

SYNOPSIS OF UNION BUDGET 2023-24



Overview

The last full budget of the current Government before India goes in general election next year, therefore, it was an opportunity and at the same time a difficult task for the Government to continue focus on growth and stability considering the geopolitical uncertainties and economic slowdown among major economies of the world.

This year's budget termed as the first budget in “**Amrit Kaal**” reinstating India's growth journey towards 100 years of independence. The major opportunities or the key drivers to help India achieve the “Amrit Kaal” have been identified as ‘**Saptarishi**’

- Inclusive Development
- Reaching the Last Mile
- Infrastructure and Investment
- Unleashing the Potential
- Green Growth
- Youth Power
- Financial Sector

From tax perspective, the expectations were quite high on both direct tax and indirect tax front, however, while the budget failed to meet the said expectations, but with focus on infrastructure and rationalizing tax provisions, it can be considered more than a neutral budget.

On the direct tax part, the proposals are aimed at maintaining continuity and stability of taxation along with further simplification and rationalization of various provisions to reduce the compliance burden.

Similarly on changes in indirect taxes was primarily focused on promoting exports, boosting domestic manufacturing, enhancing the domestic value addition, and encouraging green energy. However, despite, industry's expectation, neither any update was provided on **DESH Scheme** and GST Tribunals nor Amnesty Scheme under GST or customs.

With India poised to be the fastest-growing major economy at 6.5-7.0 per cent in FY23, these optimistic growth forecasts stem in part from the resilience of the Indian economy seen in the rebound of private consumption seamlessly replacing the export stimuli as the leading driver of growth.

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Economic Survey:

Economic Survey estimates 6.0 to 6.8% GDP growth in 2023-24

- India's economic recovery from the pandemic is complete and the economy is expected to grow in the range of 6% to 6.8% in the coming financial year 2023-24.
- Economy is expected to grow at 7 per cent (in real terms) for the year ending March 2023, this follows an 8.7 per cent growth in the previous financial year.
- The Economic Survey said that India remains the fastest growing major economy in the world.
- It projects a baseline GDP Growth of 6.5 per cent in real terms in FY24.
- Private consumption as a percentage of GDP stood at 58.4 per cent in Q2 of FY23, the highest among the second quarters of all the years since 2013-14, supported by a rebound in contact-intensive services such as trade, hotel and transport.

Capex growth driver of Indian economy in 2022-23

- Capital expenditure of Central Government and crowding in the private Capex led by strengthening of the balance sheets of the Corporates is one of the growth drivers of the Indian economy in the current year.
- Capital expenditure (capex) of the central government increased by 63.4 per cent in the first eight months of FY23.
- Centre's Capital expenditure for Road Transport and Highways in Apr-Nov FY23 stood at Rs 1.49 lakh crore rise of 102% YoY.
- Centre's Capital expenditure for Railways in Apr-Nov FY23 stood at Rs 1.15 lakh crore, a rise of 76.65% YoY.

India sixth largest foreign exchange reserves holder in the world

- India's forex reserves, at \$563 billion in December 2022, cover 9.3 months of imports, and make it the sixth largest foreign exchange reserves holder in the world.
- The current stock of external debt is well shielded by the comfortable level of foreign exchange reserves.
- Challenge of the depreciating rupee, although better performing than most other currencies, persists with the likelihood of further increases in policy rates by the US Fed.

Economic Survey 2022-23 highlights need to monitor current account deficit

- The widening of the Current Account Deficit (CAD) may also continue as global commodity prices remain elevated and the growth momentum of the Indian economy remains strong.
- The loss of export stimulus is further possible as the slowing world growth and trade shrinks the global market size in the second half of the current year.
- The country's current account deficit widened to 4.4% of the GDP in the quarter ending September, from 2.2% of the GDP during the April-June period due to a higher trade gap.
- Survey points to the lower forecast for growth in global trade by the world trade organisation, from 3.5 per cent in 2022 to 1.0 per cent in 2023.

Credit take off increased in 2022-23

- Financial health of the PSU banks has seen an improvement. This has positioned them for better credit supply.
- Credit growth to the micro, small, and medium enterprises (MSME) sector has been remarkably high, over 30.5 per cent, on average during Jan-Nov 2022.
- The Gross Non-Performing Advances (GNPA) of the Scheduled Commercial Banks (SCBs) has fallen to a seven-year low of 5.0% in the year 2022.

Other Key Highlights

- RBI projects headline inflation at 6.8 per cent in FY23, which is outside its target range.
- Return of migrant workers to construction activities helped housing market witnessing a significant decline in inventory overhang to 33 months in Q3 of FY23 from 42 months last year.
- It is expected that reaching the budget estimate for the fiscal deficit during FY23 will not be a concern for the Union Government.
- The country is now a global force in steel production and the 2nd largest crude steel producer in the world. The steel sector's performance in the current fiscal year has been robust, with cumulative production and consumption of finished steel at 88 MT and 86 MT, respectively.
- The Gross Tax Revenue registered a Year-on Year growth of 15.5% from April to November 2022, according to the Economic Survey. It was driven by robust growth in the direct taxes and Goods and Services Tax (GST).

Direct Tax:

Tax Rates

No changes prescribed in tax rate and slab limit of individual and HUF in old tax regime. Updated slab rate under new tax regime.

