Driving growth

Union Budget 2023–24

February 2023

Contents

Preface

The Economic Survey 2022 offered the cues for transforming India into the brightest spot in the gloomy global economic scenario. The targeted growth rate of above 6% outlined by the Economic Survey had hinted the need for higher capex and boosting consumption. It had also outlined the need for supporting the stressed MSMEs. Skilling and consequently reaping demographic dividends that are available to India has been an imperative. Make in India and Atmanirbharta were emphasised in the Economic Survey. On the fiscal front, the Economic Survey argues that the dividends reaped from fiscal discipline by emerging economies is much higher.

Given the above context, we can safely say that the Union Budget 2023 has fulfilled all the major expectations. The key areas of thrust in the budget are as follows:

Fiscal Discipline – The revised estimates have reaffirmed meeting the targeted 6.4% of GDP. We can safely assume that the actuals could be even lower by 10 bps. The targeted fiscal deficit for FY24 is 5.9%, namely, a 50 bps reduction, and reaffirmation to take the fiscal deficit under 4.5% by FY26. This will be reassuring for the sovereign credit raters, and we can also expect a continued increase of capex boost over the next two FYs that will have positive externalities and lower the logistics costs in the economy. This will make India globally competitive and boost exports. There has also been an announcement on moving to result based budgeting on a pilot basis, which is a very progressive fiscal management move.

Capex boost to economy – The capex allocation has been increased by 33% and taken to INR 10tn. The very high allocation of INR 2.4tn to railways is good news as roads and railways are sectors that have been able to absorb the higher allocation. The capex scheme for states under which interest-free 50-year tenor loan is available has been extended by one more year, and they have been allowed the enhanced 3.5% of their GSDP as fiscal deficit for FY24 as well with 0.5% tied to power sector reforms. It will help improve the finances of the power discoms and also ensure payments to the generation companies, thus leading to a positive cycle in the sector.

Consumption boost – The announcements on the personal income-tax have been aligned to incentivising taxpayers to move to the new tax regime, wherein the tax slabs have been enhanced and rates have been lowered. The old tax regime has tax incentives only on savings that are eligible for deductions and therefore does not incentivise consumption. The lower taxes in the new interest regime will lead to higher disposable incomes at the lower end of the income-tax brackets that will be used for consumption by these households, thereby supporting consumption. The highest tax rate has also been brought down by 3.7 percentage points which at INR 0.02bn income works out to INR 0.74m lesser tax. This will allay some of the concerns about HNIs leaving owing to the very high tax rate in India. A 66% enhancement in allocation to the PM Awas Yojana (Housing scheme) will lead to job creation in rural areas supporting consumption. The increase in the monthly income schemes from INR 0.45m to INR 0.9m for single accounts and from INR 0.9m to INR 1.5m for joint accounts will generate more disposable income in the hands of the pensioners and retired persons who use this as a common tool for meeting household expenses.

Atmanirbharta – The government had received some criticism previously on the increase of import duties and Atmanirbharta being seen as inward looking. The budget has lowered the customs duties on several components and items used for manufacturing, indicating that India seeks to be a part of the global value chain. This will help position India well for consideration by the MNCs in their reorientation of their manufacturing and supply chains.

Reaping the demographic dividend – There have been several announcements in the budget for the youth termed as 'Amrit Peedhi', referring to the young demography that will help reap the dividends in the 'Amrit Kaal' – the period up to 2047 by when India aspires to be a developed nation. Announcements on skilling the youth in new age skills, a national pan-India apprenticeship scheme and National Skills Development Scheme 4.0 will deliver the same. There have been several other announcements on skilling initiatives in areas such as nursing and tourism that have a very high job potential in India and globally.

Supporting MSMEs – Several announcements for supporting MSMEs have been made, and the most important is the continuation of the Credit Guarantee Line for MSMEs with additional allocation to the corpus of INR 90bn that is estimated to facilitate an additional collateral free guaranteed credit of INR 2tn. Support for artisans and micro enterprises has also been announced. The unity malls to showcase and sell products under the One District One Product Scheme are also to support micro-enterprises, and announcements have been made on supporting the MSMEs for accessing markets.

Ease of Doing Business – Several further measures related to ease of doing business have been announced. Some of the key ones are a one-stop solution of ID and address update using the Digilocker and Aadhar, PAN being the common business identifier for businesses and a unified filing process for submission of the same information across different agencies, among others.

Sustainable and inclusive growth – Green growth-related announcements with INR 350bn being allocated for energy transition and PPP-based battery energy storage systems with viability gap funding and allocations for renewable energy evacuation are welcome moves. A green credit program to incentivse environmentally sustainable actions by corporates is aligned to the LiFE philosophy that is being espoused by the Prime Minister globally. Several announcements have been made for cooperatives, farmers and the disadvantaged, along with support for millets (termed as 'Shree Anna'), all of which are measures towards inclusive development.

Summarising, as an early reaction, while the Budget is a balancing exercise of revenues and expenditure, the Finance Minister does not appear to have left anyone out, and every stakeholder segment can look forward to some benefits from the Union Budget 2023.

Economic outlook

Indian economy – As per the first advance estimates (FAEs) released by the NSO that is used as a base for creating the budget, India's GDP is estimated to grow by 7% in FY23 over FY22 with 4.5% growth expected in the second half of FY23. This is a strong growth print compared to the 2.9% global economic growth projected by the IMF for 2023.

