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Union Budget 2024: Gearing up for Viksit Bharat 2047

Focus: Startups, Investors & GIFT City

July 23, 2024

Foreword

The Union Budget 2024 marks a significant milestone in India's economic journey. This Budget underscores the Government's commitment to maintaining fiscal prudence while driving substantial investments in critical sectors. Despite global economic challenges, the Indian economy has fared well, maintaining stability and growth. For 2024-25, the fiscal deficit is expected to be 4.9% of GDP, with a target to reduce it below 4.5% next year. Inflation remains low and stable, moving towards the 4 percent target, with core inflation (non-food, non-fuel) at 3.1 percent.

The theme of the Budget focuses particularly on employment, skilling, MSMEs, and the middle class. This budget outlines the roadmap to Viksit Bharat 2047 focusing on nine priority areas to generate ample opportunities for all: productivity and resilience in agriculture, employment and skilling, inclusive human resource development and social justice, manufacturing and services, urban development, energy security, infrastructure, innovation and R&D, and next-generation reforms.

The Budget introduces several pivotal reforms aimed at simplifying tax structures, incentivizing investments, and promoting sustainable growth. The abolition of angel tax, reduction in corporate tax rates for foreign companies, and comprehensive review of the Income-tax Act, 1961 in the coming days are expected to bolster the startup ecosystem and attract international investments.

The subsequent sections of this Budget document provide an in-depth analysis and key highlights related to personal taxation, business reforms, investment opportunities, and developments in GIFT-IFSC. Personal taxation changes include revised income tax slabs, increased deductions, and adjustments in Taxes Collected at Source (TCS) and Taxes Deducted at Source (TDS) regulations. Business reforms cover the abolition of the angel tax, reduction in corporate tax rates for foreign companies, and measures to enhance ease of doing business. Investment opportunities are improved through rationalization of the capital gains tax regime, changes in holding periods and tax rates, and amendments related to buyback taxation and Securities Transaction Tax (STT) rates. GIFT-IFSC developments include tax exemptions for Retail Schemes and Exchange Traded Funds (ETFs), removal of surcharges on specified income, and other measures. These sections provide a comprehensive overview of the Union Budget 2024's measures to support individuals, businesses, and investors, and to enhance India's position as an attractive destination for global investment and financial activities.

The Union Budget 2024 is a balanced and forward-looking document, reflecting the Government's resolve to steer the economy towards sustainable growth, innovation, and inclusiveness. This detailed presentation analysis aims to provide a comprehensive analysis of the Budget''s key highlights, policy changes, and their implications for various sectors of the economy.

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Table of Contents

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Overview

Key Macroeconomic Indicators[1] from Budget 2024

Key indicators	Budget 2024-25	Budget 2023-24
Total Receipts (other than borrowings)	⬆️INR 32.07 lakh crore	INR 27.2 lakh crore
Net Tax Receipts	⬆️INR 25.83 lakh crore	INR 23.3 lakh crore
Total Expenditure	⬇️INR 48.21 lakh crore	INR 45 lakh crore
Fiscal Deficit (as % of GDP)	⬇️4.9%[2]	5.90%
Gross Market Borrowings	⬇️INR 14.01 lakh crore	INR 15.4 lakh crore
Net Market Borrowings	⬇️INR 11.63 lakh crore	INR 11.8 lakh crore

Notes: 1. Inflation: Low, stable and moving towards the 4 per cent target, **2. Core inflation (non-food, non-fuel):** 3.1 per cent

Key Policy Highlights - Budget 2024

1. Employment and Skilling

- Provides wage support and incentives for first-time employees and job creation in manufacturing, along with employer reimbursements for EPFO contributions. Expected to benefit 2.1 crore youth, 30 lakh manufacturing jobs, and incentivize 50 lakh employees.
- Internships for 1 crore youth in 500 top companies over 5 years, with INR 5,000 monthly allowance along with one-time assistance of INR 6,000. Companies eligible to cover training costs and 10% of internship costs from their CSR funds.

2. MSMEs and Manufacturing

- **Credit Guarantee and Support**: The Credit Guarantee Scheme facilitates term loans for machinery and equipment purchases without collateral, covering up to INR 100 crore per applicant. Additionally, a new mechanism will ensure continued bank credit to MSMEs during stress periods, supported by a Government-promoted fund.

[1] All the figures are from 2024-25
[2] Aim to reach a deficit below 4.5% next year

- **New Assessment Model for MSME Credit:** Public sector banks to develop new credit assessment models based on digital footprints rather than traditional asset or turnover criteria.

