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HIGH COMMISSION OF INDIA SINGAPORE

FICCI

Singapore Indian Chamber of Commerce & Industry

UNION BUDGET 2023-24

Contents

Budget background

Background to Budget 2023-24

- Global headwinds and uncertainty
  - Geopolitical uncertainties, tightening global monetary conditions, high inflation and lingering effects of pandemic
  - Global growth forecast suggests slowdown from 6% (2021) to 3.2% (2022) and 2.7% (2023)
- India remains a bright spot
  - Lower interest rate increase, Rupee outperformed several other global currencies, lower consumer inflation, etc.
  - Growth driven by structural underpinnings (investment expenditure, contact services & private consumption)
  - High tax buoyancy
- Indian Government continues to focus on long-term levers for economic growth
  - Increase contribution of manufacturing with support from PLI schemes and investment in infrastructure
  - Digitization and payment systems increase credit especially for MSMEs
  - Decarbonization and energy security to de-risk economy and create investment opportunities
- India will continue to remain in the global spotlight
  - India’s G20 leadership brings high expectations for global stability and multilateral coordination

Tax Economy

India's growth prospects: Budget signals reduction in real and nominal GDP growth rates in FY24

Real GDP growth projections for FY24 (%)				
Year	**Eco Survey**	**IMF**	**World Bank**	**OECD**
FY24	**6.5** (6-6.8)	**6.1**	**6.6**	**5.7**
Budget's call on FY24 growth (%)				
Real	**5.2**			
Nominal	**10.5**			

- India's growth for FY24 may moderate due to the adverse impact of the ongoing global slowdown.
- Global growth, however, may fall even more sharply. The IMF projects a global growth of 2.9% in 2023.
- In FY25, the IMF has projected India's real growth to recover to 6.8%.

Global growth projections (IMF – January 2023)

Country/ Year	2022 (FY23)	2023 (FY24)	2024 (FY25)
AEs	**2.7**	**1.2**	**1.4**
US	2.0	1.4	1.0
Euro area	3.5	0.7	1.6
Japan	1.4	1.8	0.9
UK	4.1	–0.6	0.9
EMDEs	**3.9**	**4.0**	**4.2**
Brazil	3.1	1.2	1.5
Russia	–2.2	0.3	2.1
India*	6.8	6.1	6.8
China	3.0	5.2	4.5
World	**3.4**	**2.9**	**3.1**

*Source (basic data): Economic Survey 2022-23, Union Budget FY24, IMF, World Bank, OECD and ADB | *data pertains to fiscal year*

Macro thrust of the Budget: strongly supporting domestic demand

- Private final consumption expenditure:
  - Private final consumption expenditure is supported by an increase in disposable incomes specially of the lower middle income groups through tax slab adjustments.

- Government capital expenditure (centre and states):
  - Effective capital expenditure (direct capital expenditure of GoI plus grants given to states for capital asset creation) is budgeted to show a growth of nearly 30%; effective capital expenditure relative to GDP estimated at 4.5% in FY24, up from 3.9% in FY23 (RE).

- GoI's capital expenditure is budgeted to grow by 37.4% in FY24 (BE), increasing from 22.8% in FY23 (RE).

- Private investment expenditure:
  - As the fiscal year evolves, private investment may also be boosted by a resumption of an interest rate reduction cycle after further fall in inflation.

Achieving budgetary balance: reducing fiscal deficit while expanding capital expenditure

Fiscal aggregates in FY23 and FY24: broad contours

Item	FY21	FY22	FY23 (RE)	FY24 (BE)	FY22 over FY21	FY23 (RE) over FY22	FY24 (BE) over FY23(RE)
	% to GDP				% growth		
Gross tax revenues	10.24	11.45	11.14	11.14	**33.7**	**12.3**	**10.4**
Net tax revenues	7.20	7.63	7.64	7.72	26.5	15.6	11.7
Non-tax revenues	1.05	1.54	0.96	1.00	75.8	-28.3	15.2
Non-debt capital receipts	0.29	0.17	0.31	0.28	32.8	8.2	12.1
Fiscal deficit	**9.18**	**6.70**	**6.43**	**5.92**	--	--	--
Total expenditure	17.73	16.03	15.33	14.92	8.1	10.4	**7.5**
Revenue exp.	15.57	13.53	12.67	11.61	3.8	8.1	**1.2**
Capital exp.	2.15	2.51	2.67	**3.32**	39.1	22.8	**37.4**
Memo	INR lakh crore				% growth		
Nominal GDP	198.0	236.6	273.1	301.8	19.5	15.4	10.5

