

# **BUBBLE CONTROLOGY OF A Sprint or A Racewalk ?**







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# ECONOMIC SURVEY 2023 - 24







## Economic Survey Background

The backdrop in which the Economic Survey for FY 2023-24 has been tabled is considerably different from the geo-political scenario in which it has been presented for the past decade. The new Government at the Centre under the able leadership of Prime Minister Sh. Narendra Modi has taken seat in the Parliament for the third consecutive term, albeit with the support of two key regional allies. The country is back to the scenario of coalition politics wherein a tightrope walk has to be performed by the incumbent government to cater to the aspirations of the allies. However, given the status of Bhartiya Janta Party (BJP) being the single largest party, the pace of reforms seen over the past ten years are anticipated to continue over the next five years.

The political situation across the globe has not improved since the presentation of the last Economic Survey but has taken a turn for the worse. The Russian – Ukraine conflict is no closer to an end and continues to de-stabilize the western world. The Israel - Palestinian crisis has seen things going downhill, with Iran and Yemen jumping into the fray thereby resulting in escalation of tensions in the Middle Eastern region.

The US economy presidential elections due in November 2024 have not started on the right note. Incumbent President Joe Biden has withdrawn his bid for the presidential elections at the last minute due to health issues and this gives a relatively clear and open road to Donald Trump to vie for a second stint at the White House. Trump's presidential candidature was further boosted by the failed assassination attempt recently.

China being the second largest economy in the world remains mired in housing woes after the explosive growth in the sector during 1990s and 2000s. The real estate boom had seen many Chinese families put in their life savings into real estate as they shifted from rural areas to cities but has now suddenly fallen off the ledge with bankruptcies in players like Evergrande and Country Garden. Overall, the Chinese economy grew at 0.7 percent in April to June quarter, putting the annual growth rate a low 4.7 percent.



India won their first-ever Olympic gold medal in men's hockey at the 1928 Amsterdam Olympics.

Central and South America have seen the growth being revised downward resulting from a moderation in demand and Brazil which has recently been deluged has also seen a lower growth. However, the post flooding reconstruction work and other structural initiatives will see Brazil's economic growth getting an upswing in the coming year.

The International Monetary Fund (IMF) in its July 2024 World Economic Outlook (WEO) has stated that the world economy is on a "Sticky Wicket", which in cricketing parlance means a difficult pitch to bat on. IMF's WEO forecast expects the world economy to grow at 3.2 percent in 2024 and by 3.3 percent in 2025. However, commodity prices, especially crude oil continues to remain at inflated levels due to the Middle East conflict. As per the forecast, world trade is expected to grow at 3.3 percent annually in 2024-25 after a situation of stagnation in the earlier year.



IMF cautions that every economy has to do a balancing act between expanding growth by boosting production and consumption while keeping a watchful eye on the inflationary pressures.



# Underlying themes of Economic Survey 2024

- Indian Economy the fastest growing economy across the world but threats persist due to geopolitical crises in Middle East and Europe.
- Public expenditure in infrastructure kept the economy on track during the COVID-19 pandemic but Private spending needs to move in to continue sustained growth.
- Inflation controlled within limits through Reserve Bank of India and government's interventions. Crude oil and food prices need to be managed to avoid inflationary pressures.
- World economies are moving away from the globalization mantra espoused by the World Trade Organization (WTO) in the past decades. India needs to mark out key/niche areas for sustainable growth.
- Inter-dependency on China needs to be revisited in light of India's growing requirements of basic raw materials / rare earth minerals and foreign direct investments inflows.

 MSME sector needs to be given further impetus through reduced compliance burden and provide platform to upskill its labour force and continued bank credit.

K C Mehta & Co up

- Social development goes hand in hand with economic growth. Women empowerment & child welfare along with proper healthcare and education needs to be prioritized for sustainable development.
- Artificial Intelligence (AI) has imminent potential to cause widespread disruptions in the job sector. Indian youth need to be skilled and developed to the changing environment.
- Mental disorders and health issues, including rising obesity especially in the urban youth needs immediate attention as this has an enormous impact on the rapidly changing environment.
- Agriculture sector has been provided ample support and assistance and needs to pull its weight given the inflated food prices and disruptive powers of continued high inflation.
- Climate change issues addressed by the developed economies and replicated for the developing economies need a re-think. Each country has to consider its economic priorities before implementing climate change proposals.

#### Salient Features in the Indian Economy for FY 24:

• India's GDP in real terms is expected to grow at the rate of 6.5-7 percent in FY 25. This is in backdrop of 8.2 percent growth in GDP in FY24 with three of the four quarters' showing a growth in excess of 8.0 percent.



- The services sector led the participation in GDP by contributing 54.7 percent of the overall GDP with manufacturing coming in second at 27.6 percent and balance 17.7 percent being contributed by the agriculture sector.
- Retail inflation reduced from 6.7 percent in FY23 to 5.4 percent in FY24 due to a combination of measures from the RBI and the Centre.
- Fiscal Deficit of the Union Government came down to 6.4 percent in FY24 from 5.6 percent in the previous year.



- Current Account deficit was 0.7 percent in FY24 with the last quarter of FY24 in fact registering a surplus.
- Foreign Direct Investment (FDI) flows were USD 45.8 billion in FY24 as against USD 47.6 billion in FY23, primarily replicating the global trend.
- Repatriation of investments from India was considerably higher at USD 44.5 billion in FY24 against USD 29.3 billion, resulting from a flight to safety with rising interest rates in the US.
- FDI inflows are likely to be muted in light of the higher interest rates in developed markets which carry a higher cost of funding and a higher opportunity cost to invest overseas.

- Factory jobs have grown at a Compounded annual growth rate (CAGR) of 3.6 percent for the period FY14 to FY22 with employment growing from 1.0 crore to 1.4 crore in the corresponding period.
- The Economic Survey has highlighted a gap in employment data on the services sector, akin to Annual Survey of Industries, which primarily accounts for 55 percent of the size of the economy in FY 24.
- Gross Fixed Capital Formation (GFCF) increased by 9.0 percent in real terms in FY24. Cumulative Gross Fixed Capital Formation (GFCF) between FY19 to FY23 stood at 52.0 percent in private sector against 64.0 percent in the Government (central and states combined).
- Survey has highlighted the importance of Corporate Social Responsibility to extend beyond statutory mandate to corporates by refraining and resisting the temptation of shortterm profits, avoiding mis-selling of products and services, ensuring faster settlement of insurance dues and educating public on the ills of social media, sedentary lifestyle and unhealthy eating habits.
- Agriculture sector is touted as the next growth engine. With plethora of benefits already extended to the farm sector, ranging from Minimum Support Price (MSP) to fertilizer & power subsidies, from tax free incomes to writing off farm loans, it is time that the sector pulls its own weight. Policies need to focus on enhancing farm output, boosting farmers' income and provide job opportunities.
- According to the Survey, micro, small and medium enterprises (MSMEs) has seen lot of policy focus over the past years but has not yielded the expected results. Inadequate financial



support, old mindsets of customers & creditors and the compliance burden are holding back the growth in the MSME sector.

- Climate change is a challenge, and every Economy has to find a solution suitable to its desired needs and expectations. "One size fits all" outlook propagated by the west to fend against climate change impact would not work for India as it needs to determine its own pace and path to energy transition and mobility.
- Over the past thirty years from FY93 to FY23, the economy has grown from USD 288 billion to USD 3.6 trillion by the government's focus to loosen the stranglehold on each and every aspect of economy. This needs to be continued with the same passion and vigour to enable the dream of a "Viksit Bharat" to come true by FY47.

## State of the Indian Economy

Indian economy has weathered the COVID-19 storm much better than the other major economies across the world. This swift reversal and recovery along with healthy growth has primarily been driven by a three pronged strategy of the government, namely (a) enhanced public spending on infrastructure and sprucing the balance sheets of public sector banks; (b) digitalization of service delivery with the Direct Benefit Transfer (DBT) scheme to the end users thereby removing the middleman and (c) targeted relief to various sectors such as MSME and specific sections of society.

#### Weak global economic scenario

- Global economic growth of 3.2 percent in FY23 is still below the average 3.5 percent logged in for the period FY11 to FY19.
- Consumer Price Inflation (CPI) of 6.8 percent in FY23 is well above the average of 3.5 percent in FY11 to FY19 period.

- Geo-political risk index is at 121.7 which is well above the average of 95.2 logged in between FY11 to FY19, primarily on account of the Middle East and Russia-Ukraine conflict no closer to ending.
- On the monetary policy front, major economies are still cautious to the enhanced inflationary pressures and continue to maintain the policy rates at higher levels.
- Foreign Direct inflows continue to be weak on account of geo-political situation as well as higher borrowing costs resulting in decline in FDI flows in FY23 over FY22.

#### Healthy domestic economy

 India's real GDP grew at 8.2 percent in FY24 primarily on account of strong consumption and an improving investment demand. After a flat period of two years, the GDP growth rate has been above the 7 percent mark for the period FY22 to FY24.



- The share of agriculture sector is steadily declining to less than 20 percent of GDP whereas the services sector account for  $\sim$ 55 percent of the GDP.
- Manufacturing Gross Value Added (at 2011-12 prices) for FY24 grew at 9.9 percent, showing a revival in the industrial sector



- Goods and Service tax (GST) collections have seen a double-digit growth in FY24 in the services sector, led by the financial and professional services. Creation of Global Capability Centres (GCCs) have also played a significant part in enhancing services exports.
- Private final consumption expenditure (PFCE) has logged a growth of 4.0 percent in FY24 in real terms evidenced by the higher domestic passenger vehicle sales and air passenger traffic.
- Private capex is in an upcycle evidenced by increase of Gross Fixed Capital Formation (GFCF) of 19.8 percent in FY23.

# Macroeconomic challenges and outcome

Inflationary pressures on account of continued Russia- Ukraine war was keeping the crude oil at inflated levels, thereby leading to widening current account deficit. To tackle inflationary pressures, Central Banks across the globe were raising policy rates resulting in economic uncertainty.



Karnam Malleswari became the first Indian woman to win an Olympic medal by clinching a bronze in the 69 kg weightlifting category at the 2000 Sydney Olympics.

- Fiscal consolidation through enhanced compliance and higher than anticipated direct and indirect tax collections led to a constriction in fiscal deficit.
- Higher nontax revenues in form of dividend from

Reserve Bank of India (RBI) and restricted revenue expenditure by the union government ensured narrowing of revenue deficit.

- Enhanced focus on the government on capital expenditure in the form of road transport and highways, defence, railways, communication shows in the FY24 figure of capex of INR 9.5 lakh crores, showing a YOY growth of 28.2 percent and 2.8 times the FY20 figure.
- State Finances have also been under control with the gross fiscal deficit of 23 states coming in at 8.6 percent lower than the budgeted figure of 9.1 lakh crores.
- Inflationary pressure averaging 6.7 percent in FY23 has come down to 5.4 percent in FY24 due to the sustained intervention by the RBI and the government. Highlight of these measures is that India is the only country amongst its peers which has a high growth low inflation trajectory during FY22 to FY24.
- India's unique approach to social welfare through the Direct Benefit Transfer (DBT) Scheme and the Jan Dhan Yojana – AADHAR – Mobile trinity has resulted in INR 36.9 lakh crore having transferred via DBT since 2013 with minimum leakages.

# Looking Back - How we fared in 2023-24

## Monetary Management and Financial Intermediation:

Reserve Bank of India (RBI) has maintained a steady policy repo rate at 6.5 percent since February 2023, with the overall inflation rate under control. The important events during FY24 included withdrawal of INR 2,000 banknote, merger of HDFC with HDFC bank



and temporary imposition of the incremental CRR (I-CRR) of 10 percent resulting in impounding of ~ INR I.I lakh crore from the banking system.

- Lending and deposit rates of scheduled commercial banks (SCBs) increased further during FY24, reflecting the delayed impact of the policy rate hikes from May 2022 to February 2023.
- Credit disbursal by SCBs stood at INR 164.3 lakh crore, growing by 20.2 percent at the end of March 2024, against 15 percent growth at the end of March 2023. The said trend is continuing with 19 percent and 19.8 percent YoY growth in April and May 2024, respectively.
- Industrial credit growth picked up in H2 of FY24, with 8.5 percent growth in March 2024 against 5.2 percent a year ago, driven by an increase in bank credit to small and large industries.
- The gross non-performing assets (GNPA) ratio of SCBs was at 2.8 percent at the end of March 2024 from its peak of 11.2 percent in FY18 on account of lower slippages and a reduction in outstanding GNPAs through recoveries, upgradations and write-offs.
- The Insolvency and Bankruptcy Code (IBC) has facilitated successful closure of 4,131 corporate insolvency resolution process (CIRPs) until March 2024. 3,171 corporate debtors have been rescued with 947 cases having been resolved through approved resolution plans, bringing in a realizable value of INR 3.36 lakh crore. Of the resolved cases, the creditors recovered ~32 percent of their claims.
- The primary markets remained robust during FY24, facilitating capital formation of INR 10.9 lakh crore compared to INR 9.3 lakh crore in FY23.