3. Ease of Doing Business (Tax and Compliance)

- **Angel Tax Abolished:** Abolishment of angel tax for all classes of investors to boost the startup ecosystem and entrepreneurial spirit.
- **Income Tax Reforms:** Comprehensive review of the Income-tax Act, 1961 in the coming days to reduce disputes and litigation.
- **Variable Capital Company (VCC) Structure:** Legislative approval sought for providing an efficient and flexible mode for financing leasing of aircrafts and ships and pooled funds of private equity through a 'variable company structure'.
- **Stamp Duty Reduction:** Encouraging states to moderate high stamp duty rates and consider further reductions for properties purchased by women.
- **Foreign Direct Investment (FDI) and Overseas Investment**: The rules and regulations for FDI and Overseas Investments will be simplified to facilitate foreign direct investments, nudge prioritization, and promote opportunities for using Indian Rupee as a currency for overseas investments.

4. Space Economy and Technology

- A venture capital fund of INR 1,000 crore to expand the space economy by five times in the next decade.
- Full exemption of customs duties on 25 critical minerals and reduction on two others to support sectors like space, defense, and high-tech electronics.

5. Services

- Development of Digital Public Infrastructure (DPI) applications at population scale for productivity gains, business opportunities, and innovation by the private sector. Planned areas include credit, e-commerce, education, health, law and justice, logistics, MSME services delivery, and urban governance.
- An Integrated Technology Platform will be set up to improve the outcomes under the Insolvency and Bankruptcy Code (IBC) for achieving consistency, transparency, timely processing, and better oversight for all stakeholders.

6. Others

- **Urban Land Related Actions**: Land records in urban areas will be digitized with Geographic information system (GIS) mapping. An IT-based system for property record administration, updating, and tax administration will be established. These will also facilitate improving the financial position of urban local bodies.

9 Pillars to Viksit Bharat 2047 and Policy Initiatives

To drive India's growth and development, the Union Budget 2024 outlines nine strategic pillars that form the foundation for the nation's economic agenda, aiming towards Viksit Bharat 2047. These pillars encompass key sectors and initiatives aimed at enhancing productivity, fostering innovation, and ensuring inclusive development. Each pillar is supported by targeted policy measures designed to create opportunities, boost investments, and address critical challenges. The following sections detail these pillars and the corresponding policy initiatives.

1. Productivity and Resilience in Agriculture

- Focus on raising productivity and developing climate-resilient varieties.
- 109 high-yielding and climate-resilient varieties of 32 field and horticulture crops.
- Initiate 1 crore farmers into natural farming practices.

2. Employment & Skilling

- Wage subsidies and support for first-time employees.
- Opportunities for 1 crore youth in 500 top companies.
- Upgrade of 1,000 ITIs and new skilling initiatives.

3. Inclusive Human Resource Development and Social Justice

- Hostels and crèches, women-specific skilling programs.
- Initiatives to promote social justice and inclusivity.
- Development of the cooperative sector.

4. Manufacturing & Services

- Domestic production and recycling of critical minerals.
- Auction of offshore blocks for mining.
- Development of DPI applications for various sectors.

6. Energy Security

- Policies for solar and wind energy growth.
- Exempt customs duties on critical minerals for energy sectors.
- Research in small and modular nuclear reactors.

7. Infrastructure

- INR 11.11 lakh crore allocated for infrastructure development.
- Investment-ready industrial parks near 100 cities.
- Continued significant investment by the Central Government.

8. Innovation, Research & Development

- INR 1,000 crore venture capital fund for space technology.
- Research in advanced technology sectors.
- Development of innovation hubs across the country.

9. Next Generation Reforms

- Comprehensive review of the Income-tax Act.
- Simplified regulations for FDI and overseas investments.
- Integrated technology platform for IBC ecosystem.

Decoding Tax in Budget 2024

The subsequent part of this Budget document is broken down into 4 primary sections providing in-depth tax analysis including:

1. **Personal** - Individuals including founders, team members, etc.
2. **Investment** - Primarily taxation norms around capital gains.
3. **Business -** Startups and other businesses.
4. **GIFT-IFSC -** Proposed amendments for IFSC units.

These sections provide a comprehensive overview of the Union Budget 2024's measures to support global investment and financial activities.

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I. Personal

1. Revision of slab rates for individuals under new tax regime

Proposed changes in personal income tax slabs for individuals (highlighted below) resulting in a tax saving of up to INR 17,500 excluding surcharge and cess under new tax regime.

