

# India Union Budget 2024-2025

Point of view

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## Key announcements for the sector

### Direct Tax proposals

- Proposal for a comprehensive review of the Income tax Act to be done in six months with the objective to simplify, reduce litigation and provide certainty to taxpayers
- Changes in buy-back tax provisions
  - Buy back tax of 20% proposed to be discontinued from 1 Oct 2024. Gross amount payable to the shareholders on buy-back of shares proposed to be taxed as dividend income (with no deduction of expenses or cost of acquisition of shares)
  - Tax to be deducted by the Company on such payments as applicable for dividend
  - The cost of acquisition of such shares shall qualify to be capital loss in the hands of the shareholder, which can be carried forward and set-off against future capital gains.
- Abolishment of Angel tax
  - Consideration received for issue of shares in excess of the Fair Market Value which is currently taxed as income in the hands of the company, proposed to be abolished w.e.f. from 1 April 2024
- Major changes in capital gains tax
  - Proposal to categorise capital assets as long-term where period of holding is: (a) 12 months in case of listed securities (including all bonds and debentures); and (b) 24 months in case of all other capital assets
  - Rate of tax on gains from transfer of short-term capital asset being listed securities proposed to be increased to 20% from current 15%
  - Gains from transfer of long-term capital asset proposed to be taxed at 12.5%
  - Exemption from tax on gains from long-term capital asset being listed securities proposed to be increased to INR 125,000 from current INR 100,000
  - Indexation benefit to determine gains from transfer of long-term capital asset proposed to be discontinued.
- Rationalisation of Tax Deduction at Source [TDS] and Tax Collection at Source [TCS] provisions
  - Reduction of TDS rate to 2% in cases where the current TDS rate is 5%

- Reduction of TDS rate to 0.1% from current 1% in case of payment by e-commerce operator to e-commerce participants
- Scope of lower TDS/ TCS certificate expanded to cover purchase of goods
- No prosecution proceedings where TDS withheld is deposited on or before the statutory deadline to file TDS return for respective quarter
- TCS (on payment under Liberalised Remittance Scheme or otherwise) proposed to be allowed as a credit while determining TDS on salaries
- Purchase of luxury goods (to be notified) exceeding INR 1 Mn proposed to be brought under the ambit of TCS
- Time limit of 6 years introduced for conclusion of TDS/ TCS proceedings in case of payment to non-resident taxpayers. In case of payment to resident taxpayers, time limit reduced to 6 years from 7 years.
- The Direct Tax Vivad Se Vishwas Scheme, 2024
  - Proposed to be introduced for settlement of pending appeals upon payment of tax/ interest/ penalty/ fee as prescribed in the scheme.
- Non-resident taxpayers
  - Equalisation Levy of 2% on e-commerce operators proposed to be discontinued from 1 Aug 2024
  - Corporate tax rate for foreign companies reduced from 40% to 35%.
- Other changes
  - Time limit for initiating reassessment proceedings reduced from 10 years to 5 years and 3 months where income escaping assessment is INR 5 Mn or more. For other cases, time limit extended from 3 years to 3 years and 3 months
  - Threshold of tax effect for departmental appeal increased to INR 6Mn, INR 20Mn and INR 50 Mn for appeal before Tribunal, High Court and Supreme Court, respectively
  - Proposal to empower the Transfer Pricing Officer (TPO) to determine the Arm's Length Price for Specified Domestic Transactions (SDTs)
  - Appeal before the Tribunal to be filed within two months from the end of the month in which relevant order is passed (as against the current time limit of 60 days from the date of order)
  - Scope of safe harbor rules proposed to be expanded
  - Transfer Pricing assessment proceedings proposed to be streamlined.

## Indirect Tax proposals

- Goods and Services Tax ('GST')
  - Provisions proposed to provide amnesty from payment of interest and penalty for period covering FY 2017-18 to FY 2019-20, in certain cases. No refund of interest and penalty in case where the same has already been paid by the taxpayer
  - Common time limit introduced for issuance of notices and orders from FY 2024-25 onwards (irrespective of whether involving fraud, suppression, etc.) – 42 months from the date of annual return for issuance of notice and 12 months from the date of issuance of notice for passing of order (further extendible by 6 months).

# Implications for the sector

- Abolishment of angel tax is a much-needed respite to the start-up community and will bolster fund raising and investment
- Changes in buy-back tax and capital gains tax regime may have some adverse effect on the investment environment
- Re-introduction of the litigation settlement scheme will allow taxpayers to quickly close ongoing litigation
- Rationalisation of TDS provisions is a welcome change and is a step towards easing compliance burden
- Discontinuance of Equalisation Levy of 2% is in line with the objective of removing unilateral tax, keeping in mind the ensuing Pillar 1 and Pillar 2 implementation under Base Erosion and Profit Shifting program.

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