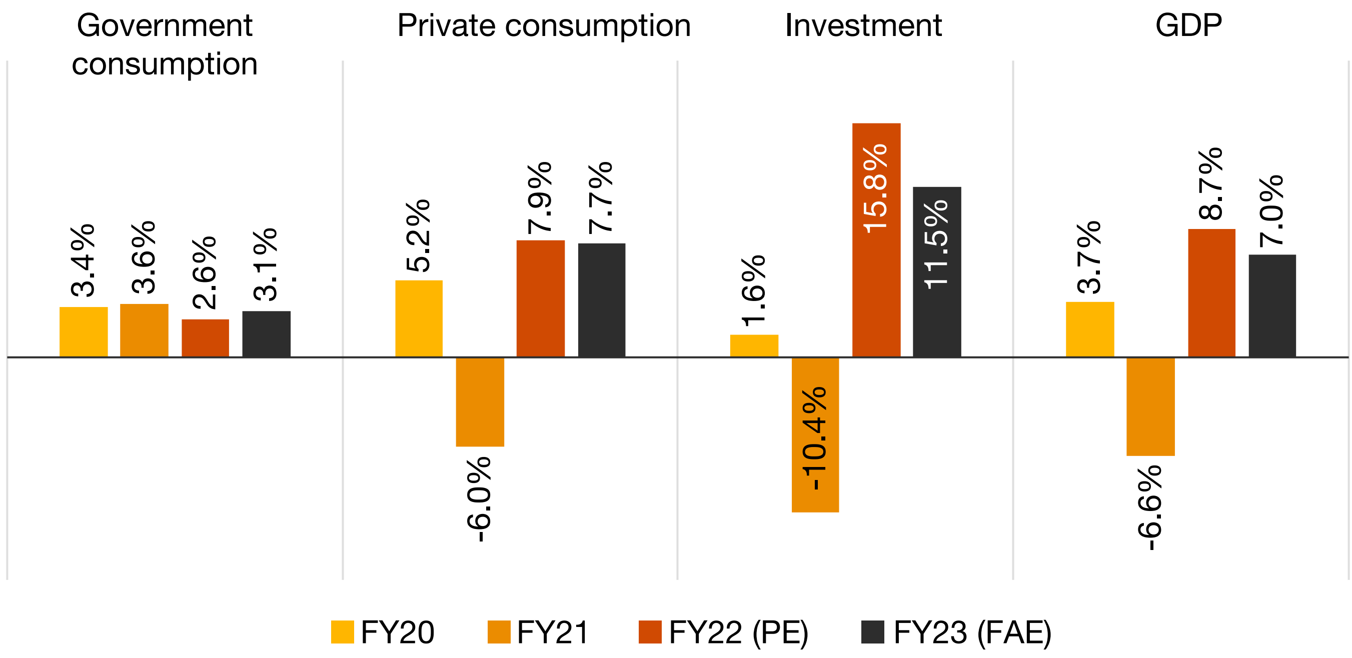
Private consumption is expected to grow by 7.7% in FY23 mainly due to the pent-up demand for contact intensive services. However, this seems optimistic given the 6.7% average annual growth during FY13 – 20 and the slowdown in demand for consumer durables and nondurables that is being experienced. Government consumption is projected to grow by 3.1%, possibly due to optimisation of expenditure on the revenue account. Investment is projected to grow by 11.5%, likely due to increased capital outlay by the Central Government. Exports are projected to grow by 12.5% with 11.9% growth expected in H2 that seems challenging to achieve given the weakness in global demand. Imports are projected to grow by 20.9% in FY23 due to increase in the import volume of manufactured goods as well as minerals, metals, fertilisers and machinery, suggesting increased consumption and investment demand.

Agriculture is projected to grow by 3.5% in FY23, likely due to the strong performance of the livestock and fisheries sectors and expectations of good rabi harvest based on increased acreage. Manufacturing is expected to grow by 1.6% with 0.1% growth in H1 and 3% growth in H2. Weak manufacturing performance during H1 is attributable to high input prices, supply constraints, weak external demand and subdued domestic demand for consumer durables. The H2 growth of 3% seems optimistic given the global slowdown and income stress in rural areas and for households at the bottom of the income pyramid. Construction is projected to grow by 9.1% mainly due to the Government's focus on infrastructure projects and demand recovery in the real-estate sector. The services sector is projected to grow by 9.1% in FY23 with contact-intensive services such as trade, hotels, transport and related services expected to grow by 13.7%. This is due to the revival of the pent-up demand for the hospitality sector and resumption of travel. Financial, real-estate and professional services growth is expected to moderate to 6.4% possibly due to slowdown in the credit growth with rising interest rates and deceleration in the global demand for software and professional services.

Economic outlook

Economic outlook – India has shown remarkable resilience to global headwinds in FY23 and is strongly positioned to face global challenges in FY24 owing to the resilience factors that are in its favour. The Economic Survey 2023 has pegged a baseline growth of 6.5% and a range of 6.0% to 6.8%. The large domestic market, government's capex push that has been enhanced by another 33% to INR 10tn and more disposable income in the hands of income-tax payers in the lower end of the spectrum with the concessions announced under the new tax regime make achieving this targeted growth plausible. The Union Budget 2023 has targeted a lower fiscal deficit in FY24 at 5.9% and committed to bring it down to under 4.5% by FY26 as announced earlier. Sticking to this fiscal consolidation path will have a sobering impact on the bond yields and the current account, thereby supporting macro-economic stability. A stronger banking sector with improved asset quality is better equipped to meet the increasing credit demand. India has signed trade deals with the UAE and Australia and is negotiating trade pacts with the UK, Canada, Bangladesh, Israel and several regional blocs to boost exports and strengthen the supply chain. Despite these upsides, several risks must be considered, including volatility in food and oil prices; global monetary tightening by central banks and challenging financial conditions in several economies leading to the risk of global slowdown; sluggish growth of private consumption, especially rural consumption and among low-income households; sticky private investment; and distress among MSMEs. The Union Budget 2023 has made announcements to mitigate several of these risk factors and has laid the foundation for accelerated growth once the dark clouds recede from the global economic horizon.