Total Income (₹)	Rates
Up to 3,00,000	Nil
3,00,001 to 6,00,000	5%
6,00,001 to 9,00,000	10%
9,00,001 to 12,00,000	15%
12,00,001 to 15,00,000	20%
Above ₹15,00,000/-	30%

No changes prescribed in tax rate and slab limit of individual and HUF in old tax regime. Updated slab rate under new tax regime.

- Further, tax relief under section 87A is revised from ₹5,00,000/- to ₹7,00,000/-
- Highest rate of surcharge applicable on taxes under new tax regime has been capped at 25% from earlier rate of 37%.
- The beneficial rate of tax in case company engaged in manufacturing activities has now been extended to newly incorporated manufacturing co-operative societies.
- Thus, such Co-Operative societies eligible for lower rate of 15%.

No change in tax rates for other taxpayers

- There are no changes proposed in the tax rate for Firm, Companies, LLP, AOP. Provisions applicable to Non-Residents. The taxability of consideration received over and above the fair market value of shares issued in the hands of closely held companies has been extended to shares issued to non-residents.
- This amendment is effective from April 1, 2024 and will accordingly apply in relation to AY 2024- 25 onwards.

Section 56(2) (vii(b))

- Relief from higher rates of TDS/TCS.
- The persons not liable to furnish the returns of income are to be excluded from the category of non-filer of returns and accordingly not to be subjected to higher rates of TDS/TCS.
- This amendment is effective from April 1, 2023.

Section 206AB and 206CCA

- No restriction on interest deductibility to NBFCs
- For calculating thin capitalization disallowance which limit the interest deductibility on foreign debts to 30% of EBITDA, specific exclusion has been given to NBFCs engaged in the business of financing.

- This amendment is effective from April 1, 2024 and will accordingly apply in relation to AY 2024- 25 onwards. Relevant notification will be issued in due course.

Section 196A

- Rationalization of TDS rates from accumulated balance of EPF in case of non-furnishing of PAN
- Tax withholding from payment of accumulated balance of EPF when no PAN is furnished by then employee is limited to 20% instead of the earlier provisions which provide for withholding of tax at maximum marginal rate.
- This amendment is effective from April 1, 2023.

Section 192A

- Establishing a mechanism for claiming TDS credit in respect of income already offered to tax in prior years
- Time limit of two years, from the end of financial year where TDS is deducted, has been provided for claiming TDS credit for which corresponding income has already been offered to tax. Such TDS can be claimed by way of filing of application for rectification.
- Interest on refund arising out such rectification shall be granted for the period from the date of the application to the date of grant of refund.
- This amendment is effective from October 1, 2023.

Section 155 and 244A

- Set off and withholding of Refunds
- The provisions of Set off and withholding of refunds have been merged together to avoid the overlap of both the provisions.
- The refund which has been withheld due to pending assessment or re-assessment shall not be eligible for additional interest for the period starting from the date of withholding to the date of such adjustment.
- This amendment is effective from April 1, 2023.

Section 245

- Allowance on actual payment basis to Micro and Small Enterprises
- A new insertion has been proposed to be made wherein any sum payable to a Micro and Small Enterprise beyond the time limit as per the MSMED Act i.e., 45 days in case of a written agreement or 15 days in other scenarios will be allowed as a deduction only on actual payment basis.
- Further, no deduction shall be allowed for that financial year even when the payment is made on or before due date of filing of return.
- This amendment is effective from April 1 2024, and will accordingly apply in relation to AY 2024- 25 onwards.

Section 43B

- Tax Incentives to units in International Financial Services Centre (IFSC)
- The relocation by the transfer of capital assets in an original fund to a resultant fund will not be regarded as a transfer wherein such relocation is made on or before March 31, 2025 (earlier March 31, 2023) This amendment is effective from April 1, 2023, and will accordingly apply in relation to AY 2023-24 onwards.

Section 47(viiad)

- Income distributed on the offshore derivative instrument entered with an offshore banking unit of an IFSC will be exempt in the hands of non-residents.
- This amendment is effective from April 1, 2024 and will accordingly apply in relation to AY 2024-25onwards.

Section 10(4E)

Taxation of capital gains in case of Market Linked Debentures

- A new section has been proposed to be added, wherein the transfer, redemption and maturity of Market Linked Debentures will be taxed as short term capital gains irrespective of the period of holding.
- Market Linked Debentures will include securities which have an underlying principle component in the form of debt securities and returns are linked to market returns or other underlying securities.

- This amendment is effective from April 1, 2024 and will accordingly apply in relation to AY 2024- 25 onwards.

Section 50AA

- Reduction in time period for furnishing of TP Study and other related documents
- The time period for furnishing the information or document as required by the Assessing Officer during the TP Audit has been reduced from 30 days to 10 days.

Section 92D (3)

- Penalty and prosecutions provisions applicable in case of Section 194R, 194S and 194BA
- Penalty and prosecution provisions applicable in case of failure to deduct or pay TDS will be also applicable on the person responsible who fails to ensure that tax has been paid before releasing of benefit or perquisite (Section 194R), consideration (Section 194S) or net winnings (Section 194BA).
- This amendment is effective from April 1, 2023 in case of Section 194R & 194S and is effective from July 1, 2023 in case of Section 194BA Section 271C & Section 276B, Taxability on benefits or perquisites in cash benefits or perquisites will also include those received in cash and will be taxable under the head income from "Profit and Gains of business or profession".