- The number of initial public offers (IPOs) increased by 66 percent, from 164 in FY23 to 272 in FY24, while the amount raised grew by 24 percent, from INR 54,773 crore in FY23 to INR 67,995 crore in FY24. On the SME platforms, the number of IPOs/FPOs (Follow-on Public Offers) increased by 1.6 times, from 125 in FY23 to 196 in FY24.
- Indian stock market was among the bestperforming markets, with India's Nifty 50 index rising by 26.8 percent during FY24 against (-)8.2 percent during FY23.
- Insurance penetration in India moderated to 4 percent in FY23 from 4.2 percent in FY22. While the penetration in the life-insurance segment declined from 3.2 percent in FY22 to 3 percent in FY23, it remained flat at 1 percent for the non-life insurance segment in the same period.
- India's pension sector has expanded exponentially since the introduction of the National Pension Scheme (NPS) and the Atal Pension Yojana (APY). The total number of subscribers increased to 735.6 lakh as of March 2024 from 623.6 lakh as of March 2023.

#### **Prices and Inflation:**

FY22 and FY23 witnessed price pressures in core consumer goods and services due to the supply disruptions a legacy left by the pandemic and increased commodity prices on account of heightened global conflicts across Europe and the Middle East. Food prices were affected by adverse weather conditions in the last two years for which the net impact of these developments elevated inflationary pressures in FY23 and FY24.

• The Governments and the RBI faced the challenge of keeping inflation at a moderate level while ensuring financial stability. With the





commitment of the RBI to the goal of price stability and policy actions by the Central Government, retail inflation was pegged down to 5.4 percent in FY24, the lowest level since the Covid-19 pandemic period.

- As per the International Monetary Fund (IMF) data, where India's inflation rate was lower than the global average and that of emerging markets & developing economies (EMDEs) in 2022 and 2023.
- In 2023, India's inflation rate was within its target range of 2 to 6 percent. As compared to advanced economies like the USA, Germany and France, India had one of the lowest deviations from its inflation target in the triennial average inflation from 2021-2023.
- In FY23, Consumer Price Index (CPI) based retail inflation in India was primarily influenced by higher food inflation, while core inflation remained moderate. Externally, the Russia-Ukraine war led to price pressures, while domestically, excessive heat in the summer and uneven rainfall put pressure on food prices.
- As the global energy price index experienced a sharp decline in FY24, retail fuel inflation also stayed low. The Central Government's announcement of price cuts for LPG, petrol, and diesel led to lower LPG and petroleum product inflation. Additionally, global commodity prices declined in 2023, reducing price pressure in energy, metals, minerals, and agricultural commodities through the imported inflation channel.
- In both FY23 and FY24, the agriculture sector was widely affected by extreme weather events, lower reservoir levels, and damaged crops, severely impacting both farm output and food prices resulting in higher food inflation reflected

by the Consumer Food Price Index (CFPI) of 7.5 percent in FY24.

#### **External Sector:**

India witnessed positive net foreign portfolio investment (FPI) inflows in FY24 of USD 44.1 billion, supported by strong economic growth, a stable business environment, and increased investor confidence. External debt as a percentage of GDP of Emerging Market and Developing Economies (EMDEs) increased from 26.2 percent in 2012 to 29.8 percent in 2023.

- As per the United Nations Conference on Trade and Development (UNCTAD), global foreign direct investment (FDI) decreased marginally by 2 percent to USD 1.3 trillion in 2023 from USD 1.4 trillion in 2022.
- The momentum for exports continued into FY23 with India's overall exports crossing USD 776 billion showing a marginal increase of 0.23 percent over the previous year. Overall imports also increased to USD 898 billion in FY23 compared to USD 760.1 billion in FY22.



Col. Rajyavardhan Singh Rathore won the silver medal in the men's double trap shooting event at the 2004 Athens Olympics.





- India is the seventh-largest services exporting country globally, with a monumental rise from its 24th position in 2001. India ranks 2nd in the world in telecommunication, computer, and information services exports, 6th in personal, cultural and recreational services exports, 8th in other business services exports, 10th in transport services exports, and 14th in travel services exports.
- India's current account deficit (CAD) narrowed to USD 23.2 billion (0.7 percent of GDP) in FY24 from USD 67 billion (2 percent of GDP) in FY23, supported by the surplus in CAD recorded in Q4 of FY24 on the grounds of a decline in merchandise trade deficit, rising net services exports and increasing remittances.
- A moderation in the CAD amidst large capital inflows enabled the addition of foreign exchange reserves (FER) in FY24. FER stood at USD 653.7 billion on 21 June 2024, enough to cover more than 10 months of imports projected for FY25.



• The external debt to GDP ratio declined to 18.7 percent at the end of March 2024 from 19.0 percent at the end of March 2023. The share of short-term debt in total external debt declined to 18.5 percent at the end of March 2024 from 20.6 percent at the end of March 2023.

## Medium term outlook: A vision for new India

In medium-term the Indian economy has the capability and capacity to grow at a rate of 7.0 percent on a sustained basis. India is gearing up for the vision of the Prime Minister of ViksitBharat@2047 by every citizen's participation in "Sabka Prayas".

#### Tenets for India's growth story in the Medium Term

- Geo-economic fragmentation and renewed nationalistic fervour has put a dampener on global trade and removal of trade barriers envisaged by the World Trade Organization (ETO).
- In continuation of the pt. above, low trust coefficient between nations is driving the countries to pursue policies of self-reliance and less dependency on foreign partners.
- Integration of climate change policies debated globally with the local developmental policies has widespread ramifications, from socio economic stability to public health and from banking to public financing.
- Introduction of technology, especially AI has the potential to disrupt the way an economy is working and can have path breaking impact on future employment and public policy.
- All countries are buffeted by geo-political situations across the world and have very limited headroom for policy maneuvering resulting in sub optimal decision making.



• Big ticket reforms affect the macro economic policies of the country which have to be looked in tandem with micro policies which need to have a bottom-up approach. The key now is for greater engagement between the Government, private sector and civil society.

#### Focus Areas :

- Generating productive employment: India's workforce is estimated to be nearly 56.5 Crore, of which more than 45 percent are employed in agriculture, 11.4 percent in manufacturing, 28.9 percent in services and 13.0 per cent in construction. More productive employment required in agriculture sector.
- Skill Gap: 65 percent of India's population is under 35 but majority of them lack the basic skills needed for employment in a modern and growing economy. As per estimates only ~50 percent of the youth are found to be employable leaving the rest of them to fend for themselves.
- Easing compliance requirements for MSME sector: MSME sector is going to play a huge role in the growth of the economy going forward. It already contributes to over 35 percent to the industrial production overall and has potential to absorb a large work force to cater to the everincreasing young employable population. Licensing, inspection and compliance requirements that MSMEs have to deal with are like an albatross around their necks and not reaching their full potential.
- **Tapping potential of Agriculture sector:** Foremost concern confronting the sector is sustainable agriculture growth by keeping food price inflation within limits and at the same time incentivizing the farmers to raise production.

- **Chinese Dilemma:** China is still the world's manufacturing hub and is in no mood to vacate this space in near future. However as evidenced during COVID-19, there were considerable supply chain disruptions due to over dependence of China for supply of key material and components. The conundrum is that we still need and depend on China for key raw materials / rare earth minerals and also require their technology for self-reliance resulting in higher FDI inflows to India.
- Rising Mental Health issues and Obesity is concern highlighted in the Survey. As per the statistics, 56.4 percent of disease burden in India is due to unhealthy diets. Obesity is emerging as a serious concern among India's adult population. Preventive measures need to be taken for a healthier lifestyle. Mental health issues if remained unaddressed can have a major socioeconomic impact on the country.

#### **Social Sector:**

Any nation's economic growth and development has to be accompanied by social and institutional progress, which is known as inclusive growth. India on a path of sustained development has ensured that social sector reforms are part and parcel of the growth story. Be it reforms in health, education, sanitation, women empowerment, rural area development, considerable strides have been taken by the incumbent government.

- Expenditure on education has increased from INR 4.8 lakh crores in FY18 to INR 8.28 lakh crores in FY24, showing a slight reduction of 2.7 percent of GDP from 2.8 percent over the corresponding period.
- Expenditure on healthcare has increased from INR 2.4 lakh crores in FY18 to more than doubling to INR 5.8 lakh crores in FY24 showing an increase from 1.4 percent of GDP to 1.9 percent over the corresponding period.





- Corporate Social Responsibility (CSR) spending by the corporates has increased from INR 17K crores in FY18 to INR 26K crores in FY22. An observation of the CSR spends has been that CSR investment is not reaching the underdeveloped areas, which remain relatively less funded and backward.
- As per a World Health Organization (WHO) survey, mental health issue afflicts one in every eight persons worldwide. In India, National Mental Health Survey (NMHS) conducted in FY16 showed 10.6 percent adults showing mental health issues with a treatment gap of as high as more than 90 percent for certain disorders.
- Quality Education forming Goal No. 4 of the United Nations SDGs (SDG4) aims to provide inclusive and quality education for all by 2030. The National Education Policy (NEP) 2020, in its 4th year not only incorporates the SDG but aims for a knowledge driven economy in the 21st century.
- Research and Development (R&D), a precursor to developed economy has seen considerable jump in India with registered patents exceeding one lakh in FY24 against less than 25K in FY20. India has improved its rank in the Global Innovation Index (GII) from 81st position in FY15 to 40th in FY23 (2023).
- Women's development to women led development has been the dedicated focus of the government, reflected in the phrase "Nari Shakti". From "Beti Bachao, Beti Padhao" to educating girl child to Sukanya Samriddhi Scheme for girl's savings are all measures towards women empowerment.

#### Employment and Skill Development: Towards Quality

Employment is the crucial link between growth and prosperity, and its quantity and quality determine the extent to which economic output translates into better quality of life for the population.

- Indian labor market indicators have improved over the last six years, with the unemployment rate declining to 3.2 percent in FY23.
- The quarterly urban unemployment rate for people aged 15 years and above declined to 6.7 percent in the quarter ending March 2024, down from 6.8 percent in the corresponding quarter of the previous year.
- As per the Annual Survey of Industries (ASI) 2021-22 employment in the organized manufacturing sector has risen above the prepandemic levels. More than 40 percent of factory employment was accounted in Tamil Nadu, Gujarat, and Maharashtra.
- The yearly net payroll additions to the EPFO more than doubled from 61.1 lakh in FY19 to 131.5 lakh in FY24.
- The gig workforce is expected to expand to 2.35 crore by FY30. Gig workers are expected to form 6.7 percent of the non-agricultural workforce in India by FY30.

#### **Agriculture & Food management**

In the last five years, the agriculture sector has grown at an average growth rate of 4.2 percent per year. The country also has a comfortable stock of foodgrains, around 40 percent of which is distributed to two-thirds of the population free of cost. India exports more than 7 percent of its food grains.

• The Indian agriculture sector provides livelihood





support to about 42.3 percent of the population and has a share of 18.2 percent in the country's GDP at current prices.

- The gross capital formation (GCF) of the agriculture sector grew at the rate of 19.1 percent in 2022-23, and the GCF as a percentage of GVA rose from 17.7 percent in 2021-22 to 19.9 percent in 2022-23. The average annual growth in GCF from 2016-17 to 2022-23 was 9.7 percent.
- Approx. 68.05 lakh hectares have been brought under organic farming by FY23. Sikkim became the first state in the world to become fully organic with Tripura and Uttarakhand following suit.

#### **Industry - Why it matters**

Industry is the second most important contributor to the nation's GDP with 27 percent and contributing by 9.5 percent growth in FY24 in the GDP. Manufacturing and construction are the primary leaders in providing growth in this sector. There has been a paradigm shift in the sector composition with certain industries such as automobiles, pharmaceuticals, machinery and chemicals gaining ground while the petroleum products, textiles, beverages and tobacco have seen a steady decline due to changing trends and regulations.

- Industrial growth of 9.5 percent contributed to the overall GDP growth of 8.2 percent in FY24. Of these, manufacturing and construction were the frontrunners in the overall contribution in the industrial sector.
- In terms of Gross Value Added (at constant prices), Industrial sector contributed 30.9 percent in FY24 of which 17.3 percent was contributed by manufacturing and 9.0 percent was contributed by construction.

#### **Major Industry Review**

**Cement and Steel industry** form the backbone for any developed economy. Installed capacity in the cement sector has kept pace with the rising demand with nominal imports. Capacity utilization has been in the range of 60-65 percent. Iron and Steel is a critical industry for production of machinery and consumer goods. India has now become an exporter of finished steel and focus in now on reduction in carbon emissions with steel industry contributing to 12 percent of greenhouse gas emissions in India.

**Coal** is still the primary source for commercial energy, contributing  $\sim$ 55 percent. Furthermore, coal fired power generation still accounts for 70 percent of the total energy production in India.