Annual growth of GDP and demand components at constant prices

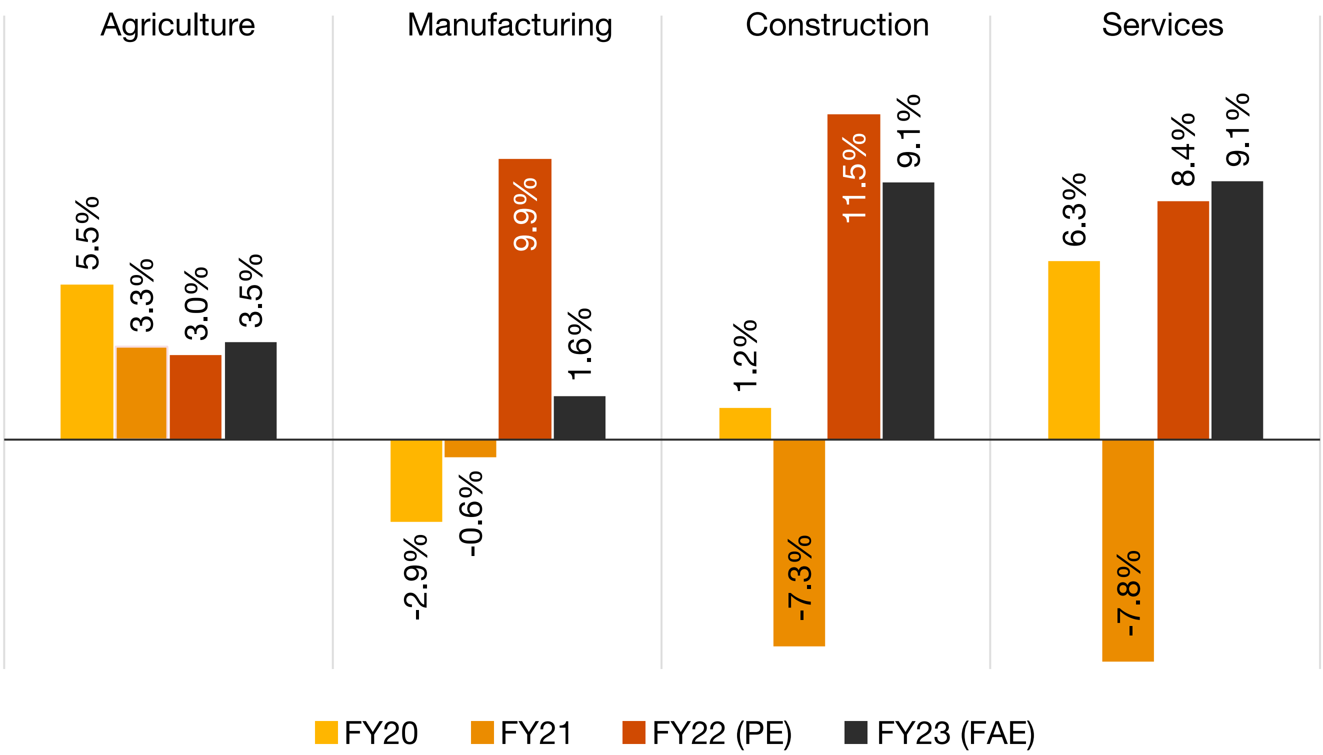


Source: FAE of National Income 2022-23 by National Statistical Office, MoSPI

*PE – Provisional estimates

Economic outlook

Annual growth of sectoral gross value added at constant prices



Source: FAE of National Income 2022-23 by National Statistical Office, MoSPI

Budget at a glance

As per revised estimates, the fiscal deficit value is estimated to increase by INR 0.94tn for FY22–23. However, fiscal deficit as a percentage of GDP is expected to be maintained at the budgeted level of 6.4%. This is due to the expectation of higher nominal GDP growth (15.4% as per FAE) than projected in the budget (11.1%) for FY22–23 as well as higher revenue realisation than budgeted.

For FY23–24, the government has budgeted the fiscal deficit to come down to 5.9% of the GDP. The budget is also committed to continue on the path of fiscal consolidation to reach a fiscal deficit–to–GDP ratio of less than 4.5% by FY25–26.

The government has budgeted an increase of 12% in the net tax revenue and 15% in non-tax revenue for FY23–24 as compared to FY22–23 RE. Disinvestment and asset monetisation receipts for FY23–24 are estimated at a conservative INR 0.61tn, similar to FY22–23 RE.

Moreover, an increase of only 1% is budgeted for revenue expenditure while capital expenditure is budgeted to increase by 37% in FY23–24 over FY22–23 RE, thereby further improving the quality of deficit. The Subsidy bill of the government is proposed to decline by 28% from FY22-23 RE with 22%, 31% and 75% reduction in fertiliser, food and petroleum subsidies, respectively.

Allocation for the Mahatma Gandhi National Rural Employment Guarantee Program (MGNREGP) is budgeted to decline by 33%. Allocation for the Pradhan Mantri Awas Yojna (PMAY) is increased by 66% over FY22–23 BE but only 3% over FY22–23 RE. Moreover, special assistance as loan to states for capital expenditure is budgeted to increase by 71% over FY22–23 RE. Key sectors to receive higher allocation in FY23– 24 include energy, IT and telecom, and transport. The only sector that has received lower allocation compared to last year's revised estimates is Rural Development which is explained by the lower MGNREGP allocation.