Existing Slabs (INR)	Proposed Slabs (INR)	Tax Rate
0-3,00,000	0-3,00,000	NIL
3,00,001-6,00,000	3,00,001-7,00,000	5%
6,00,001-9,00,000	**7,00,001-10,00,000**	**10%**
9,00,001-12,00,000	**10,00,001-12,00,000**	**15%**
12,00,001-15,00,000	12,00,001-15,00,000	20%
>15,00,000	>15,00,000	30%

Note : *Full tax rebate available for taxable income upto of INR 7,00,000*

Treelife Insight:

We have prepared a tax calculator to explore potential tax savings here.

2. Increase in tax deductions under new tax regime

- Standard deduction for salaried employees is proposed to be increased to INR 75,000 from INR 50,000.
- Cap of deduction against income from family pension for pensioners increased to INR 25,000 from INR 15,000.
- Deduction for employer's contribution to NPS increased from 10% to 14% even for employees other than Central or State Government employees.

3. TCS collected from minors

TCS collected from minors can only be claimed as credit by the parent in whose income the minor's income is clubbed. This amendment is effective from January 1, 2025.

4. Credit for TCS and all TDS for salaried employees

It is proposed to allow employees to club their TCS and TDS (other than salaries) for the purpose of computing TDS to be deducted from salary.

Treelife Insight:
TCS is usually collected on foreign travel, LRS remittances, purchase of cars beyond a limit. This will help salaried employees effectively manage tax cash flows.

5. Income classification of rent on residential house

It has been clarified that income from letting out of a residential house to be classified under the heading "Income from house property" and not "business income".

6. Increase in limits for applicability of Black Money Act, 2015 for disclosure of foreign income and asset in the Income Tax Return (ITR)

Penal provisions under section 42 and 43 of the Black Money Act, 2015 proposed to not apply in case of non-reporting of foreign assets (other than immoveable property) with value less than INR 20,00,000 (increased from earlier threshold of INR 5,00,000).

7. Quoting of Aadhaar Enrolment ID in ITRs discontinued

Quoting of Aadhaar Enrolment ID proposed to be no longer allowed in place of Aadhaar number for ITRs filed after October 1, 2024.

II. Investment

1. Rationalization of Capital Gains Tax Regime

Capital gains tax regime is proposed to be rationalized with effect from July 23, 2024 as summarized below:

Rationalization of Holding Period:

Type of Asset	Period to qualify as Long term
All listed securities	12 months
All other assets (including immovable property)	24 months

Change in Tax Rates:

Long term capital assets

Type of Asset	Residents		Non-residents	
	Current	Proposed	Current	Proposed
Listed equity shares and units of equity oriented mutual fund	10%	12.5%	10%	12.5%
Unlisted equity shares	20%	12.5%	10%	12.5%
Unlisted debentures and bonds	20%	Applicable rates	10%	Applicable rates
Units of REITs & InvITs	10%	12.5%	10%	12.5%
Immovable property	20%	12.5%	20%	12.5%

Notes:

1. Exemption available under LTCG has been increased to INR 125,000.
2. No indexation benefit available for LTCG however forex fluctuation benefit available to NR on sale of unlisted shares.
3. Indexation available for unlisted shares on March 31, 2018 and sold in Offer for Sale (OFS)

Short term capital assets

Type of Asset	Residents		Non-residents	
	Current	Propose	Current	Proposed
Listed equity shares and units of equity oriented mutual fund	15%	**20%**	15%	**20%**
Others	No change - taxable at applicable rates			

Treelife Insight:

Mandatory classification of income on sale debentures (including CCDs / NCDs) and bonds as short term capital gains is a big move and could impact the Real Estate investors where such instruments are widely used. It will be interesting to see how such investors will react to this increase in tax rates.

Reduction in tax rates for long term capital gains on unlisted equity shares should give an impetus to PE / VC funds investing in startups as the lower tax rate will ultimately lead to an increase in the IRR for investors.

Reducing the period of holding for immovable properties to 24 months and reducing the long term capital gains tax rate to 12.5% will be looked at positively.

2. Change in taxation of buyback

Currently, buyback distribution tax is levied on the company at ~23% on the distributed income. It is proposed to tax the buyback proceeds in the hands of the shareholders as "dividend income" at applicable tax rates. The cost of acquisition of shares being bought back to be claimed as a capital loss (depending on holding period).

This amendment is proposed to be effective from October 1, 2024

Treelife Insight:

This will deter companies from offering buybacks as there is a significant tax outflow for the shareholders under the proposed regime. Further there could be timing mismatch between the claiming of loss and payment of tax on buyback proceeds resulting in cash outflow for the shareholders.