**Pharmaceutical** sector in India is USD  $\sim$ 50 billion and is the world's third largest in terms of volume. India's pharmaceutical sector has a very high-quality compliance with 703 USFDA approved facilities (April 2023) and 386 European GMP compliant manufacturing units. India is traditionally dependent on API imports whereas it has become net exporter of bulk drugs.

Automobile sector has seen a surge in the past few years and has become a hub not only for major global auto manufacturers but also a hub for auto ancillary industry. In FY24, India produced  $\sim$  49 lakh passenger vehicles, 9.9 lakh three-wheelers, 214.7 lakh two-wheelers and 10.7 lakh commercial vehicles.

#### **Key Themes**

Production Linked Incentive (PLI) Scheme

• PLI schemes were introduced in 14 sectors primarily with the objective of becoming 'Aatmanirbhar' with a budget outlay of INR 1.97 lakh crore.





- Till May '24 investments to the tune of INR 1.27 lakh crore have already been reported resulting in production / sales to the tune of INR 10.8 lakh crore.
- The Scheme has not only been instrumental in creating new manufacturing facilities but has also resulted in direct and indirect employment benefit to ~8.5 lakh persons.

Micro Small and Medium Enterprises

- The share of MSMEs in all-India manufacturing output during the year FY22 stood at 35.4 percent. As per information from Data Dissemination Portal of Directorate General of Commercial Intelligence and Statistics (DGCIS), the share of export of MSME-specified products in all-India exports for FY24 stood at 45.7 per cent.
- Given the importance of MSMEs in the overall manufacturing set up in India, considerable ease of business measures have been introduced for this sector, including free registration on the Udyam portal for eligibility to priority sector lending and API linkages to 37 other portals.
- The sector is still mired with various challenges including limited access to finance, markets, technology, infrastructure bottlenecks and lack of skilled manpower.

#### Services – Fuelling Growth Opportunities

There has been a complete turnaround in service delivery systems and its trends post pandemic. Digital services such as online payments, e-commerce and entertainment platforms now offer wealth of opportunities to the youth in the country. Artificial intelligence ("AI"), machine learning, Internet of Things (IOT), cyber security Augmented Reality ("AR"), Virtual Reality ("VR"), 3D printing are businesses which will see maximum technological advancements. Al as a disruptive force can even lead to a decrease in our Service Exports to the range of 0.3-0.4 percent every year for a decade.

• The services sector is the single largest contributor to India's growth, accounting for  $\sim$ 55 per cent of the total size of the economy in FY24.



Mary Kom won a bronze medal in the women's flyweight (51 kg) boxing category at the 2012 London Olympics.

- The services sector witnessed real growth rate of over 6 percent in all the years for the last ten years. Post-COVID, the service sector's growth has outpaced the overall Gross Value-Added (GVA) growth in FY23 and FY24, reclaiming its driver's position in the economy's upward trajectory.
- · Services exports have continued at a steady



momentum and accounted for 44 percent of India's total exports in FY24. During FY24, services imports stood at USD 178.3 billion, a 2.1 percent decrease on a YoY basis, dragged down by a reduction of global freight rates.

- Gross GST collected in FY24 amounts to INR 20.18 lakh crore which was 11.7 percent increase over the previous year. Average Daily electronic toll collection, air passengers handled, and rail freight traffic shows YoY growth of 18.9 percent, 15 percent and 5.3 percent respectively.
- India is the 3rd largest domestic aviation market and one of the fastest-growing major aviation markets globally. The aviation sector in India has shown substantial growth, with a 15 percent YoY increase in total air passengers handled at Indian airports reaching 37.6 crore in FY24.

#### Infrastructure - Lifting potential growth

With increased public investment over the last five years due to various government initiatives, India has witnessed considerable expansion in physical and digital connectivity and social infrastructure including sanitation and water supply helping to improve quality of life of the people.

- Creation of world-class infrastructure—physical, social, financial, and digital— is the key to India's strategy of becoming ViksitBharat @ 2047.
- Budgetary capital expenditure of Union Government increased by 2.2 times from FY21 to FY24 (PA) while that of the State governments increased by 2.1 times.
- The gross inflow of external commercial borrowings in infrastructure sectors rose to USD 9.05 billion in FY24 against an average of USD 5.91 billion during the FY20 to FY23 period.

 In FY24 transactions aggregating INR 1.51 lakh crore in accruals or private investments were completed, being 1.55 times that achieved in Fy22.

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- The capital investment by the Government and private sector rose from 0.4 percent in FY15 to about 1.0 percent of GDP (around INR 3.01 lakh crore) in FY24.The Government achieved its highest-ever asset monetisation revenues of INR 40,314 crore in Fy24.
- Under the Sagarmala national programme launched in FY15, projects worth INR 1.4 lakh crore were completed, while 217 projects worth INR 1.65 lakh crore are under implementation and 360 projects worth INR 2.7 lakh crore are under development.
- The clean energy sector has seen investments of INR 8.5 lakh crore (USD 102.4 billion) between FY14 and FY23 period.

#### Climate Change and Energy Transition: Dealing with Trade-offs

India has been balancing its development with lowcarbon emission by contributing to only one-third of global carbon emission average.

- The country has an installed solar power capacity of 82.6 GW as of April 2024 showing a significant contribution as alternative to fossil fuels.
- In Budget 2023 "Amrit Dharohar" was initiated to promote nature tourism conserving wetlands and mangrove. Another initiative for better use of wetlands is Mission Sahbhagita, that promotes



the concept of "Wetland Mitras" by involving women, youth, local communities.

- PM-Surya Ghar Yojana launched in February 2024 with an investment of INR 75,021 crores is projected to add 30GW of solar capacity and a CO2 reduction of 720 million tonnes.
- From FY24 onwards, SEBI has mandated reporting disclosure requirements under Business Responsibility and Sustainability Report ("BRSR") for the top 1,000 listed companies.
- "Mission Life" focuses on human-nature promoting mindful consumption than over-consumption which is primary cause of global climate change problem.
- Al which is emerging at such fast pace could have a detrimental impact on the climate. As per an estimate by the International Energy Agency (IEA), a single Chat-GPT search consumes 10 times more energy than a similar query on Google.



P. V. Sindhu made history by winning India's first Olympic silver medal in the women's singles badminton event at the 2016 Rio Olympics







## **Direct Tax**

#### Tax Rates & Personal Tax

- No change in tax rate for domestic companies
- Corporate tax rate for foreign companies reduced from 40% to 35%
- No change in taxation as per old tax regime for individuals
- No extension in sunset clause providing for reduced tax rate of 15% for manufacturing companies (section 115BAB)
- Minor Change in slab rate for individuals / HUF / AOP / BOI under new default tax regime under section I 15BAC as follows

AY 24-25 (in INR)	AY 25-26 (in INR)	Tax Rate
3 - 6 Lakhs	3 - 7 Lakhs	5%
6 - 9 Lakhs	7 - 10 Lakhs	10%
9 - 12 Lakhs	10 - 12 Lakhs	15%

- Employer's contribution to NPS under section 80CCD(2) – Limit increased from 10% to 14% of Salary
- Increase in Standard deduction under section 16 for Income from Salaries from INR 50,000 to INR 75,000
- Increased deduction from Family Pension under section 57 up to INR 25,000 (instead of INR 15,000)

#### Income from business or profession

• Income from renting out own residential property not to be taxed as Business Income

- Deduction in respect of contribution to NPS (for employees) – Limit increased from 10% to 14% of salary
- Expenditure incurred towards settlement of proceedings in respect of contravention of any law not tax-deductible
- Limit increased for tax deductible partners' remuneration for working partners- On the first INR 6,00,000 of book profits (or losses) – Deduction of INR 3,00,000 or 90% of the book profits, whichever is more and on the remaining book profits – at the rate of 60%.
- A new section (44BBC) for presumptive taxation is proposed to be introduced for non-residents operating cruise ships (specified companies). Under this scheme, 20% of their receipts will be deemed as income in India.

#### **Capital gains**

- Uniform 12.5% rate of tax for LTCG with effect from July 23, 2024
- LTCG on sale of listed securities under section 112A increased from 10% to 12.5%
- Exemption of LTCG under section 112A increased from INR 1 lakhs to INR 1.25 lakhs
- Rate of tax on STCG on listed securities under section 111A increased from 15% to 20%
- Holding period for all long-term assets reduced to 24 months from 36 months (except for holding period under section 50B which remains 36 months)
- Unlisted bonds and debentures to come under the purview of section 50AA and to be considered as short-term capital assets irrespective of period of holding





- Definition of specified mutual funds proposed to be modified to link it to debt and money market instruments
- STT increased on options and futures from existing 0.0625% of option premium and 0.0125% of future price to 0.1% of option premium and 0.02% of future price
- Benefit of capital gains tax exemption on the transfer of capital assets by way of a gift, will or irrevocable trust proposed to be restricted to individuals and HUFs
- Clarification provided regarding the cost of acquisition for unlisted equity shares transferred under an offer for sale to the public in an initial public offer.

#### Income from other sources

- Buyback tax under section 115QA proposed to be abolished. Buyback to be taxed in the hands of shareholders as deemed dividend without any deduction under section 57. Cost of acquisition to be allowed as capital loss.
- Angel tax under section 56(2)(viib) proposed to be abolished

#### IFSC

- Exemption from thin capitalisation to banks & NBFCs, now extended to financial institutions in IFSC
- Exemption on the specified income of the Core Settlement Guarantee Fund proposed to be extended to funds set up by recognised clearing corporations in the IFSC

#### TDS

- TDS rates under different sections (194DA, 194H, 194IB, 194M etc.) proposed to be reduced from existing 5% to 2%
- TDS on payment by e-commerce operator to ecommerce participant proposed to be reduced from 1% to 0.1%
- Lower TDS application under section 197 proposed to be allowed in case of TDS under section 194Q on payment for purchase of goods
- TDS proposed at rate of 10% upon payments (salary, remuneration, commission, interest etc.) to be made to partners by partnership firms
- Cases covered under 194J to be out of the purview of 194C 194J to apply
- Time limit for filing revised TDS statements 6 years from the end of financial year
- TDS on purchase of immovable property limit of INR 50 lakhs to be seen *qua* property
- Section 198 proposed to be amended to deem taxes withheld outside India as income received

#### **Assessments and Appeals**

- The separate regime for block assessment in search cases, which was abolished by the Finance Act, 2021, and integrated into the new reassessment provisions, proposed to be reinstated. To enhance efficiency and effectiveness, block assessment provisions to be reintroduced for searches initiated or requisitions made on or after September 1, 2024.
- The timelines for reassessment proposed to be further rationalised whereby the existing timeline to issue a notice is proposed to be reduced from 10 years to 5 years and 3 months.



#### **Trust and Charitable Institutions**

- Gradual discontinuation of exemption regime under section 10(23C) for specified charitable trusts / institutions - Objective of merging the same with provisions of section 12AB
- Relaxation in case of delayed registration / approval/ renewal applications, harsh consequences removed.
- Merger of Trusts having similar objectives More certainty to be provided.

#### **Other Amendments**

- Vivad Se Vishwas Scheme proposed to be revived.
- Equalisation levy on e-commerce supply or services applicable at the rate of 2% is proposed to be abolished with effect from August 1,2024.
- Black Money Act is proposed to be amended to provide relaxation on reporting of foreign assets in the tax return where the aggregate value of an asset other than immovable property does not exceed INR 20 lakh.

## **Indirect Tax**

#### **Changes under GST Law**

- Retrospective amendment to provisions of section 16(4) with effect from July 1, 2017 to provide for extension of time limit for claiming Input Tax Credit (ITC) for the financial years 2017-18, 2018-19, 2019-20, and 2020-21 in any return filed in FORM GSTR-3B up to November 30, 2021.
- Sections 73 and 74 of the CGST Act, 2017, are amended to specify that these sections will apply only up to the financial year 2023-24.

- A new section 74A, similar to section 73 and section 74, has been inserted, effective from the financial year 2024-25.
- Section 70(1A) is inserted to provide that every person to whom a summons is issued must appear personally or through an authorized representative.
- Proposed to exclude Extra Neutral Alcohol (ENA) used in the manufacture of alcoholic liquor for human consumption from the purview of GST.
- Reduction in the value of pre-deposit while filing an appeal with Appellate Authority and Tribunal.

#### Changes under Customs Law

- Customs duty structure proposed and designed to promote local manufacturing, indigenisation and reduction in rates of imports to rationalise and simplify taxes for ease of doing business
- Trade facilitation To promote domestic aviation and boat & ship maintenance and operations, proposed to extend the period for export of goods imported for repairs from six months to one year. In the same vein, it is proposed to extend the time-limit for the re-import of goods for repairs under warranty from three to five years.
- Proposed Exemption from Custom Duty
  - Critical 25 minerals such as copper, lithium, cobalt, etc are proposed to be made fully exempt from customs duty
  - Solar energy Proposed exemption on specified capital goods for use in the manufacture of solar cells







India is the most successful hockey nation in Olympic history, having won a total of 12 medals in men's field hockey: eight golds, one silver, and three bronzes.