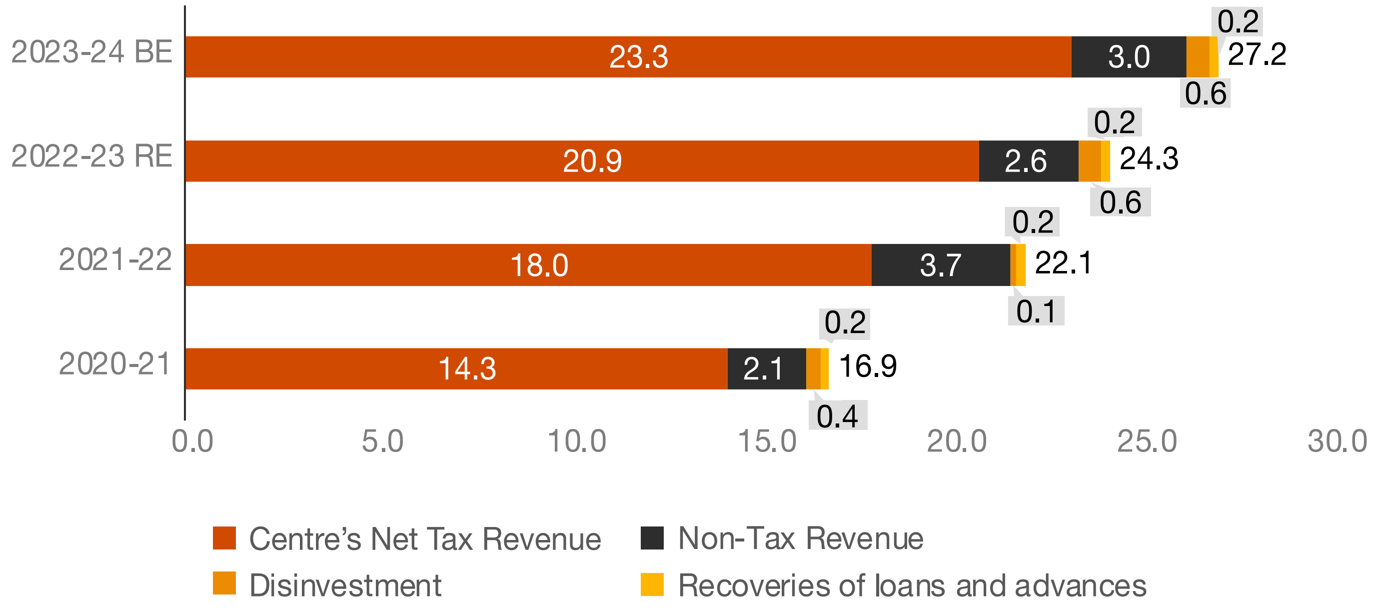
Fiscal deficit targets and actuals (as percentage of GDP)

Fiscal deficit as % of GDP	2020-21	2021-22	2022-23	2023-24	Medium term
Budget 2021-22	9.5% (RE)	6.8% (BE)			4.5% by 2025–26 (Projection)
Budget 2022-23	9.2% (Actuals)	6.9% (RE)	6.4% (BE)		4.5% by 2025-26 (Projection)
Budget 2023-24		6.7% (Actuals)	6.4% (RE)	5.9% (BE)	4.5% by 2025–26 (Projection)

*BE: Budget Estimate; RE: Revised Estimate

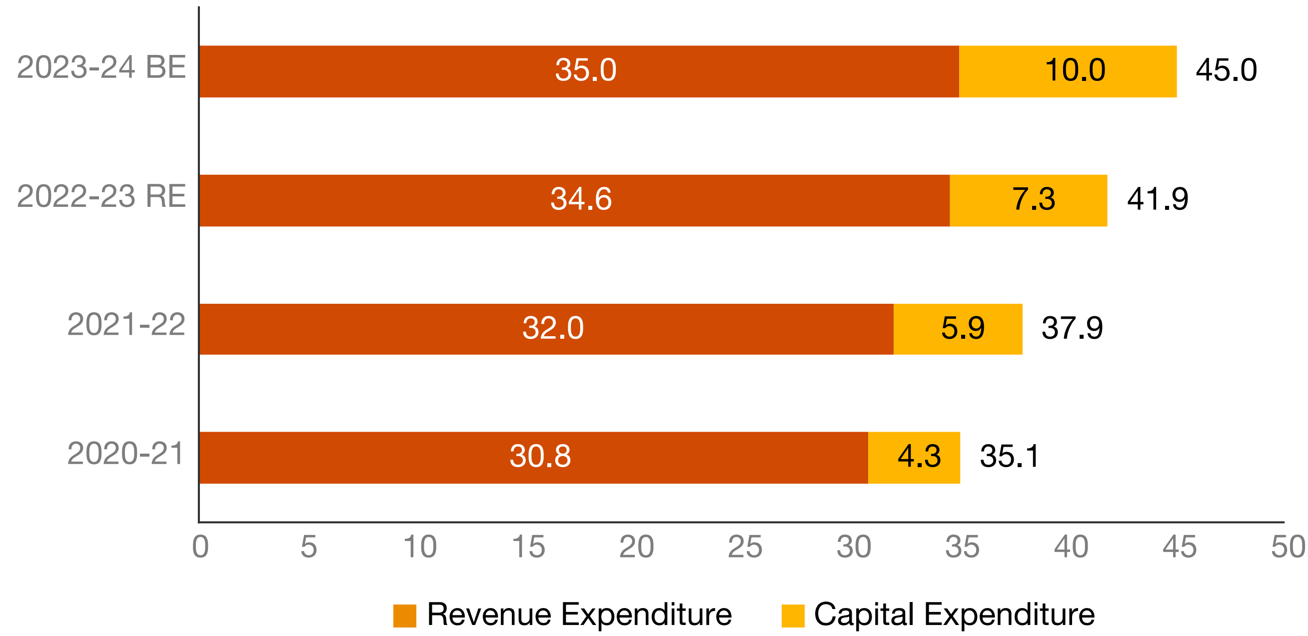
Budget at a glance

Total non-debt receipts and its components (INR tn)



Source: Union Budget 2023-24

Total expenditure and its components (INR tn)



Source: Union Budget 2023–24

Key tax and regulatory proposals

Tax rates

Income tax

- Income-tax rates (including surcharge, health and education cess) for companies (domestic and foreign), firms, limited liability partnerships and individuals to remain unchanged. This includes rates for minimum alternate tax and alternative minimum tax.
- New Personal Tax Regime (NPTR) to be extended to cover Association of Persons (AOPs) (other than a co-operative society), Body of individuals and artificial judicial persons.
- The tax slabs for NPTR are to be revised as follows:

Existing		Proposed	
Slabs (INR)	**Rates**	**Slabs (INR)**	**Rates**
0-250,000	Nil	0-300,000	Nil
250,001-500,000	5%	300,001-600,000	5%
500,001-750,000	10%	600,001-900,000	10%
750,001-1,000,000	15%	900,001-1,200,000	15%
1,000,001-1,250,000	20%	1,200,001-1,500,000	20%
1,250,001-1,500,000	25%	Above 1,500,000	30%
Above 1,500,000	30%		

- The maximum surcharge under NPTR is proposed to be restricted to 25% (against 37%).
- Other benefits proposed to be provided to taxpayers under NPTR are as follows:
  - Rebate enhanced upto INR 25,000
  - Standard deduction, family pension and deduction in respect of the amount paid or deposited in Agniveer Corpus Fund allowable as deduction
- Persons having income from business and profession can opt out from the NPTR only once.
- It is proposed to provide a concessional tax regime of 15% (plus 10% surcharge) for newly set-up co-operative societies (set up on or after 1 April 2023) that are engaged in manufacturing, which commence operations on or before 31 March 2024.
- In case of AOPs that consist of only companies as their members, the maximum surcharge is restricted to 15%.

