# INDIA UNION BUDGET 2023-24
# KEY HIGHLIGHTS

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Before the 2024 general elections, the Hon'ble Finance Minister presented the Indian Union Budget for the fiscal year 2023-24 adopting seven priorities (complementing each other and guiding the Indian economy) - Inclusive Development, Reaching the Last Mile, Infrastructure and Investment, Unleashing the Potential, Green Growth, Youth Power and Financial Sector. The Budget also laid significant emphasis on the capital investment outlay of USD 122bn which is thrice the outlay proposed in the fiscal year 2019-20.

While the indirect tax proposals aim to promote exports, boost domestic manufacturing, enhance domestic value addition, encourage green energy and mobility, the direct tax proposals aim to maintain continuity and stability of taxation, simplify and rationalise various provisions to reduce compliance burdens, promote the entrepreneurial spirit and provide tax relief to citizens.

We are highlighting some of the key tax proposals, relevant from an international investor's perspective.

### 1. International Financial Services Centre (IFSC)

With a view of making the IFSC a global hub for the financial services sector and to bring it at par with IFSCs globally, the Finance Bill proposes to incentivise operations from the IFSC by making certain regulatory and tax amendments. The Finance Bill proposes delegation of powers for the IFSC Authority, amending the IFSC Authority Act, setting-up a single window IT system for registration and approvals, permitting acquisition financing by IFSC Banking units of foreign banks, recognising Offshore Derivative Instruments (ODI) as valid contracts, etc.

Further, from a tax perspective, the Finance Bill proposes to extend the tax exemption on relocation of offshore funds to the IFSC from the current limitation of 31 March 2023 to 31 March 2025 and also proposes to extend the current exemption on taxation of income from ODIs by IFSC Banking Units to the distribution made to the non-resident ODI holders.

### 2. Taxability of income of Unit Holders of Business Trust

The domestic tax law provides that any distribution made by business trusts (REIT/InVIT) by way of interest, dividend and rental income is taxable in the hands of the unitholders. However, there was no clarity on the taxability at the time of repayment of debt as the same was not specifically covered under the provisions pertaining to taxability in the hands of business trusts and unit holders.

With a view to bring such repayment of debt within the ambit of tax, the Finance Bill proposes to tax the repayment of debt, whether or not, by way of redemption of units or otherwise as income from other sources in the hands of the unitholders. Further, where the repayment of debt results into redemption of units, the taxable income shall be reduced to the extent of the cost of acquisition.

### 3. Start-ups

The last date to incorporate a start-up eligible for claiming tax holiday is extended by another year. Accordingly, eligible start-ups incorporated on or before 31 March 2024 shall be entitled to claim 100% tax holiday for 3 years.

In case of eligible start-up, the domestic tax law provides that business loss is allowed to be carried forward and set off up to 7 years (from the year in which such start-up has been incorporated), subject to the condition involving continuity of shareholding. The Finance Bill proposes to extend the said time period from 7 years to 10 years from the date of incorporation of such a start-up.

### 4. Presumptive taxation for non-residents engaged in specified business

The Finance Bill proposes that where for a given fiscal year a non-resident taxpayer has opted for presumptive taxation in connection with the business of exploration, etc., of mineral oils and civil constructions, etc., in certain turnkey power projects, no set off of unabsorbed depreciation and brought forward losses shall be allowed to such a taxpayer for the fiscal year.

### 5. Tax arising on issue of shares at premium to non-resident

The domestic tax law provides that where a privately held company receives any consideration towards issue of shares from resident shareholders that exceeds the face value of such shares then, any such consideration in excess of the prescribed fair market value shall be taxed as income in the hands of such privately held company. The Finance Bill now proposes to include the receipt of consideration towards issue of shares from any non-resident shareholder as well thereby widening the tax base in case of privately held companies irrespective of the residential status of the shareholder.

### 6. Taxation of online games

With a rise in the number of users of online games, the Finance Bill proposes to provide for a special taxation regime with regard to tax on winnings from online games. Under this regime, income in the forms of net winnings from any online games shall be taxable at a flat rate of 30% (plus applicable surcharge and cess). Further, to track these transactions, the Finance Bill, with effect from 1 July 2023, proposes to levy withholding tax at the rate of 30% on such net winnings in the user account at the end of the fiscal year and in case of withdrawal from user account, on net winnings comprised in such withdrawal.

### 7. Rationalisation of provisions of Charitable Trusts and Institutions

The Finance Bill proposes provisions for strict monitoring & compliances by charitable institutions for availing tax exemption. Defaults in timely compliances would disentitle such institution from availing the tax exemption. Further the Finance Bill discourages aggregation model for charitable institutions by limiting only 85% of the amount of donation given to another charitable institution as application (expenditure) of income.

### 8. Personal taxation

With a view to promote the concessional personal tax regime, the Finance Bill proposes the following amendments:

- The tax rates applicable to income of an individual taxpayer to be revamped and the basic tax exemption limit to be enhanced to INR 0.3mn from INR 0.25mn.
- Also, in case of super rich individuals (earning income exceeding INR 50mn) surcharge rate to be reduced from 37% to 25%.
- Further, on account of tax rebate, no taxes to be paid by an individual (opting for new tax regime) where the income does not exceed INR 0.7mn.

## CONCLUDING THOUGHTS

The Finance Bill has announced various proposals for bringing investments in India, introducing reforms to ease compliances and improving tax administration. Upon enactment of these proposals, India should be in a position to achieve its estimated economic growth which is notably the highest among all the major economies.

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