- Proposed Reduction in Custom Duty
  - Reduction in Basic Custom Duty on Medical Equipment like X ray tubes and flat panel detectors
  - Marine Products- Reduction of customs duty for shrimp and fish feed and exempt customs duty on various inputs for the manufacture of shrimp and fish feed
  - Reduction in rates of duty in Leather and textile sector
  - Precious metals- Reduction of customs duty for gold, silver and platinum
- Proposed Increase in Custom Duty
  - Plastics- PVC flex film rates are increased
  - To incentivise domestic manufacturing, specified Telecommunication equipment- increased customs duty







## **Personal Tax**

#### Change in slab tax rates under new default tax regime

Section 115BAC(1A) of the Act provides for different (lower) slab wise income tax rates for individual or Hindu undivided family or association of persons [other than a co-operative society], or body of individuals or an artificial juridical person. This is a default tax regime unless the Taxpayer chooses to opt out from it.

As a further steps towards encouraging taxpayers not to opt out from such new tax regime, the Bill proposes to reduce the tax burden by amending the income slabs and the consequent tax rates from AY 2025-26.

The comparison of existing slab rates (AY 2024-25) and proposed slab rates (from AY 2025-26 onwards) are summarised as under:

Sr. No.	Rate of Tax	Total Income (AY 2024-25) (in INR)	Total Income (From AY 2025-26 onwards) (in INR)
I	Nil	Upto 3,00,000	Upto 3,00,000
2	5%	3,00,001 to 6,00,000	3,00,001 to 7,00,000
3	10%	6,00,001 to 9,00,000	7,00,001 to 10,00,000
4	15%	9,00,001 to 12,00,000	10,00,001 to 12,00,000
5	20%	12,00,001 to 15,00,000	12,00,001 to 15,00,000
6	30%	Above 15,00,000	Above 15,00,000

Considering the above if a taxpayer has total income of INR I 5,00,000, there is a tax reduction by INR I 0,000 as comparted to existing rate applicable for AY 2024-25.

This amendment is proposed to be effective from April 1, 2025 and accordingly it will be effective from AY 2025-26 and subsequent assessment years.

#### Increase in Standard Deduction in new default tax regime

Section I6(ia) of the Act provides for standard deduction of INR 50,000 to salaried employees. As per the existing provisions, such deduction is available to both for old tax regime and new default tax regime. As a step towards encouraging and incentivizing the taxpayers who are taxed under the new default tax regime under section II5BAC(IA), the Bill proposes to increase such deduction to INR 75,000.

This amendment is proposed to be effective from April 1, 2025 and accordingly it will be effective from AY 2025-26 onwards.







#### Increase in deduction allowed to the employees in respect of contribution by the non-government employer to pension scheme

Any contribution made by central government or any other employer to a specified pension scheme [National Pension Scheme- NPS is notified for this purpose] under section 80CCD(2) to an account of an employee is treated as salary. Section 80CCD(2) provides for the deduction to the employees from his gross total income in respect of the contribution made by the employer to such fund.

The existing provision prescribes different thresholds of deduction for the government employees and non-government employees as a percentage of the salary of the employee. Currently, for government employees, the deduction is restricted up to 14% of the salary (Basic + DA) of employee whereas it is 10% in case of nongovernment employees.

In order to encourage the private sector employees to shift towards new tax regime, the Bill proposes to extend the benefit of higher deduction to the extent of 14% to the employees who are opting for the new default tax regime. However, this benefit of higher deduction is not allowable to employee who are opting out of new default tax regime.

This amendment is proposed to be effective from April *I*, 2025 and accordingly it will be effective from AY 2025-26 onwards.

## Income from Business or Profession

# Taxability of Income from letting out of House Property

Section 14 of the Act classifies computation and taxability of income under five different heads of

income which is further governed by the provisions contained under the specific head of income. Section 22 provides taxing of income from letting out of any building or land appurtenant thereto under the head Income from House Property whereas section 28 provides taxability of income arising from any business or profession under the head Profits and gains of business or profession.

It was observed that rental income generated by letting out of the house property was being reported under the head 'Profits and gains of business or profession' in place of the head 'Income from house property'. Accordingly, the taxpayers were claiming benefit of reduced tax liability by claiming higher expenses and hence to curb the said practice, the Bill proposes to amend section 28 to exclude taxing of income from letting out of residential house as business income. In view of the proposed amendment, income from renting of residential house shall be exclusively taxed under the head income from house property.

There have been numerous judgments in which the judiciary expressed different views on this subject. In these judgments, the courts aimed to determine whether the rental income should be taxed under the head of "house property" or "business income" by considering the taxpayer's business objectives. The courts attempted to assess the situation from a businessperson's perspective to decide whether the act of letting out property constituted conducting a business or merely the owner's exploitation of property. In the case of Chennai Properties & Investments Ltd<sup>1</sup>, the Hon'ble Supreme Court ruled that when a company's primary objective is to acquire properties and earn income by letting them out, the income should be taxed as business income rather than as income from house property. In doing so, the Supreme Court distinguished this case from another Apex Court judgment in the case of East India Housing and Land Development Trust Ltd<sup>2</sup> wherein the Apex Court had adjudicated that







income from letting out of property was to be taxed as income from house property and not as income from business since letting out was not the object of the company. The Hon'ble Delhi HC in the case of Atma Ram Properties (P.) Ltd<sup>3</sup> relied on the SC judgements to hold that income from letting out of properties should be taxed as income from house property since taxpayer was formed for purchasing and selling properties and earning of income by letting out the properties owned by it was not one of its business objects.

It may be noted that the proposed amendment applies only to letting out of residential house and not to other properties which are not in the nature of residential house. The taxability of the properties other than residential house would be based on facts of each case and the existing judicial precedents may be applicable to that extent.

The amendment will take effect from April 1, 2025 and will accordingly apply in relation to the AY 2025-26 onwards.

## Increase in deduction of contribution to pension scheme

Section 36 of the Act allows deduction to the employers while computing their income under the head 'Profits and gains of business or profession'. The existing provisions of clause-(iva) of sub-section (1) of this section provides for deduction in respect of their contribution on account of an employee under the specified pension scheme (NPS) referred to in section 80CCD of the Act which is restricted to the extent of 10% of the salary of an employee in the previous year.

As a consequential effect of increase in threshold of deduction under section 80CCD(2) of the Act to 14% of salary for those employees opting for new default tax regime, the Bill proposes to simultaneously increase the amount of deduction allowed to the employers in respect of their contribution on account of an employee under the specified pension scheme referred to in section-80CCD of the Act to 14% of the salary of an employee in the previous year.

This amendment is proposed to be effective from April I, 2025 and accordingly it will be effective from AY 2025-26 onwards.

# Expenses incurred to settle proceedings for contravention of law not deductible

Section 37 of the Act is a residual section for claiming deduction of expenses incurred wholly and exclusively for the purpose of business. Explanation I read with Explanation 3 to section 37(1) restricts deduction of expenses being expenditure incurred by an assessee for any purpose which is an offence or which is prohibited by law. The Act was amended by the Finance Act, 2022 to disallow expenditure incurred for offence of any foreign law outside India or for providing any benefit or perquisite, if acceptance of such benefit or perquisite is in violation of any law or regulations or for compounding any offence under any law in or outside India.

The Indian judiciary has consistently sought to determine whether payments made by taxpayers are of a compensatory or penal nature, particularly when assessing their deductibility under section 37 of the Act. Hon'ble Delhi HC in the case of Desiccant Rotors International (P.) Ltd<sup>4</sup> held that amount paid for settlement of dispute for infringement of patent was compensatory in nature and motivated purely by commercial purpose thereby allowing the same under section 37 of the Act. Hon'ble Bombay HC in the case of Sushil Gupta<sup>5</sup> held that redemption fine levied for infraction of law committed in the process of importing of goods was not an allowable deduction under section 37 of the Act. Numerous judgments exist on both sides of this issue, with courts expressing different opinions on similar payments, often hinging on a very fine line of distinction.







The Bill proposes to add clause (iv) to Explanation 3 to section 37(1) to further restrict the allowability of expenditure incurred to settle proceedings initiated in relation to contravention under law as may be notified by the Central Government in Official Gazette. With this proposal, the government aims to clarify its stance on this issue, making it clear that any payment made for the violation of any law will not be allowed as a deduction, even if the payment is made to settle a dispute.

#### **Remuneration to working partners**

Under the existing provisions of section 40(b)(v) of the Act, the partnership firm shall be allowed following deduction relating to the payment of remuneration to working partners:

(a) In case of loss or on first INR 3,00,000 of book profit - Higher of INR 1,50,000 or 90% of book profit

(b) On balance book profit - 60% of book profit

The Bill proposes to increase the limit of allowable remuneration to the firm from assessment year 2025-26 as under:

(a) In case of loss or on first INR 6,00,000 of book profit - Higher of INR 3,00,000 or 90% of book profit

(b) On balance book profit - 60% of book profit

# Taxability of interest income of public companies

Section 43D provides special provisions for taxing interest income on bad and doubtful debts of financial institutions, banks, public companies, etc. As per the existing provisions, interest income in relation to bad or doubtful debts of public company which is registered in accordance with the Housing Finance Companies (NHB) Directions given under section 30 and 31 of the National Housing Bank Act, 1987 and whose main object is providing long term finance for construction or purchase of residential houses in India shall be chargeable to tax in the previous year in which it is credited in the books of accounts or in the year in which it is actually received whichever is earlier.

It is proposed to amend section 43D of the Act so as to exclude public company from its purview as the public companies registered under Housing Finance Companies are considered as Non-Banking Financial Companies and are separately covered by the provisions of section 43D of the Act.

The amendment will take effect from April 1, 2025 and will accordingly apply in relation to the assessment year 2025-26 and subsequent assessment years.



Ravi Kumar Dahiya won the silver medal in the men's 57 kg freestyle wrestling category at the 2020 Tokyo Olympics.





#### New presumptive tax regime for non-residents operating cruise ships in India

To harness the immense potential of cruise tourism in India, the Hon'ble Finance Minister has proposed a simplified tax regime for foreign shipping companies operating cruises in the country.

Currently, section 44B of the Act stipulates a presumptive taxation regime wherein 7.5% of their receipts sourced in India is deemed as profits chargeable to tax in India. The Bill proposes a distinct presumptive taxation regime for foreign shipping companies operating cruise vessels in India. Under the proposed new section 44BBC, 20% of the receipts from carriage of passengers by non-residents operating cruise ships in India shall be deemed to be profits chargeable to tax in India.

While the effective tax rates in the hands of nonresident company operating cruise ships in India will increase, the Bill also introduces a new section 10(15B) providing exemption on lease rental income from renting of cruises. The section proposes that the lease rental income of a foreign company shall be exempt from tax in India if the cruise vessel is leased to another foreign company which operates cruise ships in India and offers its income under section 44BBC, provided both such foreign companies are subsidiaries of the same parent company. This exemption is proposed to be available to the foreign companies till AY 2030-31. This proposed amendment is expected to offer significant relief to such non-resident groups operating cruise ships in India.

Although a distinction has been proposed in the domestic tax regime between regular shipping companies and those operating cruise ships, it is important to recognize that tax treaties still apply a general tax regime to all shipping companies, which may encompass income from cruise ships. While some tax treaties grant exclusive taxation rights to the country with place of effective management, others allow India to tax income if the ships operate solely within Indian waters.

## **Capital gains**

# Streamlining Provisions of Capital Gains

The IT Act outlines the framework for calculating capital gains income earned by taxpayers from the transfer of capital assets such as shares, units of mutual funds, bonds, debentures, real estate and more. The Act's existing provisions provide for varying holding periods to classify capital assets, and apply different tax rates to distinct asset categories, such as STT paid listed securities, unlisted securities, immovable property, and others. Over the years, the government has made significant changes to capital gains mechanism, introducing numerous amendments to the IT Act since its inception.

In an attempt to simplify and streamline the capital gains tax regime, the Finance Bill has proposed amendments to sections 2(42A), 111A, 112, and 112A. Following are the key highlights of the proposals laid down in the Finance Bill amending the existing capital gains tax framework:

- To have only two periods of holding of 12 months or 24 months to determine whether it is a shortterm capital asset or a long-term capital asset;
- Increase in short-term capital gain tax rate from 15% to 20% in case of listed shares, units of Mutual Funds and units of REITS / InvITs where STT is paid on sale of such capital assets;
- Introducing a uniform rate of tax of 12.5% on all long-term capital assets irrespective of their nature and class resulting in
  - Increase in long-term capital gain tax rate on certain listed securities from 10% to 12.5%;





- Decrease in long-term capital gain tax rate on unlisted securities and other assets from 20% to 12.5%.
- Increase in threshold for long-term capital gains on capital assets referred in section 112A from INR 1 lakh to INR 1.25 lakhs.
- No benefit of indexed cost of acquisition to be available on any class of long-term capital assets;
- Align capital gains tax rates for non-residents with those for residents under sections 111A, 112, 112A and sections 115AB, 115AC, 115AD and 115E.

