Budget Insights 2024

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India Budget update

Background

With India's real GDP projected to grow at 7.3%, financial year (FY) 2023-24 seems to be ending on a positive note. India continues to strengthen its position as a credible destination for global investors looking to implement a "China plus" strategy. Modi Government continues to work towards its goal of making India as an investor friendly jurisdiction and promote ease of doing business. With the vision of making the Indian Economy more 'Atmanirbhar' (self-reliant), the Central Government continued its work on Production Linked Incentive (PLI) schemes (which now covers 14 key sectors) and has a planned outlay of INR 1.97 trillion (approx. USD 24 billion). This is primarily motivated to establish India as a global manufacturing hub. In June 2023, India announced the setting-up of the first back-end manufacturing semiconductor fab under the PLI scheme.

In this backdrop, Finance Minister (FM) Ms. Nirmala Sitharaman presented an interim budget on February 1, 2024. Even with the federal elections scheduled to take place in next few months, Government kept its promise of maintaining fiscal discipline by keeping the unplanned and populistic expenditure under check. This has resulted in the target fiscal deficit for FY 2024-25 to be pegged at 5.1% and the same for FY 2025-26 at 4.5%. The outlay for the capital expenditure for the next year has been increased by 11.1% amounting to INR 11.11 trillion (USD 130 billion) which would be 3.4% of the proposed GDP of India.

FM in her speech stated that the direct tax collections have more than trebled and the return filers have increased 2.4 times in the past 10 years. The revised estimates of the total receipts (other than borrowings) are INR 27.56 trillion (USD 330 billion), of which the tax receipts are INR 23.24 trillion (USD 280 billion). The tax receipts are estimated to increase to INR 26.02 trillion (USD 310 billion) in FY 2024-25.

Key tax proposals

Following are the key updates on direct taxes:

- No changes have been made to tax rates for individuals and corporate taxpayers.
- The government has proposed to withdraw outstanding tax demands that are unverified, not reconciled or disputed for amounts below (i) INR 25,000 (USD 300) for the period up to FY 2009-10 and (ii) INR 10,000 (USD 120) for FY 2010-11 to 2014-15.
- Certain tax benefits which were set to expire on March 31, 2024 have been extended until March 31, 2025. These include:
  - the tax holiday for eligible start-ups incorporated up to March 31, 2024;
  - tax benefits available to investment divisions of offshore banking units in International Financial Service Centre (IFSC) that have commenced operations up to March 31, 2024;
  - tax benefits available in respect of aircrafts and ships leased to units in IFSC, if such units have commenced operations up to March 31, 2024;

- tax exemptions on interest, dividends and long-term capital gains enjoyed by sovereign wealth funds and foreign pension funds on specified investments made up to March 31, 2024.

- Few years back, Indian Income Tax Department had introduced a faceless regime for conducting tax assessment proceedings for certain classes of taxpayers. Notably, transfer pricing assessments and certain other proceedings were not covered in the faceless scheme. The Central Government had announced that it will notify a scheme on or before March 31, 2024, enabling faceless proceedings for transfer pricing assessment, Dispute Resolution Panel proceedings and appellate proceedings before the tax Tribunal. In the present budget, the timeline for notifying such scheme by the Central Government has now been extended till March 31, 2025 from the existing timeline of March 31, 2024.

Following changes have been proposed in the Central Goods and Services Tax Act, 2017:

- Input Service Distributor:
  - Corporate taxpayers had earlier represented to the GST Council to clarify the mechanism by which a Head Office (HO) could distribute Input Tax Credit (ITC) availed related to common services for HO and other distinct persons (e.g. Branch Offices [BO] across states). The GST Council had recommended that a HO intending to distribute such ITC availed to BO(s) (i.e. entities under the same PAN/ tax registration number), be registered as Input Service Distributor (ISD[s]) under GST law and follow the ISD mechanism. Based on such representation the GST Council had made necessary recommendations to the Government.
  - The definition of ISD has now been substituted by the Finance Bill 2024 and a new definition has been provided. This includes such suppliers who receive invoices for common services on behalf of other distinct entities (BOs etc.), where the ITC is availed by such supplier. The new definition now encompasses invoices for services under Reverse Charge Mechanism (RCM). Concurrently, the section for distribution of credit has been amended to provide that suppliers intending to distribute the above credit, are now required to obtain a compulsory registration as an ISD under GST laws and follow the prescribed mechanism for distribution.
  - This amendment gives the force of law the earlier clarification issued by the GST Council on this issue and makes the ISD registration / mechanism mandatory. This should also streamline the distribution of ITC for common service invoices within various components of the same legal entity. Failure to obtain ISD registration while distributing such common credit would now be liable to appropriate penalties under GST laws for non-compliance.
- A new penalty provision has also been introduced to penalize persons who are non-compliant with special procedures for registering machines (like packing machines) used in the manufacture of pan masala, etc. A penalty equal to INR 100,000 (USD 1,200) for every unregistered machine has been imposed and confiscation of such machines, if the above penalty is not paid within three days from the date of the order of penalty.

Key omissions

Unlike the Budget 2023-24 where a significant number of amendments were introduced, this being an interim budget was not expected to bring in significant changes in the tax laws. However, there still are few notable omissions:

- The government has not extended the concessional corporate tax rate of 15%, which is currently available to newly set up manufacturing companies that have commenced manufacturing or production up to March 31, 2024. Considering the thrust for "Make in India", this may be a major setback for foreign investors that were looking to set up a manufacturing projects in India or have set up such projects, but the production has not started yet.

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- Considering that Indian capital gains regime contains by a complex web of tax rates and holding periods that vary across asset classes and investors, it was expected that the Government may announce simplification of the capital gains tax rules. Similarly, it was also expected that measures may be introduced to simplify withholding tax / Tax Deducted at Source (TDS) regime.
- India is an active member of OECD's Inclusive Framework. With several countries amending their domestic tax law to prepare for the Global Minimum Tax (under Pillar 2), there was an expectation that the Indian Government would also signal its intent to make such amendments in the full budget. However, no such announcement or change in law has been proposed.
- On the indirect tax front, measures to reduce litigation in relation to ITC credits (for large taxpayers), amnesty scheme for customs to close long pending disputes and a new Special Economic Zone / free trade zone bill was expected, however, nothing was commented on the same.

Conclusion

The overall reaction to this interim budget has been largely positive. The expectation now is that the new Government will carry forward the agenda of structural reforms and more policy announcements and tax amendments are due in July 2024, through the Annual Budget.

While this budget has limited direct and indirect proposals, the focus continues on developmental programs including research and innovation, deep-tech technologies for defense purposes, green growth, e-vehicle ecosystem, multi-modal connectivity logistics, aviation, bio-manufacturing and bio-foundry, climate resilient activities for blue economy 2.0, to name a few. The essence of the budget was linked to the latest vision of the Government of 'Viksit Bharat' (Developed Economy) by 2047, which is also apparent from the statement of the FM in the budget speech wherein she stated that the full budget that would be presented by the Modi Government in July will present a detailed roadmap for the government's pursuit of 'Viksit Bharat'. While the budget may not have met all the expectations from various industries, the optimism that more reforms are in making continues.

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