- Union Budget's clear emphasis is on expanding capital expenditure - a larger portion of 56% of fiscal deficit is being devoted to capital expenditure in FY24 (BE).
- While revenue expenditure is slated to grow by only 1.2%, GoI's capital expenditure is budgeted to show a growth of 37.4%
- Major subsidies (food, fertilizer and petroleum) are budgeted to fall in FY24 as the global commodity prices are expected to moderate.
- GoI's fiscal deficit to GDP ratio is budgeted to reduce by 0.5% points to **5.9% in FY24 (BE)**
- Nominal GDP growth is budgeted at 10.5% in FY24, down from 15.4% in FY23.

Source (basic data): MoSPI, Union Budgets

Direct tax proposals

Encouraging consumption

Concessional Tax Regime (CTR) to be the default regime

Current CTR		Proposed CTR	
Taxable income (INR)	Current rate	Taxable income (INR)	New rate
Upto 2,50,000	NIL	Upto 3,00,000	NIL
2,50,001 to 5,00,000	5%	3,00,001 to 6,00,000	5%
5,00,001 to 7,50,000	10%	6,00,001 to 9,00,000	10%
7,50,001 to 10,00,000	15%	9,00,001 to 12,00,000	15%
10,00,001 to 12,50,000	20%	12,00,001 to 15,00,000	20%
12,50,001 to 15,00,000	25%	Above 15,00,000	30%
Above 15,00,000	30%		
Surcharge rates			
Taxable income (INR)	Current rate	Taxable income (INR)	New rate
Above 50 lakhs	10%	Above 50 lakhs	10%
Above 1 crore	15%	Above 1 crore	15%
Above 2 crores	25%	Above 2 crores	25%
Above 5 crores	37%		

- Health and education cess of 4% applicable on aggregate of tax and surcharge
- Standard deduction of INR 50,000 on salary income available under proposed CTR
- Eligibility of rebate increased for income up to INR 7 lacs (i.e. tax relief of up to INR 25,000)

Tax savings under proposed CTR

Taxable income (INR)	Tax under current CTR	Tax under proposed CTR	Tax savings
10 lakhs	78,000	62,400	15,600
15 lakhs	1,95,000	1,56,000	39,000
1 crore	31,31,700	30,88,800	42,900
2 crores	68,62,050	68,17,200	44,850
7 crores	2,95,46,790	2,69,10,000	26,36,790

Individual tax proposals

- **Taxability of proceeds from high value life insurance policies**
  - Life insurance policies (other than ULIPs) where annual premium exceed INR 5 lakhs will now not be eligible for exemption and will now be taxable as income from other sources
  - This will be applicable for life insurance policies issued on or after 1 April 2023

- **Cap on capital gains tax benefit for investment in residential house**
  - Long term capital gains deduction for investment in residential house property now restricted to INR 10 crores

- **Enhancement of leave encashment exemption limit**
  - Announcement in FM's speech: Increase in exemption limit for leave encashment at retirement from INR 3 lakhs to INR 25 lakhs (for non-government employees)

Widening of tax base

- **Cost of acquisition of intangibles assets/ rights**
  - Currently, for computing capital gains, there is ambiguity on the cost of acquisition to be considered where no amount is paid for acquisition of intangible assets/ rights (other than certain specified intangible assets)
  - Now, cost of acquisition and improvement of capital assets, being any intangible asset (other than those specified), shall be considered as nil
- **TDS @ 10% now applicable on payment of interest on debentures (in dematerialized form) and listed on a stock exchange to a resident**
- **Taxability and TDS on online gaming**
  - Net winnings from online gaming will now be taxable @ 30%
  - In line with the taxability, TDS on net winnings will be applicable @ 30%
    - TDS without any de-minimus limit
    - Timing:
      - (i) At the end of the financial year; or
      - (ii) At the time of withdrawal by the user, whichever is earlier
    - Manner of computation of net winnings to be prescribed