Key tax and regulatory proposals

Customs

- Basic Customs Duty (BCD) is increased for the following:
  - Articles of precious metals – from 20% to 25%
  - Silver dore or silver (including silver plated with gold or platinum), unwrought or in semi manufactured forms, or in powder form bars – from 6.1% or 7.5% to 10%.
  - Compounded rubber – from 10% to 25% or INR30 per kg, whichever is lower.
- The rate of BCD is reduced for the following goods, subject to compliance with the provisions of Import of Goods at Concessional Rate of Duty Rules (IGCR Rules):
  - Denatured ethyl alcohol for use in manufacture of industrial chemicals – from 5% to Nil.
  - Crude glycerin for use in manufacture of epichlorohydrin – from 7.5% to 2.5%.
  - Seeds for use in manufacture of rough lab grown diamond (exemption for a period of two years) – reduced to Nil.
  - Certain ingredients or inputs (such as fish meal or krill meal) for use in the manufacture of aquatic feed – from 15/ 30% to 5%/ 15%.
  - Camera lens and input or sub parts for lens of camera module of mobile phone – from 2.5% to Nil.
  - Parts for manufacture of open cells of TV panels – from 5% to 2.5%.
- BCD is reduced to nil in respect of import of specified capital goods and machinery required for the manufacture of lithium-ion cells for batteries used in electric vehicles.
- To rectify the inversion of duty structure and encourage the manufacturing of electric kitchen chimneys, the following changes are proposed in the rate of BCD:
  - Increase in BCD on electric kitchen chimney – from 7.5% to 15%.
  - Reduction in BCD on heat coils for use in the manufacture of electric kitchen chimney – from 20% to 15% subject to compliance with IGCR.

Key tax and regulatory proposals

Providing tax certainty

Income tax

- It is proposed to clarify that any benefit or perquisite in the nature of business income received in cash is also taxable in the hands of the recipient. Similarly, it is clarified that tax withholding shall also apply on such cash benefits.
- The cost of acquisition and cost of improvement for self-generated intangible assets or any other right are to be considered as nil.
- The premium received towards the issuance of shares to non-resident investors in excess of the specified fair market value is to be taxed in the hands of the company issuing shares in certain cases.
- Any amount of interest paid on capital borrowed for acquiring, renewing or reconstructing a property and already allowed as deduction is not to be included in the cost of acquisition or cost of improvement for capital gain purposes.
- It is proposed to clarify that for computing capital gains from the transfer of capital assets under Joint Development Agreements, the total consideration shall be the full stamp duty value of the land and building as increased by the amount received in cash or cheque or any other mode.
- New provision is proposed to be inserted to tax capital gains from market-linked debentures as short-term capital gains at normal rate at par with securities, which were earlier taxed as long-term capital gains.
- Notified non-banking financial companies (NBFCs) are to be excluded from the applicability of thin capitalisation norms.
- Gains on transfer,redemption or maturity of market-linked debentures deemed to be short-term capital gains.
- Tax withholding now applicable on payment or accrual of interest on listed debentures to a resident.
- Tax withholding on income in respect of mutual fund units to consider the applicable Double Taxation Avoidance Agreement or 20%, whichever is lower, as against the 20% withholding tax rate provided earlier.
- No extension of sunset clause for reduced tax rate (5%) on interest income from government securities, long-term bonds including long-term infrastructure bonds and loan agreements
- Procedural amendment made for processing of modified tax return to be submitted by the surviving entity in case of mergers and demergers.The Tax Officer must take the modified return into account when finalising the tax assessment for the year of reorganisation regardless of whether the assessment of the original return is complete.

Key tax and regulatory proposals

Customs

- Validity of two years in case of conditional exemptions to not apply to exemptions issued in relation to multilateral or bilateral trade agreements, obligations under international agreements, treaties, conventions including with respect to UN agencies, schemes under Foreign Trade Policy, Central Government schemes having a validity of more than two years, etc.
- Time limit of nine months is provided, from the date of application, for the disposal of the application by the Settlement Commission.

  (Aforesaid changes are applicable w.e.f. the date of assent.)

GST

- Input tax credit (ITC) to not be available in respect of goods or services or both which are used or intended to be used for activities relating to obligations under corporate social responsibility under section 135 of the Companies Act, 2013.
- Taxability of certain specified transactions
  - W.e.f. 1 February 2019, the following transactions were treated as outside the purview of GST:
    - Supplies of goods from a place outside the taxable territory to another place outside the taxable territory (i.e. Merchant Trade).
    - High sea sales.
    - Supply of warehoused goods before their home clearance.
  - An explanation is now inserted to treat the aforesaid supply outside the ambit of GST w.e.f. 1 July 2017.
  - No refund is to be available if any tax has been paid on such supplies during 1 July 2017 to 31 January 2019.
- In cases of transportation of goods, the place of supply will be determined irrespective of the destination of the goods, i.e.:
  - If the recipient is registered, then the location of such person;
  - If the recipient is unregistered, then the location at which such goods are handed over for their transportation.

