Tax Hotline

February 01, 2024

INDIA'S INTERIM BUDGET 2024 - ANALYSIS

In the backdrop of the national elections to be held later this year, the Indian Finance Minister, Ms. Nirmala Sitharaman presented the *interim* budget for financial year ("**FY**") 2024-25. This will be a temporary Budget until the new Government is elected, which will release the full Budget in July 2024. Keeping in line with the convention for interim budgets, no major reforms or tax policy changes have been announced. Instead, the Budget has only set out the estimated receipts and expenditure[1], fiscal deficit targets, outlay for capital expenditure (capex), and the vision of the current Government for India's economic and social growth.

As expected, in order to facilitate economic stability, achieve fiscal consolidation, and boost investor confidence, the Government has set a target to reduce the fiscal deficit from 5.9% of the GDP to 5.1% by 2024-25 and 4.5% by 2025-26. The outlay for capex has been increased by 11.1% to INR 11.11 trillion (3.4 % of the GDP). To overcome the slowdown of the economy due to the Covid -19 pandemic, the Government had been increasing the outlay for capex at the rate of 35-37% since FY 2020-21, on the basis that capex has a multiplier effect on economic growth. Now that India has achieved significant momentum and continues to grow at a rate of over 7% (despite global slowdown and geopolitical uncertainties), there was felt a need to keep the capex in check, to control fiscal deficit and inflation. Thus, the proposed reduction in the rate of increase of outlay for capex from 35-37% to 11.1 % is a welcome move and in line with market expectations.

In terms of its vision for India, the Government proposes to adopt policies that foster economic growth, and promote social welfare with inclusive development. The Budget states that it is an important policy priority for the Government to ensure finances, technology, training, and a conducive regulatory environment for the Micro, Small and Medium Enterprises (MSME), which form the backbone of our economy. The Budget also proposes to focus on the development of East India by making the people of the eastern region powerful drivers of India's growth. Further, through rooftop solarization, the Government proposes to enable 10 million households to obtain up-to 300 units of free electricity every month along with a host of other ancillary benefits.

On the healthcare front, the Government plans to set up more medical colleges by utilizing the existing hospital infrastructure under various departments, encourage vaccination for girls in the age of 9 to 14 for prevention of cervical cancer, expedite the upgradation of anganwadi centres (for early childhood care in rural areas), etc. As an impetus to the Agricultural sector, Government proposes to promote private and public investment in post-harvest activities including aggregation, modern storage, efficient supply chains etc. It also proposes to achieve *'atmanirbharta'* (self-reliance) for oil seeds and formulate a strategy for supporting dairy farmers to foster dairy development.

Recognizing the importance of technology and innovation in propelling growth, the Government proposes to establish a corpus of INR 1 trillion to provide long term financing with low or nil interest rates for technological research and development. It also proposes to launch a new scheme to strengthen deep-tech technologies for defense purposes. On the green energy front, various measures have been proposed to meet India's commitment of 'net zero'. This includes budgetary allocation for harnessing offshore wind energy potential, procuring biomass aggregation machinery, devising schemes for bio-manufacturing and enhancing electrical vehicle (EV) infrastructure.

With respect to infrastructure development, recognizing the importance of mobility in increasing economic growth, the Government proposes to implement three major economic railway corridors, namely the (a) energy, mineral and cement corridors, (b) port connectivity corridors, and (c) high traffic density corridors. It has also announced that 40,000 normal rail bogies will be converted to Vande Bharat standards to enhance safety, convenience and comfort of passengers. The Government also proposes to continue the expansion of air connectivity and airports under the earlier introduced UDAN scheme and also the Metro facilities to foster rapid transportation within cities.

The Budget does not seek to make any major changes on the tax front. In order to ensure continuity of certain exemptions, the Budget seeks to extend the sunset on such exemptions from March 31, 2024 to March 31, 2025. These exemptions inter-alia include (i) exemption of income earned by sovereign wealth funds, and pension funds from investments in the infrastructure sector, (ii) exemption of income attributable to the investment division of an offshore banking unit in the International Financial Services Centre ("IFSC") (iii) exemption of any income of a non-resident by way of royalty, on account of lease of an aircraft / ship in a previous year, paid by a unit of an IFSC and (iv) tax holiday on profits earned by eligible start-ups from eligible businesses. Further, after considerable flipflop on the provisions in relation to tax collection at source ("TCS") on remittances made under the Liberalised remittance scheme ("LRS"), the Budget has brought the provisions of section 206C(1G) in line with the changes proposed through Circular 10 of 2023. No TCS is required on remittances made under LRS, unless the remittances exceed INR 7,00,000 in a financial year. TCS is required to be deducted at the rate of 20% on remittances (for purposes other than medical and education) under LRS, in excess of INR 7,00,000. Importantly, the sunset period for commencement of manufacturing operations for availing the lower tax rate of 15% by manufacturing companies has

Research Papers

Handbook on New Labour Codes
April 29, 2024

Compendium of Research Papers
April 11, 2024

Third-Party Funding for Dispute Resolution in India
April 02, 2024

Research Articles

Private Client Insights - Sustainable Success: How Family Constitutions can Shape Corporate Governance, Business Succession and Familial Legacy
January 25, 2024

Private Equity and M&A in India: What to Expect in 2024?
January 23, 2024

Emerging Legal Issues with use of Generative AI
October 27, 2023

Audio

Third-Party Funding: India & the World
April 27, 2024

IBC allows automatic release of ED attachments: Bombay HC reaffirms
April 15, 2024

The Midnight Clause
February 29, 2024

NDA Connect

Connect with us at events, conferences and seminars.

NDA Hotline

Click here to view Hotline archives.

Video

Q&A 2024 Protocol to the Mauritius India Tax Treaty
April 22, 2024

Boost to India's Space Potential: India Liberalizes Foreign Direct

not been extended beyond March 31, 2024. In our view, the Government should have extended this sunset period to continue fostering 'make in India' (*atmanirbharta)* and further reduce the current account deficit.

Furthermore, the Government has acknowledged the challenges stemming from numerous small, unverified tax disputes, the oldest dating back to the 1960s. The Government has sought to provide amnesty for such disputes by declaring the withdrawal of all tax demands up to INR 25,000 (for periods up till FY 2010), and up to INR 10,000 (for periods up till FY 14-15). This move is a relief not only to the taxpayers (facing unnecessary tax procedures), but also to the tax authorities (allowing them to focus on more legitimate concerns). This should also help clean the government's balance sheets and allow ease of processing refunds to small taxpayers.

In conclusion, while the Budget makes no significant announcements, it sets out the path that the current Government envisages for India's future. Other than the economic reforms, the focus of this Budget has been proposals pertaining to social justice, inclusive development, empowerment of the (youth, poor, women and farmers), physical and social infrastructure, digitization, green energy etc. Given that India prides itself on being a mixed economy, the focus on social welfare measures is commendable and if implemented effectively, India should have a bright future in terms of inclusive growth.

– International Tax Team

You can direct your queries or comments to the authors.

[1]The total receipts for FY 2024-25 are estimated to be INR 30.8 lakh crore (out of which tax receipts are estimated to be 26.02 lakh crore). The total expenditure for FY 2024-25 is estimated to be 47.66 lakh crore.

Investment

April 03, 2024

Cyber Incident Response Management

February 28, 2024