3. Increase in STT rates

STT rates for futures and options proposed to be increased with effect from to be effective from October 1, 2024:

	Current	**Proposed**
Options	0.0625%	**0.1%**
Futures	0.0125%	**0.02%**

III. Business

1. Abolition of Angel Tax

Angel tax i.e. section 56(2)(viib) of the Income-tax Act, 1961 proposed to be abolished with effect from April 01, 2024

Treelife Insight:

- *This is a big and welcome move for the startup ecosystem which should significantly boost investor confidence, especially foreign investors which were bought under the ambit of angel tax recently*
- *This amendment is prospective in nature and thus, past tax disputes to still continue*
- *Gift tax i.e. section 56(2)(x) for recipient of shares continues to apply*
- *Differential equity pricing structures will now evolve with this relief*
- *It may be interesting to see if investors insist on 'merchant banker' valuation reports under section 56 (2) (x) in small equity fundings which materially affect startups.*

2. Reduction in corporate tax rate for foreign companies

Tax rates for foreign companies proposed to be reduced from 40% to 35%.

3. Clarification for taxes withheld outside India

It is clarified that taxes withheld outside India are to be included for the purposes of calculating total income.

4. Increase in limit of remuneration to working partners of a firm allowed as deduction

Existing Structure	Allowable Remuneration	Proposed	Allowable Remuneration
on the first INR 3,00,000 of the book profit or in case of a loss	INR 1,50,000 or at the rate of 90 % of the book profit, whichever is more	on the first INR 6,00,000 of the book profit or in case of a loss	INR 3,00,000 or at the rate of 90 % of the book profit, whichever is more
on the balance of the book-profit	60%	on the balance of the book-profit	60%

5. Miscellaneous

- *Equalisation levy of 2% proposed to be abolished with effect from August 1, 2024*
- *Vivaad Se Vishwas Scheme proposed to be introduced*
- *Time limit for issue of notice for initiation of re-assessment reduced from maximum 10 years from end of assessment year to 5 years and 3 months from end of assessment year.*
- *Insertion of section 74A , an approach that consolidates the dealing with discrepancies irrespective of fraud and simplifying the procedural aspects under the CGST Act (on recommendations of GST Council) from FY 2024-25 as under*
    - Limitation period stands at 42 months (from the due date of furnishing the annual return for the financial year) for the purpose of issuance of notice (earlier it was 36 months in case of no allegation of fraud or suppression and 60 months in case of allegation of fraud or suppression)
    - Time period of 12 months for purposes of passing order (beyond 42 months as aforesaid) extendable by 6 months with approval.

6. Clarificatory amendments related to TDS

Section 194-IA (TDS on sale of immovable property) - Proposed to add a proviso to clarify that the threshold limit of INR 50 lakhs is to be checked on the total value of the property and not on amount paid to each individual seller (with effect from October 1, 2024).

Excluding sums paid under section 194J from section 194C (Payments to Contractors) -Earlier, taxpayers used to deduct TDS under section 194C even if the payment was liable to TDS under section 194J because there was no specific mutually exclusive clause while defining the word "work". It is proposed to amend the definition of “work” under section 194C to specifically exclude any sum referred to in section 194J (with effect from October 1, 2024)

7. Rationalization of TDS/TCS rates

Section	Old rates	Proposed new rates
Section 194D - Payment of insurance commission (in case of resident person other than company)	5%	2% (with effect from April 1, 2025)
Section 194DA - Payment in respect of life insurance policy	5%	2% (with effect from October 1, 2024)
Section 194G – Commission etc on sale of lottery tickets	5%	2% (with effect from October 1, 2024)
Section 194H - Payment of commission or brokerage	5%	2% (with effect from October 1, 2024)
Section 194-IB - Payment of rent by certain individuals or HUF	5%	2% (with effect from October 1, 2024)
Section 194M - Payment of certain sums by certain individuals or Hindu undivided family	5%	2% (with effect from October 1, 2024)
Section 194-O - Payment of certain sums by e-commerce operator to e-commerce participant	1%	0.1% (with effect from October 1, 2024)
Section 194F - Payments on account of repurchase of units by Mutual Fund or Unit Trust of India	20%	Proposed to be omitted (with effect from October 1, 2024)
New Section 194T - Payment of salary, remuneration, interest, bonus or commission by partnership firm to partners	NA	10% on various payments made to partners - salary, remuneration, interest, bonus or commission (with effect from April 1, 2025)
New Section 193 - Interest paid exceeding on Floating Rate Savings (Taxable) Bonds (FRSB) 2020 with effect from October 1, 2024	NA	10% (threshold - exceeding INR 10,000) (with effect from October 1, 2024)
Section 206(7) - Interest on late payment of TCS	1% per month or part of the month	1.5% per month or part of the month (with effect from April 1, 2025)