Please note that above amendments would be effective for transfer of capital assets on or after July 23, 2024 and all transfers prior to the said date would continue to be taxed in accordance with the existing provisions.

An overview of the existing provisions for capital gains vis-à-vis the proposals laid down in the Finance Bill effective for transfers on or after July 23, 2024 can be summarized as under:

Type of Capital Assets	Period of H Upto July 22, 2024	Holding With effect from July 23, 2024
Listed security (other than a unit), unit of an equity oriented fund or zero coupon bond	12 months	12 months
Units of a business trust (REITs / InvITs)	36 months	12 months
Unlisted shares and immovable property	24 months	24 months
Units of funds other than equity oriented fund	Deemed short-term capital asset	Deemed short-term capital asset
Unlisted bonds and unlisted debentures	36 months	Deemed short-term capital asset
Capital Assets other than above including gold, unlisted bonds, unlisted debentures, etc.	36 months	24 months

Period of holding Applicable to Capital Assets

While the intent of the Finance Bill was to streamline the period of holding by providing for only 2 periods of holding of 12 months or 24 months, no amendment has been proposed in section 50B to reduce the period of holding of an undertaking sold in a slump sale, which currently stands to be 36 months. Therefore, an undertaking transferred in a slump sale (including slump exchange) would be considered as long-term capital asset only if it has been held for more than 36 months.



#### Tax rates applicable on Capital Gains

Class of Asset	Long term Ca Upto July 22, 2024	apital Gains With effect from July 23, 2024	Short term Upto July 22, 2024	Capital Gains With effect from July 23, 2024
(I) LISTED SECURITIES				
Listed Shares	10%	12.5%	15%	20%
Units of Equity oriented MF	10%	12.5%	15%	20%
Units of REITs / InvITs	10%	12.5%	15%	20%
Units of Debt & money market MF	Normal rate*	Normal rate*	Normal rate	Normal rate
Units of Gold / Silver ETF	Normal rate*	Normal rate* <sup>1</sup>	Normal rate	Normal rate
Listed Bonds & Debentures (Other than Market linked debentures)	10%	12.5%	Normal rate	Normal rate
Market linked Debentures	Normal rate*	Normal rate*	Normal rate	Normal rate
Specific securities under section 115AB / 115AC / 115ACA / 115E	10%	12.5%	_	_
(II) UNLISTED SECURITIES				
Unlisted shares sold by Resident	20% **	12.5%	Normal rate	Normal rate
Unlisted shares sold by Non-Resident	10%	12.5%	Normal rate	Normal rate
Unlisted bonds or debentures	20%	Normal rate*	Normal rate	Normal rate
(III) BUSINESS ASSETS				
Business Undertaking (Sold in a slump sale)	20%	12.5%	Normal rate	Normal rate
Depreciable Assets	20% <sup>2</sup>	12.5%	Normal rate	Normal rate
(IV) OTHER ASSETS				
Immovable Property	20% **	12.5%	Normal rate	Normal rate
Gold, Bullion, Jewellery & other capital assets	20% **	12.5%	Normal rate	Normal rate

\* Taxed as 'Short Term Capital Gain' irrespective of holding period and accordingly, taxed at normal rates \*\*Capital gains computed after taking into account benefit of indexed cost of acquisition





Rate of 12.5% applicable from AY 2026-27 upon amendment of definition of 'Specified Mutual Fund' under section 50AA

<sup>2</sup>As per the decision of the Hon'ble Supreme Court in case of CIT v. V.S. Dempo [Civil Appeal No. 4797 of 2008], depreciable assets qualifying as long-term capital assets would be eligible for tax rate as per section 112.

All rates mentioned above are exclusive of applicable surcharge and education cess

#### Parity in Capital Gains Tax Rate for Offshore Funds, FIIs, NRIs with Residents

The Finance Bill has proposed amendments to the provisions of sections 115AB, 115AC, 115ACA, 115AD, and 115E of the Act, which provide for special rates of capital gains tax applicable to Offshore Funds, Non-Residents, Foreign Institutional Investors ('FII') and Non-Resident Indians ('NRI'). The long-term capital gains tax on income arising to such specified class of investors as provided below shall be increased to 12.5% from existing rate of 10% to align tax rate with that applicable to residents under section 112 or 112A:

(a) Transfer of units of Mutual Fund specified under section 10(23D) purchased in foreign currency by an Offshore Fund as provided under section 115AB [benefit under first proviso to section 48 can be availed];

(b) Transfer of specified bonds of an Indian Company or Global Depository Receipts ('GDRs') issued against the shares of an Indian Company and purchased by a non-resident in foreign currency as provided under section I15AC [benefit provided under first proviso to section 48 not available];

(c) Transfer of a long-term capital asset by an NRI

as provided under section 115E.

The Finance Bill has also proposed amendment to section 115AD, which provides for differential tax rates on capital gains income of Specified Funds or FIIs on transfer of securities other than the units of Mutual Fund as referred to in section 10(23D). It has been proposed that the tax rate on short-term capital gains from transfer of assets referred to in section 111A shall be increased from 15% to 20% and on transfer of other securities, it shall continue to apply at the rate of 30%. A uniform rate of 12.5% shall be applicable in respect of long-term capital gains arising from the transfer of all long-term capital assets, being securities. However, in respect of longterm capital assets referred to in section 112A, the threshold for long-term capital gains exemption shall be increased from INR I lakh to INR 1.25 lakhs. No benefit of the first proviso to section 48 is available.

Section 115ACA provided that long-term capital gains arising to a resident employee of an Indian Company engaged in specified knowledge-based industry or its subsidiary on transfer of GDRs of such company, issued to him in accordance with a notified ESOP scheme and purchased by him in foreign currency shall be taxable at the rate of 10%. Such a rate is proposed to be increased to 12.5% vide the Finance Bill [benefit provided under first proviso to section 48 not available].

The above amendments shall be effective from July 23, 2024. For the period prior to July 23, 2024, the old rates of tax as provided under the respective sections shall continue to be applicable.

#### Indexation benefit discontinued

Under the current provisions, long-term capital gains were computed after adjusting the cost of acquisition based on inflation during the period of holding. Thus, typically, gain to the extent of inflation effect on investments were not taxed. However, with the reduction in the rate of tax, the Government has now proposed to abolish





the inflation-adjustment of cost of acquisition. Effectively, net gain arising on transfer of capital asset would now be taxable at 12.5% (plus applicable surcharge and cess) in case of long-term capital gains.

The change effectively passes on the benefit of reduced rate of taxation from 20% to 12.5% in respect of all assets irrespective of the length of holding period. Indexation used to result into significant cost step-up leading to smaller gains or even to losses even where the sale price is higher than the cost at which the asset was acquired.

One back of the envelop calculation suggests that assuming annual inflation at around 5%, the new scheme of taxing long-term capital gains (at 12.5% without indexation) would be beneficial where the value of assets have grown more than 13% annually as compared to paying tax at 20% with indexation benefit.

It is noteworthy that while indexation benefit has been removed, where the assets have been held by the owner (or the previous owner) prior to April I, 2001, the option to substitute Fair Market Value as on April I, 2001 in place of cost of acquisition has been continued.

## Foreign Currency Fluctuation adjustment continued

Under existing provisions, adjustment in respect of foreign exchange devaluation loss is available to nonresidents on transfer of shares or debentures of an Indian Company (except where the same is taxable under section 112A). This is achieved by permitting computation of capital gains in the currency in which the said investments were made.

It is also important to note that the Finance Bill has not proposed any amendment to restrict the said benefit of foreign exchange devaluation loss available to non-residents and therefore, the benefit of the first proviso to section 48 continues to be available to non-residents. This benefit was granted to nonresident taxpayers to protect against currency devaluation (which is also on same footing as inflation – to exclude gains relatable to reduced purchasing power) and therefore, rationale of discontinuing inflation adjustment but continuing foreign exchange devaluation adjustment is not directly discernible.



Neeraj Chopra became India's second individual Olympic champion by winning the gold medal in the men's javelin throw at the 2020 Tokyo Olympics.

It is worthwhile to mention that the benefit would be available in case of shares as well as debentures of an Indian company except where shares are taxable under section II2A. This gives rise to some unique scenarios.





(a) Non-resident shareholders of unlisted shares would continue to be eligible to benefit from the first proviso to section 48 (computing capital gains in the currency of investment) and thereby exclude gains relatable to devaluation of currency. Thus, while the rate of tax in this class of asset for non-residents has been increased from 10% to 12.5%, concurrently benefit of first proviso has been granted and therefore, effective increase in tax liability could be lower (or probably may result in reduction of tax liability as well in some cases).

(b) Now that rate of tax on long-term capital gains has been aligned at 12.5% on all assets including section 112A, it remains to be seen whether section 112A (which provides special rate of tax where STT has been paid on transaction of purchase as well as sale) would remain beneficial or not. It is important to mention that section 112A provides two important benefits – (i) grandfathering of exemption for gains up to January 31, 2018 in respect of shares held on that date (ii) exemption from tax on capital gains up to INR 125,000 annually. Thus, for resident shareholders this would continue to provide some additional benefits.

(c) However, in case of a non-resident selling shares of a listed company, wherein the conditions laid down in section 112A of the Act are not fulfilled, the long-term capital gain arising on transfer of such shares shall be subject to tax under section 112 at the rate of 12.5%. While the benefit of grandfathering and capital gains exemption will not be available in this scenario, there is a possibility that the non-resident shareholder might not be at a loss considering that the benefit of the first proviso to section 48 continues to be available to them in such a case and where the benefit of grandfathering is not substantial. (d) Unlisted debentures are now proposed to be taxed as short-term capital asset irrespective of the holding period. While debentures were not eligible for indexation earlier as well, for nonresidents, though debentures would be taxable as short-term capital asset, they would still be eligible to claim benefit first proviso to section 48 (computing capital gains in the currency of investment) and thereby exclude gains relatable to devaluation of currency.

# Extended Applicability of section 50AA to Unlisted Bonds and Debentures

The Finance Act 2023 introduced section 50AA of the Act which creates a deeming fiction that the capital gains arising from the transfer of units of a Specified Mutual Fund acquired on or after April I, 2023 or Market Linked Debentures shall be shortterm capital gains irrespective of its period of holding. The Finance Bill has proposed to extend such provisions to unlisted bonds and unlisted debentures which are transferred, redeemed or mature on or after July 23, 2024 whereby gains arising from transfer of unlisted debentures and unlisted bonds would be deemed to be gains derived from transfer of short-term capital assets. Therefore, unlisted bonds and unlisted debentures would not benefit from the reduced rate of tax of 12.5% even if they are held for longer term and would always be taxed at normal tax rates applicable to the taxpayer. Since the asset would be considered as short-term capital asset, they would not be eligible for exemption under section 54 to 54F as well, which are available only in respect of long-term capital assets.

Further, definition of Specified Mutual Fund currently provides that a Mutual Fund which invests less than 35% of its proceeds in equity shares of a domestic company shall be a Specified Mutual Fund. The Finance Bill has now proposed to amend the definition of Specified Mutual Fund with effect from April I, 2026 to provide that a Mutual Fund which



invests more than 65% of its proceeds in debt and money market instruments or a Fund that invests more than 65% of its proceeds in such Mutual Fund shall be a Specified Mutual Fund for the purpose of section 50AA of the Act. This would effectively mean that only debt and money market Mutual Fund units would be covered by section 50AA of the Act. Other Mutual Funds with an asset class other than Equity or Debt (e.g., Gold ETF or Silver ETF or similar or even hybrid) and Fund of Funds of such asset class would be excluded from provisions of section 50AA of the Act effective from AY 2026-27. Therefore, such asset class (Gold ETF, Silver ETF, Fund of Funds, etc.) would be able to claim benefit of 12.5% tax rate on long-term capital gains effective from units transferred on or after April 1, 2025.

#### **Restricted applicability of section** 47(iii) to Individuals and HUFs

Section 47 of the Act, which excludes certain transactions not regarded as transfer for the purpose of taxability of 'Capital Gains' inter alia provides that transfer of a capital asset under a gift or will or an irrevocable trust, irrespective of the category of the taxpayer viz., individuals, HUFs, etc. (and possibly, companies, LLPs, Trusts as well) shall not be regarded as transfer under section 47(iii).