Key tax and regulatory proposals

Spurring investment and demand

Income tax

- It is proposed that the conversion of physical gold into Electronic Gold Receipts and vice-versa shall not be liable to capital gains. The cost of acquisition and period of holding are to be grandfathered.
- For startups:
  - Protection to carry forward and set off of losses in case of change in shareholding by more than 51% is extended from seven to ten years from incorporation.
  - Last date for the incorporation of start-ups eligible for claiming tax holiday is extended to 31 March 2024.
- For the carry forward of losses and unabsorbed depreciation on certain mergers, the scope of 'strategic disinvestment' is expanded to include the sale of shares in any company by a public sector company (in addition to the Central Government and State Government).
- Amendment to allow the benefit of carry forward of losses and unabsorbed depreciation to the amalgamation of one or more banking companies with any banking institution or a company within five years of strategic disinvestment.

GST

- Composition scheme is now allowed for registered persons engaged in supplying goods through electronic commerce operators.

Key tax and regulatory proposals

Ease of doing business

Income tax

- It is proposed to grant relaxation from punitive withholding rates in case of specified non-filers of return of income.
- For speedy disposal of pending appeals, a new appellate authority (Joint Commissioner [Appeals]) is proposed to be introduced to handle appeals involving a small amount of disputed demand.
- In cases where income is offered by a taxpayer on the basis of accrual in a year but tax on such income is deducted by the payer in the following year(s) at the time of payment, it is proposed to allow the taxpayer to make a claim of such TDS within two years from the end of the year in which such tax is withheld. However, the interest on income-tax refund arising from such a claim is to be allowed only for the period starting from the date of the claim.
- Threshold for small businesses to be taxed on presumptive basis at 6% or8% is proposed to be increased from INR 20m to INR 30m.
- Threshold limit for small professionals to be taxed on presumptive basis at 50% is proposed to be increased from INR 5m to INR 7.5m.
- It is proposed to allow the deduction of preliminary expenses pertaining to the feasibility report, project report, market survey and engineering services based on a prescribed statement.
- It is proposed that a memorandum of cross-objections can be filed with the Income-tax Appellate Tribunal in all cases.

GST

- Decriminalisation under GST
  - Minimum threshold for prosecution under GST is raised from INR 0.01bn to INR 0.02bn except for the offense of issuance of invoices without the supply of goods or services or both.
  - The compounding amount range is reduced as follows:
    - Minimum from 50% to 25%
    - Maximum from 150% to 100%
  - The following offenses are to be decriminalised:
    - Obstruction or preventing any officer in the discharge of his or her duties.
    - Tampering or destruction of material evidence or documents.
    - Fail to supply the information required under law or supplying false information.

Key tax and regulatory proposals

Regulatory

- An integrated IT portal will be established for investors to reclaim unclaimed shares and unpaid dividends from the Investor Education and Protection Fund Authority.
- A Central Processing Centre is to be set up for faster response to companies through centralised handling of various forms under the Companies Act, 2013.
- A system of 'Unified Filing Process' will be set up for eliminating the need for separate submission of the same information to different government agencies.
- A Voluntary Settlement Scheme is to be introduced to settle the contractual disputes of government and government undertakings, wherein arbitral award is under challenge in a court.
- Amendments to the Banking Regulation Act, 1949; the Banking Companies Act, 1970; and the Reserve Bank of India Act, 1934 are proposed to improve bank governance and enhance investors' protection.
- Entity DigiLocker is to be set up for use by MSMEs towards storing and sharing documents online securely, with various authorities, regulators, banks and other business entities.
- In cases of failure by MSMEs to execute contracts during the COVID period, 95% of the forfeited amount relating to bid or performance security to be returned to them by government and government undertakings.
- Unified Skill India digital platforms are to be introduced for enabling demand-based formal skilling, linking with employers including MSMEs and facilitating access to entrepreneurship schemes.
- Fintech services in India are facilitated by the digital public infrastructure including Aadhaar, PM Jan Dhan Yojana, Video KYC, India Stack and UPI. To enable more Fintech innovative services, the scope of documents available in DigiLocker for individuals is to be expanded.
- A simplified KYC process adopting a 'risk-based' instead of 'one-size fits all' approach is proposed. Financial sector regulators are also encouraged to have a KYC system fully amenable to meet the needs of Digital India.
- To facilitate efficient flow of credit, promote financial inclusion and foster financial stability, the National Financial Information Registry is to be set up to serve as the central repository of financial and ancillary information. A new legislative framework is to govern this credit public infrastructure and will be designed in consultation with the RBI.

Other key tax and regulatory proposals

Income tax

- New provisions are proposed to be introduced to provide for taxation and tax deduction on income from online gaming. The net winnings from online games are to be taxed at 30% (plus surcharge and cess). The tax is to be deducted on the net winnings in the user account at the end of the FY or at the time of withdrawal from the user account during the FY. The tax withholding provisions are applicable with effect from 1 July 2023.
- Amendments are proposed to provide that the TDS on winnings from lottery, crossword puzzle, horse race, etc. is to apply on the amount or aggregate of the amounts exceeding INR 10,000 during the FY.
- It is proposed to allow payments to MSMEs beyond the time limit specified in the MSME Act, 2006 on actual payment basis. If the payment is made after the end of the previous year, it is to be allowed only in the subsequent year even if it is paid before the due date of filing the tax return of the previous year.
- To ensure that the inventory is valued in accordance with various provisions of law, it is proposed to enable the Tax Officer to direct the taxpayer to get the inventory valued by a cost accountant and furnish the report of inventory valuation in the prescribed form.
- It is proposed to widen the tax net to include gifts exceeding INR 50,000 to a Resident but Not Ordinarily Resident.
- The time limit for completion of assessment proceedings from Assessment Year (AY) 2022–23 onwards is proposed to be increased to 12 months from the end of the AY.
- It is proposed to withdraw the exemption available to news agencies set up in India solely for the collection and distribution of news.
- For AY 2024–25 and onwards, SEZ units can claim income tax deduction only if:
  - they file their return of income within the prescribed due date, and
  - proceeds from the export of goods or services are received in India within six months from the end of the previous year or such further period as may be allowed by the RBI or the proceeds are credited to a bank account maintained outside India with approval from the RBI.
- It is proposed to restrict the maximum deduction for long-term capital gains upon investing in residential property to INR 100m.
- Non-residents engaged in oil and gas and power sector opting for presumptive taxation at 10% are not to be allowed set-off of losses and unabsorbed depreciation as per books against the income computed on presumptive basis.