8. Procedural changes related to TDS proposed:

1. Time limit to file belated TDS/TCS return in order to not-attract penal provisions to be reduced from 1 year to 1 month from the due date of filling of such TDS/TCS returns (Section 271H) - with effect from April 1, 2025.
2. Provision to include levy of TCS at 1% on Luxury goods of value exceeding INR 10 lakhs. (Section 206C(1F)) List of such luxury goods are yet to be notified. - with effect from January 1, 2025
3. Exemption from prosecution if the payment of TDS is made before the due date of filing of TDS return as applicable for such TDS payments (Section 276B) - with effect from October 1, 2024
4. Applications for Lower tax deductions / collection at source can be made in respect of TDS/TCS u/s 194Q and 206C respectively - with effect from October 1, 2024.
5. Non revision of the TDS / TCS filings post 6 years of the end of the financial year in which the returns are to be filed. - with effect from April 1, 2025.
6. Fixation of time limit for deeming an assessee in default as under -
    a. 6 years from the end of FY in which credit given / payment was made.
    b. 2 years from the end of FY in which the correction statement is filed - with effect from April 01, 2025.
7. Nil / Lower Tax rates for certain class of notified persons (Class of persons yet to be notified) - with effect from October 1, 2024.

IV. GIFT-IFSC

1. Tax exemptions extended to Retail Schemes and ETFs

Proposed to amend the definition of 'Specified Fund' under Section 10(4D) to include Retail Schemes and ETFs launched in GIFT-IFSC thereby extending the beneficial tax regime applicable for CAT III AIFs to GIFT-IFSC to Retail Schemes and ETFs

Treelife Insight:

Relevant only for Inbound Funds setup by pooling money from non-resident investors as the condition that units (other than Sponsor / Manager units) to be held by non-resident investors continues to apply.

2. No surcharge on income for Specified Fund

Surcharge rate on interest and dividend income proposed to be removed for Specified Fund set-up in GIFT-IFSC even if setup as other than Trust

3. Section 68 provisions no longer applicable to Venture Capital Funds (VCFs)

Section 68 dealing with unexplained cash credits allows the tax officer to seek an explanation to provide the source of its funds used for making investment / offer loans to companies subject to these provisions. It is proposed to amend the definition of 'venture capital funds' to include VCFs in GIFT-IFSC thereby exempting them from questioning by the tax officer under section 68.

4. Finance Companies exempted from complying with 'Thin capitalisation' norms

Exemption from 'Thin Capitalisation' norms prescribed under section 94B for Bank and NBFCs extended to Finance Companies in GIFT-IFSC

Treelife Insight:

Finance companies in GIFT-IFSC, especially those engaged in treasury functions, lending or borrowing from non-residents should benefit from the removal of the cap on the deduction for interest expenditure, which was previously limited to 30% of EBITDA for that financial year.

5. Exemption on specified income from Core Settlement Fund setup by recognised clearing corporations

Proposed to amend the definition of 'recognised clearing corporations' under Section 10(23EE) to include 'recognised clearing corporations' setup in GIFT-IFSC, thereby, exempting any specified income of Core Settlement Guarantee Fund, set up by such corporations.

Contributors

Jitesh Agarwal
Founder
jitesh@treelife.in

Priya Kapasi Shah
Associate Partner
priya.k@treelife.in

Chintan Doshi
Principal Associate
chintan.d@treelife.in

Jeel Gosar
Senior Associate
jeel.g@treelife.in

Rohit Gandhi
Senior Associate
rohit.g@treelife.in

Gaurav Shetty
Senior Associate
gaurav.s@treelife.in

Get in touch with us

About Treelife

We provide **financial and legal support** to **entrepreneurs, investors, and foreign businesses** with access to a **team of professionals**, including chartered accountants, lawyers, and company secretaries, who have **deep domain expertise in the startup ecosystem.**

Our mission is to empower the startup ecosystem by providing holistic legal and finance solutions and save at least 80% time of stakeholders by delegating tasks to experts with accountability and confidence.

support@treelife.in

+91 99301 56000 | +91 22 6852 5768

www.treelife.in

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