Various taxpayers have been taking a view before the judiciary that a transaction of gift of shares by a Company shall not be regarded as transfer in view of the provisions of section 47(iii) of the Act. Based on the contention of the taxpayers, various High Courts have taken different views on the issue, wherein the **Bombay High Court in case of Jai Trust**<sup>6</sup> and the **Gujarat High Court in case of Prakriya Pharmacem**<sup>7</sup> had taken a view that transfer of capital assets as gift by a Trust or by a company to its sister concern respectively shall not be treated as transfer in view of the provisions of section 47(iii) of the Act. In order to overcome the ambiguity arising from the language of section 47(iii) and holding on to

the view that a gift is given out of natural love and affection, the Finance Bill has thus proposed to be amend section 47(iii) to restrict its applicability only to Individuals and HUFs.

This amendment shall be effective from April 1, 2025 to AY 2025-26.

## Cost of Acquisition under section 55(2)(ac) of Shares Sold in Offer for Sale

The provisions of section 55(2)(ac) of the Act were introduced vide Finance Act 2018 to provide for a grandfathering mechanism to compute the cost of acquisition of the long-term capital assets referred to under section 112A of the Act which were acquired on or before January 31, 2018.

On a literal interpretation of the provisions of section 55(2)(ac), the equity shares sold under an Offer for Sale as a part of IPO, which are unlisted on the date of transfer and are subsequently listed on the stock exchange are not squarely covered by such provisions. This could lead to a possible tax escapement on transfer of such shares citing a view that since there are no express provisions to provide for computing cost of acquisition of such shares, the computation mechanism fails and hence, no capital gains would be chargeable.

In order to fill in this lacuna, the Finance Bill has proposed to amend the law to provide for computation of cost of acquisition of such shares which would be computed taking into account the proportion of CII of FY 2017-18 as it bears to the CII for the first year in which the asset was held by the assessee or for FY 2001-02, whichever is later.

It has been proposed to insert the above with retrospective effect from April 1, 2018.





# Increase in STT Rates on Futures and Options

Finance Act 2004 introduced levy of Securities Transaction Tax ('STT') on certain transactions of specified securities. Considering the exponential growth of the derivatives market, the Finance Bill has proposed to revise STT rates as under with effect from October I, 2024-

Particulars	Existing Rate	Proposed Rate
Sale of an option in securities	0.0625 %	0.10 %
Sale of futures in securities	0.0125 %	0.02 %

## Income from other sources

#### **Buy-back Tax**

#### New buyback-tax regime

Taxation of income from buyback of shares is proposed to undergo a drastic change for achieving the government's intention of "deepening the tax base<sup>8</sup>". It is proposed that the buyback income should be taxed in the hands of the shareholders as dividends under the head "Income from other sources". No deduction shall be available in computing income from buyback of shares. In other words, the entire amount of buyback proceeds shall be considered as dividend income for tax purpose. However, capital loss shall be available to the shareholder equal to the amount of the cost of bought back shares which can be set off by the shareholder against income from capital gains.

#### Analysis of proposed amendments for the new buybacktax regime

**Section 115QA made defunct:** The existing 'special buyback-tax regime' or '115QA regime' (refer the comparative analysis below) operating through section 115QA is proposed to be made

inapplicable on any buyback which takes place on or after October 1, 2024. Similarly, section 10(34A) which provided exemption of shareholders' income which is already taxed in the company's hands under section 115QA, has also been discontinued from such date.

**Dividend Definition:** A new clause (f) has been inserted in the ever-lengthening definition of "dividend" under section 2(22) which provides that dividend includes any payment made by the company to the shareholders for purchase of its own shares in accordance with provisions of section 68 of Indian Companies Act, 2013.

- Thus, the entire (gross) amount of buyback proceeds is covered under the purview dividend and no acquisition cost deductions are envisaged.
- It is also pertinent to note that unlike 2(22)(a) to (e), the quantum of dividend income is not restricted to the amount of accumulated profits in the company. Hence, it appears that buyback proceeds shall be taxed as dividend even if the company has negative or no accumulated profits.
- New buyback-tax regime should allow claiming of foreign tax credits for Indian buyback-taxes paid by foreign shareholders of Indian companies which is not the case in the existing II5QA regime.
- Deduction under section 80M can be claimed from buyback proceeds on fulfilment of relevant conditions, while also claiming the consequent capital loss.

Further the definition is proposed to be suitably amended to remove the existing exclusion of buybacks from the definition of dividends.




**Deduction from Buyback income:** Section 57 has been amended to provide that no deduction for any expenses shall be available from the buyback proceeds so classified as dividend.

**Capital Loss:** Section 46A specifically provides taxation of buyback of shares as capital gains income since the year 2000-01. Although its operation was nullified by introducing suitable exemptions for shareholders under the 115QA regime, it was always active and applicable. Now, since the 115QA regime-exemptions are discontinued, section 46A resumes full applicability. However, the legislature has inserted a deeming fiction to the effect that the value of consideration received after October 1, 2024 by the shareholder under such buyback shall be deemed to be NIL. Thus, by operation of the computation mechanism under section 46A, the shareholder shall get a capital loss equal to the cost of shares bought back (since, the sale proceeds are NIL).

Note that considering the intention of the legislature, section 50CA of the Act which taxes undervalued transactions should not be made applicable by virtue of a deeming fiction which causes the transaction value to reduce to NIL.

**TDS Provisions:** Such buyback proceeds shall be subject to TDS at the rate of 10% by the company by virtue of corresponding amendment under section 194 of the Act.

Comparative Analysis	Existing buy-back tax regime (115QA-regime)	Proposed (new) buy-back tax regime
Applicable from	For buy-back prior to October I 2024	For buy-back on or after October I 2024
Who is liable to pay tax ?	Domestic Company (carrying out the buy back)	Shareholder (whose shares are bought back)
Kind of income for tax purposes	Special Status	Dividend Income
Applicable tax-rate	ETR - 18.89% (irrespective of residential status of shareholder)	Residents: Slab rates apply (Surcharge restricted upto 15%) Highest slab rate of 35.88%
	flat rate, irrespective of quantum of income	Non-Residents: Maximum rate up to 20% (plus surcharge, cess). The characterisation of buy-back under DTAA, whether dividend or capital gains, needs to be evaluated.
Deduction available from buyback proceeds ?	Deduction of the amount paid to	No deduction available whatsoever.
	the company on issue of the shares bought back	Capital loss equal to cost of bought back shares available to the shareholders
	(With specific rules prescribed for determining cost in different cases)	Like any other capital loss, such loss can be carried forward and set-off from future capital gains
Claiming foreign tax credit by non-resident shareholders on buyback taxes	There are arguments that FTC is not available since buyback-tax is paid by the company	Available without any technical hitches (like any normal dividend)





#### **Abolition of Angel Tax**

- Vide Finance Act, 2012, a new clause (viib) was inserted in sub-section (2) of section 56 of the Act. Under the said provision, any premium paid by investors above the fair market value of the shares of an unlisted company is classified as "income from other sources" and subjected to taxation. The Finance Act of 2012 added this provision to the Act to address the concerns related to money laundering and the flow of unaccounted funds. However, it became a point of contention among startups and investors, who felt it was a barrier to innovation and fundraising. Key issues with the angel tax included its impact on the valuation of shares, the treatment of estimated figures in the discounted cash flow (DCF) method and scrutiny of funding sources and investor credibility.
- Based on representations received from various stakeholders and existing litigation, Bill proposes to remove this provision. As per the proposed amendment the provision of section 56(2)(viib) shall not apply on or after April I, 2025. However, it is to be noted that such amendment is proposed by clause No.23 of the Bill with effective from April I, 2025 and accordingly as stated in Memorandum to the Bill, the said provision is not applicable with effect from AY 2025-26 onwards.

### IFSC

Exemption extended to Retail Schemes & Exchange Traded Funds

Section 10(4D) of the Act provides that Category III Alternative Investment Fund (AIFs) regulated under the International Financial Services Centres Authority (Fund Management) Regulations, 2022 shall enjoy exemption of certain incomes which it earns. The IFSCA (Fund Management) Regulations, 2022 also permit fund management entities to launch retail schemes as well as Exchange Traded Funds (ETFs). However, only non-retail schemes are considered as Category – III AIFs<sup>9</sup> and so this exemption was not available to the retail schemes and the ETFs. The proposed amendment aims at extending such exemption to the retail schemes and the ETFs regulated by the IFSCA (Fund Management) Regulations, 2022 subject to fulfilment of other qualifying conditions in the exemption provision.

#### Definition of Venture Capital Fund revised

Income of a Venture Capital Fund (VCF) is exempt under section 10(23FB). The definition of Venture Capital Fund has been proposed to be extended to Venture Capital Scheme of Fund Management Entity registered under IFSCA (Fund Management) Regulations 2022.

#### Core Settlement Guarantee Fund Exemption

In the stock market ecosystem, multitudes of institutions with well-defined roles are involved. For conclusion of each transaction, there are many categories of intermediaries like clearing corporations, depository etc. The essential role of ensuring that all the transactions are properly concluded and honored by both the parties is of the clearing corporations. The clearing corporations face a settlement risk wherein either of the parties involved in a particular transaction may default. To cover their risk in such cases, the clearing corporations maintain a Core Settlement Guarantee Fund. Under the Finance Act, 2015, section 10(23EE) was inserted by which certain specified incomes of Core Settlement Guarantee Funds set up by clearing corporations governed by SEBI were made exempt from levy of income-tax. However, the India International Exchange (IFSC) Limited  $(India INX)^{10}$  and all intermediaries pertaining to this exchange are set up and governed by the IFSCA under separate regulations. Accordingly, with effect from April 1, 2025 it is proposed to widen the ambit







of section 10(23EE) to include those Core Settlement Guarantee Funds set up by a clearing corporation which is governed by the IFSCA (Market Infrastructure Institutions) Regulations, 2021.

#### Exemption to Finance Companies located in International Financial Services Centre (IFSC) from thin capitalisation regulations

Thin capitalization provisions are enacted into many countries' regulations to avoid a scenario where a highly leveraged entity claims high amounts of interest as deductions, especially where loans are borrowed from group companies.

India had introduced thin capitalization in 2017, where deduction in respect of interest paid / payable by an Indian company or permanent establishment of a foreign company in respect of funds borrowed from (or guaranteed by) an Associated Enterprise (AE) shall be subject to a restriction of 30% of the payer's EBITDA.

A specific exemption is provided to payers of interest being engaged in the business of banking or insurance operations from the application of disallowance of interest.

Considering that the Indian government is robustly promoting the financial service businesses based out of IFSC by way of providing various economic, operational, tax and other fiscal concessions, the scope of this exemption has been expanded to include finance companies located and operating out of IFSC.

This amendment is proposed to take effect from AY 2025-26.

### **TDS Provisions**

#### **TDS on Salary**

Section 192 deals with deduction of TDS on salary income. As per existing sub-section 2B of section 192, the deductor while computing tax to be deducted from salary shall consider income from any other head, TDS deducted on said income and loss from house property for same financial year based on declaration provided by the deductee (as per Rule 26B of the Rules).

For widening the scope of section 192(2B), the Bill proposes to allow credit of any TDS deducted and TCS collected under Chapter XVI B of the Act for same financial year while computing liability for deduction of TDS under section 192. The adjustment of loss from house property from salary income continues to be allowable as per the existing provision. Further, the deductee is required to provide a statement of particulars of income other than 'salaries' for deduction of TDS as per the existing provision. The above amendment would ensure that salaried employees do not have to face undue hardship where taxes have been deducted or collected on transactions that do not result into income, by allowing credit merely on providing details of TDS or TCS.

The above amendment will be effective from October 1, 2024.

Section 193 provides for deduction of TDS on interest on securities at the time of credit or payment whichever is earlier. Proviso to section 193 specifies securities on which TDS is not to be deducted and also provides for deduction of TDS on interest exceeding ten thousand on securities specified in said proviso.



K C Mehta & Co LLP

The Bill proposes amendment to deduct TDS on interest (exceeding ten thousand) on the Floating Rate Savings Bonds (FRSB) 2020 (Taxable) and any security of the Central Government or State Government as may be notified by the Central Government.

The above amendment will be effective from October 1, 2024.



Mirabai Chanu won the silver medal in the women's 49 kg weightlifting category at the 2020 Tokyo Olympics.

#### Restricting scope of section 194C on payment of professional fees, technical fees etc. covered under section 194J

As per existing provision of section 194C, any contractual payment for carrying out 'work' attracts TDS liability at 1% or 2% at the time of credit or payment whichever is earlier. The term 'work' is defined in Explanation to section 194C which provides for activities which attracts TDS deduction under section 194C.

It has been observed that certain taxpayers apply the provision of section 194C to payment made for technical fees and professional fees. The Bill proposes to amend Explanation to section 194C by providing that payments covered under section 194J shall not amount to 'work' and therefore the provision of section 194C is not applicable to it. The above amendment will be effective from October 1, 2024.

#### No TDS on repurchase of units by Mutual Funds or Unit Trust of India

The Bill proposes to omit the provision of section 194F and accordingly there will be no TDS on repurchase of units by Mutual Funds or UTI.

The above provision will be effective from October 1, 2024.