Key tax and regulatory proposals

- It is proposed that in case of failure by an employee to furnish its PAN in relation to payment of accumulated balance due to him or her under the Employees' Provident Fund Scheme, 1952, tax is to be deducted at the rate of 20%, instead of the maximum marginal rate.
- The rates of collection of tax at source (TCS) on overseas tour packages and foreign remittances (except for education and medical purposes) are proposed to be increased from 5% to 20%.
- Any sum received from any insurance policies (other than Unit Linked Insurance Policy), issued on or after 1 April 2023, having premium or aggregate of premium above INR 500,000 in a year is to be taxable. However, any sum received on death of the person shall remain exempt.
- Charitable and religious trusts or institutions:
  - It is proposed to levy exit tax where the trust is getting merged with a non-charitable or a charitable but with dissimilar object or does not transfer the asset to another charitable trust.
  - It is proposed to consider only 85% of the eligible donations made by a trust or institution to another trust or institution as application of such donation for charitable orreligious purposes.
  - It is proposed that the application of donations out of corpus or repayment of loan or borrowing before 1 April 2021 should not be considered as an application for charitable or religious purposes.
  - It is proposed to introduce a time limit of five years for depositing back into the corpus or repayment of loan or borrowing.
  - It is proposed to allow direct final registrations or approval in case of newly formed trust or institution.
- The time period to furnish transfer pricing documentation is reduced from 30 days to ten days. The transfer pricing officer may extend the same by another 30 days at his or her discretion.
- Transactions between a new manufacturing co-operative society availing concessional tax regime Act with a closely connected person are to be covered within the purview of 'specified domestic transaction'.
- Provisions relating to deduction based on payment and deduction for interest on bad and doubtful debts are to cover NBFCs as notified by the Central Government (as against deposit taking NBFC or systemically important non-deposit taking NBFC).

Key tax and regulatory proposals

- Increase in limit from INR 10m to 30m is introduced for the applicability of tax withholding provisions on cash withdrawals by co-operative society.
- Conversion of gold into electronic gold receipts and vice versa are not to be considered as ‘transfer’ for the purposes of capital gains. The original cost of acquisition and period of holding are grandfathered.
- Distribution of income by a business trust to be eligible for obtaining a lower or nil withholding certificate.
- Pay-outs by Infrastructure Investment Trust or Real Estate Investment Trust to unitholders out of underlying repayment of debt are now considered as taxable in the hands of unitholders as income from other sources. In case the pay-out is through the redemption of units, then the cost of units redeemed is allowed as a deduction.

Customs

- As a part of rationalisation of the tax structure, changes are proposed in the rates of BCD, Agriculture Infrastructure and Development Cess and Social Welfare Surcharge on certain goods (other than textiles and agriculture) without any changes to the effective rate of customs duty (w.e.f. from 02 February 2023).
- Review of exemptions – Out of 196 exemptions, 146 exemptions are extended for a period of one year (upto 31 March 2024). Of the remaining exemptions, few have been extended for a period of upto five years while some are being discontinued w.e.f. 31 March 2023.
- CTH 9801 is proposed to be amended to exclude the solar power plant or solar power project from the purview of Project Imports (applicable w.e.f. the date of assent).

GST

- A maximum time limit of three years from the due date is provided to the taxpayer up to which the following tax returns for a tax period can be filed:
  - Details of outward supplies (Form GSTR-1)
  - Form GSTR-3B
  - GST Annual Return and Reconciliation Statement (Forms GSTR-9 and 9C)
  - TCS Return (Form GSTR-8)
- Penal provisions for e-commerce operators
  - Specific penal provisions are prescribed in case of contravention of the following:
    - Allows a supply of goods or services through it by an unregistered person other than a person specifically exempted from registration; or

    - Allows an inter-State supply by a person who is not eligible to make such inter-State supply; or
    - Fails to furnish the correct details in the TCS return (Form GSTR-8) of any outward supply of goods effected through it by a person exempted from obtaining registration
  - A penalty of INR 10,000 or an amount equivalent to the amount of tax involved had such supply been made by a registered person other than a person paying tax under section 10 of the Central Goods and Services Tax Act, 2017 (composition dealer), whichever is higher.
- The scope of Online Information and Database Access or Retrieval services is widened by omitting the condition of rendering the said supply as 'essentially automated' and 'involving minimal human intervention'.
- The value of supply of warehoused goods to any person before clearance for home consumption will be considered for the computation of value of exempt supply for the purpose of reversal of common ITC.
- Consent-based sharing of information in relation to GST registration, GST returns, e-invoice, e-way bills or other details, furnished by the taxpayer, with such other systems, as may be notified.

Regulatory

- Policies of life insurance issued under Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) are exempted from the application of stamp duty under Article 47 of Schedule I of the India Stamp Act, 1899.
- National Data Governance Policy is to be introduced to help academia and start-ups with anonymised data.
- Green Credit Program is to be notified under the Environment (Protection) Act, 1986 to incentivise environmentally sustainable and responsive actions by companies, individuals and local bodies and help mobilise additional resources for such activities.
- The green growth priority sector to include multiple programmes on green fuel, green energy, green farming, green mobility, green buildings and green equipment. It is to include policies for efficient energy use across various sectors. The aim is to reduce the carbon intensity of the economy and provide for large-scale green job opportunities.
- An Agriculture Accelerator Fund is proposed to be set up to encourage agriculture start-ups by young entrepreneurs in rural areas. Digital open source public infrastructure for agriculture is to be set up to support the growth of agriculture start-ups.
- To build the capacity of functionaries and professionals in the securities market, Securities and Exchange Board of India (SEBI) is to be empowered to develop, regulate, maintain and enforce norms and standards for education in the National Institute of Securities Markets and to recognise the award of degrees, diplomas and certificates.

