to 6 years
 - direct tax amnesty scheme - Vivad se Vishwas to be re-introduced to settle pending disputes in appeal
 - streamlining of TDS rates
 - reduction of time limit for initiation for reassessments
 - increase in minimum tax threshold for filing of appeals by the Revenue
- The Customs duty rate for precious metals i.e. Gold, Silver and Platinum are re-calibrated and rationalised downwards from 15% to range of 5.35% - 6.40%. Such reduction in import duty will help boost the bullion business of banks.
- The following insurance sector related activities or transactions shall not be treated as supply of services, as to be covered in Schedule III of the Central and Goods Services Tax Act, 2017 ('CGST Act')
 - Sharing of co-insurance premium between 'leader' and 'follower' in a co-insurance arrangement, provided, the leader has discharged tax on the entire premium received from insured.
 - Payment of reinsurance commission by reinsurer to the insurance company, provided the reinsurer has discharged tax on gross premium.
- Following new provisions are being inserted in the CGST Act
 - Section 128A (Amnesty Scheme): To provide for a conditional waiver of interest and penalty in respect of demands pertaining to FY 2017-18, 2018-19 and 2019-20, in cases where demand is raised under Section 73 of CGST Act and full tax liability is paid by the taxpayer on or before a date to be notified. For availing amnesty benefit for matters pending in appeal, the same needs to be withdrawn.
 - Section 11A: Gives power to the Government to regularise non-levy or short levy of tax due to prevalent trade practices followed thereby reducing industrywide disputes in future.

- Section 74A (Common timeline for fraud and non-fraud cases):
 - Common time limit prescribed from FY 2024-25 for issuance of notices and orders for cases whether or not involving fraud or wilful suppression
 - Timeline for issuance of notice extended from 36 months to 42 months from the date of filing of annual return
 - Timeline for issuance of order increased from 3 months to 12 months from the date of issuance of notice
 - Timeline for availing benefit of reduced penalty, by paying the tax demanded along with interest, increased from 30 days to 60 days
- Retrospective extension provided upto 30 November 2021 for availment of ITC for the period FY 2017-18 till FY 2020-21.
- Quantum of pre-deposit reduced from 20% to 10% for appeals to be filed before Tribunal and the maximum pre-deposit amount capped to INR 20 crores of central tax and state tax each (earlier INR 25 crores each) for filing appeal.

Implications for the sector

Union Budget 2024 addressed following critical aspects in the financial services sector to further propel the economy towards the vision of 'Viksit Bharat 2047'.

- Reduction in turnover threshold criteria for mandatory onboarding of trade receivable buyers on TREDs platform to INR 250 crore will boost liquidity in the MSME ecosystem resulting in higher financial inclusion.
- Adoption of digital footprint-based credit assessment models and credit support during MSME stress periods by Public Sector Banks will expand their MSME customer base and ensure continuous credit monitoring with better delinquency management.
- Introducing an integrated technology platform in the IBC process will lead to better liaising and transparency among the stakeholders towards speedy and efficient insolvency resolution.
- Creation of globally aligned taxonomy for climate financing will build transparency and uniformity in identifying, evaluating, and reporting sustainable exposures.
- Increasing the Mudra loan limit from INR 10 lakh to INR 20 lakh for entrepreneurs with good credit history in the 'Tarun' category will create business expansion opportunity for these borrowers; while promoting healthy debt repayment culture amongst first time Mudra borrowers and new aspirants
- Deeper penetration of finance, skills and education are being aimed at through initiatives like provision of skilling loans, financial support for education loans for higher education in domestic institutions, extending direct credit to major MSME clusters by opening new SIDBI branches and setting up of more than 100 branches of India Post Payment Bank in the North-East region.

The industry looks forward to the government's financial sector vision and strategy document comprising 5-year roadmap for the industry stakeholders.

KPMG in India contacts:

Sanjay Doshi

Partner and Head

Financial Services Advisory

E: sanjaydoshi@kpmg.com

Sunil Badala

Deputy Head of Tax

National Head BFSI -Tax

E: sunilbadala@kpmg.com

kpmg.com/in/socialmedia



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KPMG Assurance and Consulting Services LLP, Lodha Excelus, Apollo Mills Compound, NM Joshi Marg, Mahalaxmi, Mumbai - 400 011 Phone: +91 22 3989 6000, Fax: +91 22 3983 6000.

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