KPMG

India Union Budget 2024-2025

Point of view

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Key announcements for the sector

Key Policy announcements

- Foreign Direct Investment and Overseas Investment:
- Rules and regulations for Foreign Direct Investment and Overseas Investments proposed to be simplified to (1) facilitate foreign direct investments, (2) nudge prioritization, and (3) promote opportunities for using Indian Rupee as a currency for overseas investments.
- Variable Capital Company Structure:
- Indian Government to seek required legislative approval for providing an efficient and flexible mode for pooled funds of private equity through a ‘variable company structure’
- Venture Capital Fund of INR 1,000 crores
- Government to expand the space economy by 5 times in the next 10 years and proposed a venture capital fund of INR 1,000 crore to be set up.

Key Tax amendments

- Capital gains tax: Capital gains tax regime overhauled to streamline multiple rates and holding periods:
  - Rate changes:
    - Long term gains taxable at 12.5 per cent 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 listed 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 / redeemed on or after 23 July 2024 to be deemed as short term capital asset (similar to market-linked debentures and units of specified mutual fund)
  - Buyback proceeds taxed as deemed dividend in the hands of shareholders on gross basis; security purchase cost to be claimed as capital loss. Tax to be deducted by the company undertaking the buyback on such payments as applicable for dividend as per the provisions of the Act.

- Exit under OFS route for investment made prior to January 2018 to be now taxable
  - Cost of acquisition of unlisted shares acquired prior to 31 January 2018 and transferred under OFS to be determined basis indexation from the year of acquisition till FY 2017-18. Retrospective amendment from FY 2017-18.
- Angel tax
  - Angel tax provisions (introduced in 2012 to tax share premium over fair value of closely held company) proposed to be removed for all class of investors with effect from 1 April 2024 – relief for start-ups
- IFSC
  - 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)
  - 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)
  - 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.
- Others
  - Tax administration:
    - Time limits for completion of withholding tax (TDS) assessment with respect to payment to non residents proposed to be 6 years
    - Reduction of time limit for initiation for reassessments. Assessments can be reopened beyond three years from the end of the assessment year only if the escaped income is ₹ 50 lakh or more, up to a maximum period of seven years from end of assessment year. Even in search cases, a time limit of six years before the year of search, as against the existing time limit of ten
    - Vivad se Vishwas to be re-introduced to settle pending disputes in appeal
    - Comprehensive review of Income-tax Act, 1961 in six months time to simplify, reduce litigation and provide certainty
    - Streamlining of TDS rates to reduce complexity and simplify compliance
    - Increase in minimum tax threshold for filing of appeals by the Revenue.
  - With an intent to attract foreign capital for our development needs, it is proposed to reduce the corporate tax rate on foreign companies from 40 to 35 per cent.
  - Equalisation Levy under section 165A of the Act at the rate of 2 per cent of consideration received for e-commerce supply of goods or services, shall no longer be applicable on or after 1st August, 2024.
- Non extension of sunset date
  - No extension of sun-set date for Sovereign Wealth Funds / Pension Funds for making eligible investments (current period is 31 March 2024)
  - No extension beyond 31 March 2024 for manufacturing / power companies for concessional rate of 15%.

Implications for the sector

Union Budget 2024 addressed following critical aspects for private equity sector to further propel the economy towards the vision of 'Viksit Bharat 2047'.

- Announcement of legislative intent of introducing a variable capital company regime is a welcome move. Variable Capital company are popular pooling vehicles in global jurisdictions, traditional hubs for the fund management industry such as Luxembourg, Mauritius and Singapore. This shows that the Government of India intends took to take a pragmatic view on development of private equity fund industry.
- Amendments proposed to rationalize and simplify the capital gains tax would go a big way in bringing clarity to investors. Also the steps are aimed at bringing parity in taxation between residents and non-residents assesses. While there are few dampeners such as capital gains rate increase and buybacks taxed as dividends, but an investor would certainly value simplicity and clarity more than increased taxes.
- On the tax side, decision for removal of Angel Tax for all class of investors is a welcome move and in line with the overall government's mission to bolster the Indian start-up eco-system, boosting the entrepreneurial spirit and support innovation.

These measures collectively contribute to building a strong economic foundation for the country. Building upon a stable economic foundation and aligning with the interim budget, the Finance Minister's vision for a "ViksitBharat" centers around nine key priorities aimed at creating multiple growth opportunities.

With these priorities, the vision is to facilitate foreign investment in India. PE and VC firms will continue to contribute and gain by investing in priority sectors and businesses. Additionally, the focus on VCC is opening up more avenues for overseas PE players. Overall, these measures aim to attract foreign investments and contribute to India's economic growth.

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