Key tax and regulatory proposals

GIFT IFSC

- To enhance business activities in Gujarat International Fin-Tech International Financial Services Centre (GIFT IFSC), the following measures are to be taken:
  - Delegating powers under the Special Economic Zones Act, 2005 (SEZ Act) to the IFSCA to avoid dual regulation
  - Setting up a single window IT system for registration and approval from International Financial Services Centre Authority (IFSCA), SEZ authorities, GSTN, RBI, SEBI and IRDAI
  - Permitting acquisition financing by IFSC Banking Units of foreign banks
  - Establishing a subsidiary of EXIM Bank for trade re-financing
  - Amending the IFSCA Act for statutory provisions for arbitration and ancillary services, and avoiding dual regulation under the SEZ Act
  - Recognising offshore derivative instruments as valid contracts
- For countries looking for digital continuity solutions, setting up of their data embassies in GIFT IFSC to be facilitated.

Financial sector

- Revamped Credit Guarantee Scheme for MSMEs from 1 April 2023 through inclusion of INR 90bn in corpus. Additional collateral-free guaranteed credit of INR 2 lakh crore.
- A national financial information registry is to be set up, in consultation with the RBI, to serve as the central repository of financial and ancillary information.
- Financial sector regulators are to be requested to perform a comprehensive review of existing regulations.

Good governance

- National Data Governance Policy to enable access to anonymised data.
- Simplification of Know Your Customer process.
- One-stop solution for identity and address updation to be established using DigiLocker service and Aadhaar.
- PAN to be used as a common identifier for all digital systems of specified government agencies.
- A system of 'Unified Filing Process' to be set-up for submission to different agencies.
- To enable more Fintech innovative services, the scope of documents available in DigiLocker for individuals to be expanded.
- 100 labs for developing applications using 5G services to be set up in engineering institutions to realise a new range of opportunities, business models and employment potential.
- Central Data Processing Centre (CPC) under the Companies Act: CPC to be set up for faster response to companies through centralised handling of various forms filed with field offices under the Companies Act.
- Reclaiming of unclaimed shares and dividends — an integrated IT portal to be established.

Industry speaks

" The Union Budget 2023-24 highlights 'Green Growth' among the key priorities in the economic agenda and that is a welcome step. There is a clear intent to boost investment in the green energy space with capital outlay of INR 35,000 crore for energy transition, target to produce 5 MMT of Green Hydrogen annually by 2030, funding viability for battery storage, and future investment to improve grid transmission for better inter-state RE evacuation. The Government's Green Credit Program will also lead to a shift in the mind-set towards environment protection. These steps, in the coming years, will create a sustainable energy mix and the required energy infrastructure framework attracting further investments and jobs creation. India's power consumption logged a double-digit growth on Y-o-Y basis in this financial year, and it's encouraging to see Government's focus to reduce carbon-intensity of the economy by promoting use of low-to-zero carbon emitting fuels and hybrid models for power generation.

Deepesh Nanda,
CEO, GE Gas Power South Asia

" MSMEs, an integral part of India's growth journey is on a swift recovery path post the pandemic and easy access to working capital would be critical for smooth recovery. We believe the move to revamp the Credit Guarantee Scheme will greatly assist this sector in overcoming one of their biggest challenges to continue operations in trying times. As a platform with embedded offerings that drives business growth for enterprises and their partners, we see this as a step in the right direction for the benefit of MSMEs – one of the largest sectors in India.

Under the larger umbrella of Atmanirbhar Bharat, the Indian government has focused on making Indian companies more competitive in the global market, attracting investments from outside India, promoting startups and an ecosystem driven by innovation. Additionally, the move to set up a separate entity of DigiLocker MSME will have a significant impact on the sector while supporting the blooming entrepreneurial spirit that is currently taking shape in India.

Raghunath Subramanian,
Founder & Global CEO, Actyv.ai

" Budget will drive equitable growth and solidify India's position as the pre-eminent fastest growing large economy of the world. It clearly executes on the vision to make India more self reliant, promote investment across all sectors of the economy and keep the balance between spending and borrowing. Personal tax cuts will spur consumption across all categories.

Gautam Sharma,
CEO, Indo Nissin

Industry speaks

This is a budget that balances growth with fiscal prudence. Aiming for 5.9% fiscal deficit next year is a welcome balance.

Primacy is accorded to growth. Capex investment budget increase of 33% is at an all-time high total outlay of INR 10 lakh crore amounting to 3.3% of GDP.

Budgets sets the vision for “Make AI/ Digital Technology in India”. Proposal for setting up of centres of excellence for Artificial Intelligence (AI) and 100 5G labs is a big step towards promoting financial inclusion and develop solutions for education, health care and agriculture.

The budget gives a strong impetus for GREEN growth with focus on green fuel, green energy, green mobility, green farming amongst others.

Jatin Dalal,
CFO, Wipro Limited

The Union Budget 2023–2024, the first budget for “Amrit Kaal” with a focus on seven priorities (Saptarishi) to steer India’s economy till India’s Independence centenary. Sharp focus on fiscal prudence, economic growth, capital investment and job creation, a key enabler to help the economy perform well in face of the global headwinds. New Income Tax regime has received default status and tax rebates have been extended and tax slabs made more flexible.

Shalini Grover,
CFO, Boeing India Private Limited

The 2023 Union Budget builds a path toward the ‘India@100 target’. The focus on youth, jobs, and economic outcomes leveraging 5G by announcing 100 labs to power app development is a great initiative. This particular feature can also be extended into the AVGC-XR Draft Policy and the sector. There are exciting prospects for further collaboration between the public and private sectors to promote new technologies and increase investment.

Biren Ghose,
Vice Chairman, CII National Committee on Media and Entertainment & Country Head, Technicolor India Private Limited

The Finance Minister has laid down an excellent road map to Amrit Kaal with opportunities for citizens with focus on the youth, growth and job creation with a strong and stable macro-economic environment.

Anuprita Mehta,
Head Taxation, ArcelorMittal Nippon Steel India Limited

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