#### **TDS** on transfer of immovable property

Section 194IA provides that the buyer/transferee of the immovable property (other than agriculture land) shall deduct TDS on payment of consideration to the seller/transferor at one cent of consideration or stamp duty value of such property, whichever is higher. No TDS is required to be deducted if the consideration for transfer of property or stamp duty value of such property is less than fifty lakh rupees.

The threshold limit of fifty lakhs mentioned in the existing provisions of section 1941A referred to total consideration payable for immovable property and not consideration payable to individual seller/transferor. However, considering the plain language of section 1941A as also the format of the prescribed form there was a possible interpretation that tax is to be deducted if the threshold is breached *qua* the deductor and / or the deductee.

In order to clarify the legislative intention for insertion of section 194IA, it is proposed that in case of more than one seller/transferor or one buyer/transferee, consideration shall be the aggregate of amounts paid or payable by all buyers/transferees to the seller(s)/transferor(s) for



deduction of TDS under section 194IA. Accordingly, when consideration or stamp duty value in respect of purchase of immovable property exceeds fifty lakhs rupees then TDS is to be deducted by the buyer(s)/transferee(s) under section 194IA.

The above provision will be effective from October 1, 2024.

#### **Reduction in TDS rates in certain cases**

The Hon'ble Finance Minister has proposed to lessen the TDS liability to advantage certain classes of income. The same is summarized as under:

Section	Provision	Current Rate	Proposed rate with effect from October 1, 2024
194DA	Payment in respect of life insurance policy	5%	2%
194G	Commission, etc., on sale of lottery tickets	5%	2%
194H	Commission or brokerage	5%	2%
194-IB	Payment of rent by certain individual or HUF	5%	2%
194M	Payment of certain sums by certain individuals or HUF	5%	2%
194-0	Payment of certain sums by e-commerce operator to e-commerce participant	1%	0.1%

#### TDS on payment to partners by Firm

The Finance Bill 2024 proposes to bring payments by partnership firm to its partners under the scope of TDS by inserting new section 194T.

As per newly inserted section 194T, the partnership firm shall deduct TDS on payment of salary, remuneration, interest, bonus, or commission to partners at ten per cent in case payment exceeds twenty thousand rupees at the time of credit (including entry routed through capital account) or payment, whichever is earlier.

The above amendment will also cover specified payments by Limited Liability Partnership to its partners as the term 'firm' includes Limited Liability Partnership ('LLP') and partners includes partners of LLP as per section 2(23).

Earlier there used to be disputes as to whether tax is required to be deducted on payment to partners under section 192 or 194J. The proposed amendment will put to rest this controversy. The above amendment will be effective from April 1, 2025





# **TDS** on income from specified securities

Section 196B deals with deduction of tax on any income (dividend, interest) to offshore fund in respect of specified securities specified in section 115AB [mutual fund units as per section 10(23D) or units of UTI] purchased in foreign currency or longterm capital gain on transfer of said securities. Likewise, section 196C provides for deduction of tax on any income (dividend or interest) to nonresidents in respect of specified securities specified in section 115AC (bonds or GDR) or long-term capital gain on transfer of bonds or GDR. Presently, as per section 196B and section 196C the payer of the income (interest, dividend, capital gain etc.) is required to deduct TDS at rate of ten per cent at time of credit or payment whichever is earlier.

In view of proposed amendments to capital gain taxes, the Bill proposes to modify section 196B and 196C by increasing withholding tax rates from ten percent to twelve and one-half per cent on long term capital gain arising after July 23, 2024 from transfer of specified securities as stated in section 115AB / 115AC. Accordingly, any other income (interest, dividend, etc.) and long-term capital gain on specified securities under section 115AB/115AC arose prior to specified date (i.e. July 23, 2024) will continue to attract TDS at ten per cent (same as existing) and long term capital gain arose post said date would attract TDS at higher rate of 12.5%.

This amendment will be effective with effect from July 23, 2024.

## Total Income includes TDS deducted outside India

Presently, section 198 provides that TDS deducted under Chapter XVII-B is 'deemed income' for the purpose of computing taxable income. Accordingly, the gross income should be offered to tax, and corresponding tax credit is to be claimed while computing the taxable income. However, it is observed that in case of taxes withheld outside India, the tax credit is being claimed without offering corresponding income in the computation of income.

To curb this practice, the Bill proposes to amend existing provision of section 198 by stating that TDS withheld outside India for which tax credit is allowable shall be deemed to the income while computing the taxable income. Thus, grossing rule shall equally apply in respect of tax paid/withheld outside India for which credit is to be claimed in the computation of income.

### The above amendment will be effective from April 1, 2025.

Here it is important to note that section 5 of the Act intends to encompass only three categories of income i.e., clause (a) covers income received or deemed to be received in India: clause (b) income which accrues or arises or is deemed to accrue or arise to him in India and clause (c) which accrues or arises to him outside India. Therefore, a distinction must be made between three clauses, as clauses (a) and (b) has deeming language which even covers income which has not actually been received and accrued, against clause (c) which doesn't include such fictional language and hence, intends to only include income which has been accrued to the assessee outside India. Accordingly, a question arises as to whether taxes withheld in foreign country can be treated as a part of foreign sourced income or not.

This issue has been analysed in case of Sunil Shinde<sup>11</sup> wherein the taxpayer contended that the tax withheld in USA viz. Federal and State tax have not accrued or arisen to the taxpayer. Hon'ble Bangalore ITAT, directed that the tax withheld in USA (Federal and State Tax) should not be added back to quantify the income taxable in India. Hon'ble ITAT to arrive at said conclusion placed reliance on the judgement of Hon'ble Madhya Pradesh High Court rendered in the







case of Yawar Rashid<sup>12</sup>. The decision of Madhya Pradesh High Court in the case of Yawar Rashid has been followed subsequently by the Ahmedabad Tribunal<sup>13</sup> and Madhya Pradesh High Court<sup>14</sup>.

Proposed amendment to section 198 may not plug in the loophole created by interpretation of section 5(1)(C) wherein a possible view is that foreign TDS is a diversion of income by overriding title and hence does not accrue to the taxpayer. The proposed amendment may also lead to an inference that in situations where foreign tax credit is either not allowable or available, such income should not be taxable in India. The issue of allowability of foreign taxes as tax deductible expenditure has not yet attained finality. The proposed amendment will add an interesting angle to the said controversy.

#### Limitation for filing TDS/TCS Statements

As per section 200 and 206C, the deductor/collector shall furnish the TDS/TCS statements (Form 24Q, 26B, 26Q, 27A, 27Q, 26QF, 27EQ) within prescribed time limit specified in Rule 31A (for TDS statement) and Rule 31AA (for TCS statement). As per existing provision, there is no time limit for filing correction TDS/TCS statements.

In order to streamline the processing of TDS and TCS statements, the Bill proposes to amend section 200 and section 206C by introducing the time limit for filing correction statements. As per the proposed time limit, the correction TDS/TCS statements shall not be filed after expiry of six years from end of the financial year in which TDS/TCS statements is filed. This means, correction TDS/TCS statements for the last quarter of FY 2017-18 (which were due to be filed on or before May 31, 2018) can be furnished up to March 31, 2025.

The above amendment will be effective from April 1, 2025.

## Other Amendments in TDS and TCS Provisions

The Bill proposes to amend the TDS and TCS provisions in order to widen the scope and streamline the process in accordance with TDS provisions as summarized under -

 Section 206C(1F) requires the sellers on sale of motor vehicles for a value more than INR10 lakhs to collect TCS from the buyer, a sum equal to one per cent of the sale consideration. It is proposed to make such a provision applicable on sale of any other goods as may be notified by the Central Government by notification in the Official Gazette having a value exceeding INR10 lakhs at one per cent of the sale consideration.

This amendment is effective with effect from January 1, 2025.

 To harmonize with TDS provision, it is proposed to amend chargeability of interest for noncollection of TCS and non -deposit of TCS by amending section 206C(7) as under –

Default	Interest Rate	Period
Non-collection of TCS	1% for every month or part thereof on the amount of TCS	From the date on which TCS is collectible to the date of collection
Non-deposit of TCS	1.5 % for every month or part thereof on the amount of TCS	From the date of collection to the date of payment

The above amendment will be effective from April 1, 2025.







- The proposed time -limit for passing orders treating any person as 'assessee in default' in case of default in deduction of TDS [amendment in existing provision of section 201(3) by extending applicability to non-resident] and collection of TCS [insertion of section 206C(7A)] are as under
  - six years from the end of the financial year in which payment is made or credit is given or tax was collectible or
  - two years from the end of the financial year in which the correction statement is delivered whichever is later.

The above amendment will be effective from April 1, 2025.

 It is proposed that application for lower deduction of TDS under section 194Q for purchase of goods and TCS under section 206C(1H) on sale of goods can be made in accordance with provision of section 197 before prescribed authority.

The above amendment will be effective from October 1, 2024.

• New sub-section 12 of section 206C is inserted which proposes that the Central Government will notify the class of persons including institution, association in whose case no TCS or lower TCS is to be collectible.

The above amendment will be effective from October 1, 2024.

 It is proposed to amend section 200A by stating that the Board will notify the manner for processing of TDS statement or correction statements filed by person other than deductor (e.g., Form 26QF which is to be filed by exchange) The above amendment will be effective from April 1, 2025.

### **Returns and Refund**

Return filed in pursuant to order under section 119(2)(b) is to be treated at par with return under section 139

Central Board of Direct Taxes ("CBDT"), the authority which administers the entire Income Tax Law has many powers. It's one such power is laid down in section 119(2)(b) to authorise any incometax officer other than an officer of the rank 'Commissioner(Appeals)' to admit an application for claim of:

- Refund
- Exemptions
- Deductions
- Any other relief admissible as per the law

Even after the expiry of the prescribed deadlines if the taxpayer could not file the return within the deadline because of certain genuine difficulties he faced, this relief is provided to the taxpayer to ensure he doesn't have to face genuine hardship if a refund or carry forward of losses is denied.

Section 139 of the Act deals with the provisions relating to filing of return of income. The claim of refund, or carry forward of losses or for that reason, any exemptions is linked to an ITR filed under section 139. Therefore, if the ITR filed under section 119(2)(b) is not treated at par with the ITR under section 139, then it would lead to grave disparity. Though, the ITR is filed under section 119(2)(b), for all practical purposes, it would always be regarded as an ITR filed under section 139 of the ITA. Therefore, it is proposed to insert a new sub-section (9A) in section 139 of the Act to give statutory recognition to an ITR furnished in pursuance to order under section 119(2)(b) of the Act at par with ITR filed under section 139. This would enable the CPC to process all the ITR seamlessly allowing the claim of refund / exemptions / carry forward of losses etc.



This amendment will take effect from October 1, 2024.

Corresponding amendment in this regard is proposed under section 153 to provide for time limit for completion of assessment under section 143 / 144 of return furnished in pursuant to an order under section 119(2)(b) within 12 months.

#### Discontinuation of the provisions allowing quoting of Aadhaar Enrolment ID

As per section 139AA quoting of Aadhaar number is mandatory in the application form for allotment of PAN / in the return of income. If the Aadhar is not allotted then, taxpayer should quote enrolment ID in such form or return as the case may be.

The government anticipates that by continuing quoting of enrolment ID in all such form may lead to duplication and misuse of PAN as major population in India has already been allotted valid Aadhar. Thus, it is proposed to discontinue with quoting of Aadhaar enrolment ID henceforth in all forms and return. All the taxpayers who have been allotted PAN based on enrolment ID have been directed to intimate the Aadhar to the department by filing necessary forms. The forms and procedure would be issued by CG in due course of time.

This amendment will take effect from October 1, 2024.

# Extension of period for withholding of refund in case of pending assessment or reassessment

The existing provisions of section 245(2) of the Act provides that where refund becomes due to a person and assessment or reassessment proceedings are pending in case of such person, AO is empowered to withhold refund by recording reasons recorded in writing and with prior approval of Principal Commissioner up to date on which assessment or reassessment is made provided he is of the opinion that the grant of such refund will adversely affect the revenue. The Bill proposes to remove the condition to form such an opinion for withholding of such refund. However, he still needs to continue to record the reason for withholding such refund. On literal interpretation of such proposed amendment, now AO can withhold refund though it might not be prejudicial to the interest of Revenue. However, the memorandum to the Bill suggests that the intention of such change is to remove the duplication in language since the requirement to record reason is sufficient to meet the requirement for withholding of refund.

Further, considering the fact that the provisions of section 156 allow period of 30 days to pay the demand post passing of order of assessment or reassessment, necessary amendment has been proposed to allow AO to withhold refund up to 60 days from the date of assessment or reassessment. Consequent amendments have also been proposed under section 244A(1A) of the Act to provide that additional interest on refund shall not be paid for period up to date till which refund is withheld as against existing provision which provides period up to date till completion of assessment or reassessment.

The said amendments are applicable with effect from October 1, 2024.