Widening of tax base

- **Tax on distribution of income by REIT/INViT**
  - Presently, interest, dividend and rental income is exempt from tax in the hands of business trusts and subject to tax in the hands of the unit holders in the business trust
  - However, such distributions are not taxed in the hands of the business trust nor the unit holders where they are regarded as repayment of debt
  - With an intent to avoid dual non-taxation, now, any income received by unit holders (including repayment of debt) will be subject to tax in the hands of the unit holders
  - However, upon redemption of units, deduction will be allowed for cost of acquisition up to the value of redemption

Widening of tax base

- **Rate of TCS on foreign remittances and overseas tour packages increased**
  - TCS increased from 5% to 20% on
    - Overseas tour packages
    - Overseas remittances (other than education or medical treatment)

- **Taxability of Market Linked Debentures (MLDs)**
  - MLDs to be considered as short-term capital asset irrespective of the period of holding

- **Expanding coverage of “angel-tax” on issue of shares**
  - Currently, “angel tax” on issue of shares applies only on consideration received from resident investors
  - Now, such tax would also apply to consideration received from non-resident investors for issue of shares

Encouraging investments

- **Relief for start-ups**
  - Relaxation from 51% shareholding continuity condition for carry forward and set-off of losses incurred during 7 years from date of incorporation for eligible start-ups now extended to 10 years from date of incorporation
  - Profit-linked tax exemption for eligible start-ups extended by another year – start ups incorporated before 1 April 2024 will now be eligible

Rationalisation measures

- **Benefit or perquisites in cash**
  - Currently, there is ambiguity on taxability and TDS on benefits or perquisites provided in cash
  - Now, such cash benefits or perquisites will be taxable and corresponding TDS will apply

- **Promoting timely payments to MSMEs**
  - Payments to MSMEs will now be allowed as deduction only in the year in which payment is made

- **Facilitating TDS credit for income reported in the past**
  - Difficulty arises in claiming credit for tax deducted subsequent to the year in which income is offered to tax
  - Taxpayers can now apply for a rectification within two years from the end of the financial year in which tax is deducted
  - Interest on refund arising from the rectification will be allowed from the date of the application to the date of grant of the refund

Rationalisation measures

- **Excluding NBFCs from thin-capitalisation provisions**
  - The exemption on restricted interest deductibility (30% of EBITDA) currently provided to banks and insurance companies has now been extended to NBFCs

- **Introduction of authority of Joint Commissioner (Appeals)**
  - New appellate authority having powers similar to Commissioner (Appeals) introduced to handle cases involving small tax demand disputes
  - This will clear backlog of pending litigation at the Commissioner (Appeals) level

Indirect tax proposals

Customs

- Validity period of 2 years for conditional exemption notifications not applicable to the following:
  - Free / Preferential trade agreements
  - Schemes under Foreign Trade Policy
  - Re-imports, temporary imports, goods imported as gifts / personal baggage
  - All Customs Duties other than BCD
- Mandatory time limit of 9 months (further extendable by 3 months) provided for disposal of applications before settlement commission. If order not passed within this time, then proceedings stands abated and the adjudicating authority shall dispose the application
- Solar power plant / solar power project specially excluded from Project Import Scheme. Earlier, the CBIC had issued notification for withdrawing the said benefit for solar power plant / projects
- Rationalisation of Customs duty rates to promote domestic manufacturing and green energy
- CESTAT empowered to adjudicate appeals / advance rulings on inter-state disputes under the CST Act, 1956

GST

- Definition of OIDAR services enlarged to include services involving greater human intervention and / or not essentially automated

- Merchanting, in-bond and high-seas sales to be treated as no-supply transaction from July 1, 2017. No refund available on tax paid in past

