

JSA Tax Prism Union Budget

January 2024

Interim Union Budget, 2024

Introduction

Hon'ble Finance Minister tabled the Interim Budget for the fiscal year starting April 1, 2024 ("**Budget**"), ahead of the upcoming general elections. The Budget focusses on youth and women empowerment while reaffirming the commitment towards fiscal consolidation and increased capital expenditure. The fiscal deficit target for Financial Year 2024-25 is lowered to 5.1% of the GDP, as against the target set last year at 5.9% which is in sync with the commitment to achieve fiscal deficit of less than 4.5% by Financial Year 2025-26.

The budget hailed the achievements of the Government in the last 10 (ten) years, especially for delivering high growth and maintaining exemplary track record of governance, development, and performance and providing transparent, accountable, and people-centric, trust-based administration, with citizen-first, minimum-government and maximum-governance mode.

Since this is an interim budget, keeping in with the convention, no changes are proposed in direct and indirect tax rates, including import duties. However, certain amendments are proposed to ensure continuation of tax benefits to start-ups, sovereign wealth funds, pension funds and International Financial Services Centre ("**IFSC**") units, which were expiring on March 31, 2024.

In the above backdrop, please find below a snapshot of the key tax proposals contained in the Budget.

DIRECT TAX

Personal Taxation

No changes are proposed to the income tax rates applicable. Accordingly, income tax rates as applicable to the previous financial year would continue to apply.

Taxation of Start-Ups

A tax holiday benefit is currently available to eligible start-ups which are incorporated before April 1, 2024. The sunset clause is proposed to be extended and the benefits would be available to eligible start-ups which will be incorporated before April 1, 2025.

Taxation of Financial Services

1. A tax exemption is currently available to certain incomes derived by the investment divisions of offshore banking units located at the IFSC. Currently, this beneficial provision is applicable to units which commence operations before April 1, 2024. This is now proposed to be extended to units which commence operations before April 1, 2025.
2. An exemption is available to non-residents in respect of income in the nature of royalty or interest on account of leasing of aircraft / ships which is paid by a unit in an IFSC to a non-resident. Additionally, tax deduction is provided in respect of income earned by units in an IFSC from transfer of aircraft or ship. The timeline to commence operations to be able to avail such benefits is proposed to be extended from March 31, 2024 to March 31, 2025.
3. Tax exemptions are available to specified entities such as Abu Dhabi Investment Authority, sovereign wealth funds or foreign pension funds on investments made by them up to March 31, 2024. This sunset clause date is proposed to be extended from March 31, 2024 to March 31, 2025.

Significant Procedural Changes

1. Certain changes were announced by way of circulars issued during the current financial year to the provisions relating to tax collection at source (“TCS”) on certain specified remittances such as under the Liberalised Remittance Schemes (“LRS”) (including overseas tour packages). The Finance Bill 2024 (“Finance Bill”) has proposed to introduce these changes into the provisions under Section 206C. These include exemption of TCS on remittance up to INR 7,00,000 (Indian Rupees seven lakh), lower TCS of 5% on remittances for education of medical purposes, LRS of 20% on other LRS remittances (including overseas tour packages) above INR 7,00,000 (Indian Rupees seven lakh).
2. The timeframe for the Central Government to issue directions relating to procedural aspects regarding the dispute resolution panel and the Income Tax Appellate Tribunal is proposed to be extended from March 31, 2024 to March 31, 2025.
3. In the Budget speech, the Finance Minister has also proposed to withdraw outstanding direct tax demands of up to INR 25,000 (Indian Rupees twenty-five thousand) pertaining to the period up to financial year 2009-10 and demands up to INR 10,000 (Indian Rupees ten thousand) for financial years 2010-11 to 2014-15.

INDIRECT TAX PROPOSALS

Goods and Services Tax

Following changes are proposed in the Central Goods and Services Tax Act, 2017 (“CGST Act”) which will come into effect upon the enactment of the Finance Bill.

Input Service Distributor (“ISD”) related provisions

1. In line with GST council’s recommendation in 50th and 52nd meeting, registration as an ISD is proposed to be made mandatory for the office of the supplier of goods or services, where the tax invoices for common input services are received.
2. Definition of ISD under Section 2(61) of the CGST Act is proposed to be amended to specifically include invoices for services liable to tax under reverse charge.

3. The present conditions for distribution of credit prescribed under Section 20 of CGST Act (i.e. pro-rata on the basis of turnover in a State) has been removed. The restrictions and conditions in this regard will be prescribed separately.

Penalty prescribed for non-adherence of special procedure for registration of machines by businesses operating in the tobacco sector

1. The Central Board of Indirect Taxes and Customs *vide* Notification No. 4/2014-Central Tax dated January 5, 2024 notified special procedure to be followed by businesses engaged in manufacture of pan masala, gutkha, tobacco etc. Details of packing machines used for filling and packing of packages are required to be electronically furnished in specified form, along with submission of monthly statement certified by a chartered engineer.
2. The said notification will come into effect from April 1, 2024.
3. The Finance Bill proposes to introduce new Section 122A to prescribe penalty of INR 1,00,000 (Indian Rupees one lakh), seizure and confiscation of unregistered machinery, in case of contravention of said special procedure notified *vide* Notification No. 4/2014-Central Tax dated January 5, 2024.

Tax Practice

JSA offers a broad range of tax services, both direct and indirect, in which it combines insight and innovation with industry knowledge to help businesses remain compliant as well as competitive. The Tax practice offers the entire range of services to multinationals, domestic corporations, and individuals in designing, implementing and defending their overall tax strategy. Direct Tax services include (a) structuring of foreign investment in India, grant of stock options to employees, structuring of domestic and cross-border transactions, advising on off-shore structures for India focused funds and advise on contentious tax issues under domestic tax laws such as succession planning for individuals and family settlements, (b) review of transfer pricing issues in intra-group services and various agreements, risk assessment and mitigation of exposure in existing structures and compliances and review of Advance Pricing Agreements and (c) litigation and representation support before the concerned authorities and before the Income Tax Appellate Tribunal, various High Courts and Supreme Court of India. Under the Indirect Tax, JSA provides services such as (a) advisory services under the Goods and Services Tax laws and other indirect taxes laws (VAT/ CST/ Excise duty etc.), and includes review of the business model and supply chain, providing tax implications on various transactions, determination of tax benefits/exemptions, analysis of applicability of schemes under the Foreign Trade Policy (b) transaction support such as tax diligence (c) assistance in tax proceedings and investigations and (d) litigation and representation support before the concerned authorities, the Appellate Tribunals, various High Courts and Supreme Court of India. The team has the experience in handling multitude of assignments in the manufacturing, pharma, FMCG, e-commerce, banking, construction & engineering, and various other sectors and have dealt with issues pertaining to valuation, GST implementation, technology, processes and related functions, litigation, GST, DRI investigations etc. for large corporates.

This Prism has been prepared by:



Kumarmanglam Vijay
Partner & Head of
Practice - Direct Tax



Manish Mishra
Partner & Head of
Practice - Indirect Tax



Shareen Gupta
Partner



Surajkumar Shetty
Of Counsel



Ankur Mittal
Of-Counsel




Shikha Parmar
Principal Associate



Divyam Mittal
Senior Associate



Joybrata Misra
Senior Associate

		
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For more details, please contact km@jsalaw.com

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