- ITC disallowed on CSR expenditure incurred as per Section 135 of the Companies Act

- In-bond sales to be treated as exempt for ITC reversal purposes

- Restriction on filing of GSTR-1, GSTR-3B, GSTR-9 / 9C and GSTR-8 after 3 years from due date

- E-commerce operators liable for penal consequences for defaults pertaining to supplier / supply of goods on their portal

- Rationalisation of penal provisions (threshold increased from 1 crores to 2 crores, reduction in compounding amounts, no prosecution in specified cases)

Questions

Panelist

Dinesh Kanabar, CEO

- Dinesh winner of "**Asia Tax Practice Leader of the Year- 2020**", is a stalwart in the industry and has over the decades been recognised by his peers as amongst the top tax advisors in India. His ability to relate the business strategies of clients to the tax and regulatory environment has been recognised as unique and has played a critical role in developing solutions for clients.
- Prior to founding Dhruva, he held a series of leadership positions across several large professional service organisations in India. He was the Deputy CEO of KPMG India, Chairman of KPMG's tax practice, Deputy CEO of RSM & Co and Head Tax and Regulatory at PricewaterhouseCoopers (PwC)
- He is a member of the National Executive Committee of FICCI and is currently a mentor of the FICCI Committee on Taxation. He has also worked with the Government of India on several policy committees. He was a member of the Rangachary Committee constituted by the Prime Minister of India to deal with tax reforms in the IT/ITES sector and for evolving Safe Harbour Rules.
- Dinesh has been appointed as a member of the Body of Trade formed by the Ministry of Commerce and Industry
- He is also on the Board of Shiv Nadar University in Chennai.

Mahip Gupta, Partner

- Mahip Gupta is a Partner with Dhruva Advisors and is based in Singapore.
- Mahip is also a member of Singapore-India Business Council of Federation of Indian Chambers of Commerce & Industry (FICCI) in Singapore as well as Singapore Fund Directors Association (SFDA).
- Mahip has over 2 decades experience advising clients from various Industries on a wide range of international and local tax issues. His experience includes dealing with international and local tax planning, business structuring, negotiating tax incentives, due diligence, tax controls, tax compliance and transfer pricing.
- Mahip also brings valuable in-house tax experience from a Fortune-500 MNC where he was Global Tax Lead of its key international businesses. He has also assisted business associations & government agencies in lobbying for tax law changes and drafting of tax legislations. Mahip's current and past clients includes various MNC groups including those in energy, mining, manufacturing, financial services and logistic sectors.
- Mahip is a member of Institute of Chartered Accountant of India, where he was placed amongst top 20 rank holders in both stages of exams.

Niraj Bagri, Partner

- Niraj is member of the Institute of Chartered Accounts of India (ICAI) and has more than 18 years of experience in the field of indirect tax advisory, consulting and litigation.
- Niraj specializes in advising clients across an industry spectrum consisting of Manufacturing, Real Estate, Banking and Financial Services, Media and Entertainment, Information Technology, E commerce, Aviation, Engineering, Power, Construction, etc.
- Niraj has been extensively involved in GST implementation projects across an industry spectrum involving financial & transactional impact analysis, changes in systems/IT processes, accounting, validation and Go Live assistance etc
- Niraj has significant experience in litigation in the areas of customs, central excise, service tax, VAT and central sales tax including appearances before Indirect tax tribunals and/or appellate authorities.
- Niraj is a regular speaker on indirect taxes at various forums like CII, Assocham and ICAI and also appears in the print and online media.
- Prior to joining Dhruva Advisors, Niraj was a Director with the indirect tax team at KPMG.

Navita M. Myer

- Navita leads the Singapore operations of the Federation of Indian Chambers of Commerce & Industry (FICCI). She has a dynamic work experience of 18 yrs in International affairs and Government relations, Public policy advocacy, Marketing Communications, , Business development, Integrated media management & events with leading Indian organizations like The Times of India, FICCI, Mahindra Lifespace developers and ITC.
- She holds an MBA degree in Marketing and Post Graduate Diploma in Journalism and Mass Communication.

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