### **Assessments and Appeals**

#### Powers of CIT(A) in case of Best Judgement Assessment

Before June 1, 2001, the Commissioner of Income Tax Appeals [CIT(A)] under section 251 of the Act had power to set aside the assessment and refer the case back to the Assessing Authority for making fresh assessment. The provisions of section 251 were amended to restrict the power of CIT(A) from setting aside the matter back for making fresh assessment so as to avoid prolonged delay in



finalization of assessment. However, it is observed that there is a piling up of appeals before CIT(A) in view of best judgment assessment without submission of the documents / details to the lower authorities. Also, for disposing such appeals, the CIT(A) is required to conduct an additional process of providing an opportunity to the Assessing Authority and seek report from him.

Accordingly, in order to reduce pendency of such appeals, the Bill proposes to amend the provisions of section 251 to provide that in case of best judgment assessment where details / documents during the course of assessment were not provided to the lower authority, the CIT(A) may set aside the assessment order and direct the Assessing Authority to make fresh assessment.

Consequently, the provisions of section 153(3) are also amended for providing the time limit for completion of such assessment within twelve months from the end of financial year in which the order is received by prescribed authorities.

The amendment will be applicable from October 1, 2024.

#### **Appeals to Appellate Tribunal**

As per section 253 of the Act, where any person is aggrieved by the order passed by Commissioner (Appeals), Principal Commissioner, etc. an appeal may be preferred before the Appellate Tribunal. Under the existing provisions, the time limit for filing an appeal before the Appellate Tribunal is sixty days from the date on which the order sought to be appealed is received by the Assessee or the Principal Commissioner or Commissioner.

Post introduction of the faceless appeal scheme the orders passed by the FAA are uploaded on the ITBA and communicated in electric form to the Assessee and the Principal Commissioner or Commissioner. This leads to a situation that the limitation for filing appeal to the ITAT would fall on a daily basis making it difficult for the PCIT and the Assessing Officer to track the same and with a view to rationalize the time limit for filing appeal, the Bill proposes to amend the time limit of filing appeals. Accordingly, now the appeals before the Appellate Tribunal could be filed before two months from the end of month in which order sought to be appealed is received.

The amendment will be applicable from October 1, 2024.

#### Rationalization of Reassessment Regime

Section 147 to section 151A of the Act provides procedure for selection of case for re-assessment and procedure for re-assessment. The Finance Act, 2021 has made substantial changes therein and also made such provision applicable in search cases where search initiated on or after April 1, 2021. The existing provisions in relation to reassessment (which is also applicable for search cases) provide for:

- Procedure for issuance of notice to initiate reassessment under section 147 of the Act including mandate to provide an opportunity of being heard to the Assessee prior to initiation of formal reassessment proceedings
- Time limit of 3 years from the end of the relevant assessment year for issuance of notice under section 148 of the Act and extended time lime of 10 years in certain situations where amount of escapement of income is likely to exceed INR 50 Lakhs
- Procedure for obtaining sanction of specified authorities before issuance of notice under section 148 and 148A of the Act as the case may be
- Meaning of 'information' which suggests that the income chargeable to tax has escaped





#### assessment

• Instances in which the Assessing Officer would be deemed to have information in order to initiate the reassessment proceedings

In order to reduce the time limit for issuance of notice, avoid ambiguity and promote ease of doing business, the provisions for reassessment are once again proposed to be rationalized as under:

- Assessment in case of search initiated on or after September I, 2024 is now governed by Chapter XIV-B as introduced by the Finance Bill, 2024. Reassessment provisions are not applicable to it.
- As per existing provisions, the time limit for issuance of notice under section 149 for issuance of notice under section 148 is within 3 years from the end of the assessment year under normal situation and within 10 years where amount of income escaping assessment is 50 lakh rupees or more in certain specified cases. Such time limit has been proposed to be significantly rationalised. The case of the assessee can now be reopened within a period of 3 years and 3 months from the end of the relevant assessment year in normal circumstances and within a period of 5 years and 3 months from the end of the relevant assessment year, if the income chargeable to tax which has escaped assessment, amounts to or is likely to amount to 50 lakh rupees or more in specified cases.
- It may be noted that for issuance of notice beyond a period of 3 years and 3 months, the Assessing Officer should be in possession of books of accounts or other documents or evidence related to any asset or expenditure or transaction or entries which show that the income chargeable to tax, which has escaped assessment, amounts to or likely to amount to 50 lakhs rupees or more.

- There is subtle change in the language used in the new section 149 which provides for time limits. In context of extended time limits, the language has changed from - "AO has in his possession books of account or other documents or evidence which reveal income represented in the form of asset, expenditure, entry, etc.." to "AO has in his possession books of account or other documents or evidence related to any asset or expenditure or transaction or entries which show that the income chargeable to tax, which has escaped assessment, amounts to or is likely to amount to INR 50,00,000 or more." The new section seems to remove the stringent requirement on the part of tax authorities thereby leaving a little room for misinterpretation.
- Apart from the above, this additional condition is broadly similar to the existing provision. However, it may be highlighted that proposed section 149 of the Act is silent about meaning of the term "Asset" whereas the existing section does define the term "Asset" to include immovable property, being land or building or both, shares and securities, loans and advances, deposits in bank account.
- Presently, there is no specific timeline prescribed for issuance of show cause notice under section 148A of the and the same is governed by and subject to overall time limit prescribed for issuance of notice under section 148 of the Act. The proposed section 149 provides time limit of 3 years from the end of the assessment year for issue of show cause notice in normal cases and 5 years where the amount of income escaping assessment exceeds or likely to exceed INR 50 Lakhs in specified cases.
- Under the existing provisions, notice under section 148 of the Act is required to be "served" on the Assessee whereas the proposed section 148 of the Act requires the notice to be "issued". Considering the fact that all the notices in





connection with the proceedings are communicated through electronic means on the portal of income tax department and notices are delivered through the email, the difference between the "serve" and "issue" does not hold much importance from the legality point of view.

- The proposed section 148A of the Act mandates the Assessing Officer to issue the show cause notice **accompanied** by the information which suggests that income chargeable to tax has escaped assessment. This is truly a welcome amendment and also in line with the decisions wherein Courts have repeatedly emphasised on the need for providing the information / source of information to meet the requirement of natural justice.
- Under the existing provision contained in section 148A of the Act, there is option available with AO to conduct of enquiry (if required) before issuance of notice. The proposed section 148A does not provide the option / flexibility of conduct of inquiry before issuance of show cause notice.
- Presently, the sanction for issuance of notice under section 148 / 148A of the Act as the case may be is to be granted by Pr. Commissioner / Pr. Director / Commissioner / Director wherein the period of limitation involved is 3 years or less, else the sanction is to be granted by Pr. Chief Commissioner / Pr. Director General / Chief Commissioner / Director General. However, under the proposed provision, the Specified Authority for the purpose of granting sanction are Additional Commissioner, or Additional Director, or Joint Commissioner or Joint Director and this is irrespective of whether the notice under section 148 is issued within the prescribed time lime of 3 years and 3 months or beyond.

#### Reintroduction of Block Assessment Proceedings in case of Search under section 132 or requisition made under section 132A

#### New Scheme of Search assessment for "Block years" – traveling back in time

Search and Seizure is a very powerful tool available to the Income Tax Department (ITD) to unearth any concealed income or valuables and to check the tendencies of tax evasion thereby mitigating the generation of black money. Search operations are exploratory exercises on the basis of information with the Income Tax Department to find hidden income and wealth in cases of taxpayers, who have not disclosed their true financial state of affairs in discharge of their tax obligations. The historical background of "search assessment" framework is summarized as follows.

- Chapter XIV-B of the ITA consisting of section 158B to 158BH was introduced by the FA 1995 and became effective from July 1, 1995. The provisions of the then Chapter XIV-B provide for a single assessment of undisclosed income of a block period, which means the period comprising previous years relevant to six assessment years preceding the previous year in which the search was conducted and also includes the period up to the date of the commencement of such search, and lay down the manner in which such income is to be computed. The main objectives of the scheme of the Chapter XIV-B were avoidance of disputes, early finalization of search assessments and reduction in multiplicity of proceedings. The idea was to have a cost-effective, efficient and meaningful search assessment procedure.
- The FA 2003 then abolished the whole scheme of making "consolidated" assessment of search cases by introducing the novel principle of conducting "parallel" assessment in search cases. The then new scheme of search assessment was





covered by section 153A to 153D of the ITA. The Assessing Officer was required to compulsorily assess or reassess the total income of each of these six assessment years in accordance with the provision of law and the tax shall be chargeable at the rate or rates as applicable to such assessment year. The provisos of 153A to 153D are broadly a complete code for making the assessment.

 The Finance Act' 2021 has done away with the legal framework for making "parallel" assessment in case of search or requisition viz. section 153A to 153D of the Income Tax Act'1961 in respect of search or requisition conducted on or after April 1, 2021. For searches conducted on or after April 1, 2021, then forth, assessments shall be framed under section 147 read with section 148, 148A, 149,151 of the Income Tax Act'1961.

Within span of hardly 3 years after abolishing the separate scheme of making search assessments by subsuming the whole framework of search assessments into re-assessment scheme, the government realized that the said scheme would defeat the primary objective of making the 360degree search assessment in one-go. The scheme of reassessment ITA does not statutorily recognize the concept of making "consolidated" assessment and therefore, the existing scheme would result in staggering of the whole process of conducting assessment for much longer period. Moreover, the government is further apprehensive about the fact that the time-consuming process would escalate litigation and legal position may also undergo change due to passage of time.

Considering the above potential risk and drawbacks in the existing scheme of search assessment, the government felt it appropriate to go back in time and re-introduce the old age concept of making the "block assessment" by introducing new framework of search assessment by re-introducing chapter XIV- B under the ITA. Although, time travel is a widely recognized concept in the field of "fiction" and "philosophy", considering the need of time and with an objective of making the search assessment framework more effective, efficient and meaningful, the FB 2024 reintroduced the old age framework of making search assessment for the "block years".

The new framework of search assessment for "block years" would become applicable from September 1, 2024 and therefore would be applicable for all search actions conducted on or after said date.



Leander Paes won the bronze medal in men's singles tennis at the 1996 Atlanta Olympics.





#### Salient features of the new scheme:

#### **Applicability & Coverage**

- Scope of assessment proceedings pursuant to Search under section 132 or requisition of books of accounts or documents or any assets under section 132A is to assess / re-asses undisclosed income as defined in section 158B(b) of the Act determined as a result of search or survey or requisition action or any information comes to the notice of AO during the course of proceedings.
- The **'Block Period'** is defined as follow:
  - Six years prior to previous year in which search was initiated under section 132 or requisition made under section 132A and
  - Period from April I of Previous Year in which search was initiated under section 132 / requisition was made under section 132A and ending with date of last authorization of search or date of requisition

Example :- If search is conducted in case of V Ltd. On October 1, 2024 and last authorization for search under section 132 was issued on December 25, 2024. As per the new scheme, the "block years" would be comprising of FY 18-19 to FY 2023-24 and period starting from April 1, 2024 till December 25, 2024

• The assessment for "Block Years" would be governed by new chapter XIV-B of the ITA. The assessment for searched year (FY 2024-25) relating to regular income (other than undisclosed income) shall be conducted separately under section 143(3) of the Act. Thus, one consolidated assessment would be carried out by AO for block period and for searched year under section 143(3).

- Assessments proceedings pending on the date of initiation of the search which relates to 'block period' shall abate including any reference made by AO to TPO under section 92CA(1) or any order passed under section 92CA(3) of IT Act. Under the new framework of search assessment, the Assessee is not eligible to approach DRP against the assessment order passed for the "Block Period".
- If the proceedings for block period under Chapter XIV-B is annulled in any appeal or legal proceeding(s), assessments so abated shall revive with effect from date of receipt of order of annulment.
  - The Taxpayer shall be required to file separate ITR for "Block Years" disclosing therein undisclosed income. The total income to be disclosed in the said ITR would comprise of the following:

(i) total income disclosed in the return furnished under section I 58BC;

(ii) total income assessed under sub-section (3) of section 143 or section 144 or section 147 or section 153A or section 153C prior to the date of initiation of the search or the date of requisition, as the case may be;

(iii) total income declared in the return of income filed under section 139 or in response to a notice under subsection (1) of section 142 or section 148 and not covered under clause (i) or clause (ii);

(iv) total income determined where the previous year has not ended, on the basis of entries relating to such income or transactions as recorded in the books of account and other documents maintained in the normal course on or before the date of last of the authorisations for the search or requisition relating to such



#### previous year;

 $(\boldsymbol{v}) undisclosed income determined by the Assessing Officer.$ 

- Tax is proposed to be charged at 60%. While the finance bill uses the word 'total income' our view is that tax should be charged on 'undisclosed income'.
- No interest under section 234A, 234B or 234C would be payable provided the taxpayer has filed the ITR of "Block Years" and paid the taxes / made an arrangement for adjustment of seized asset against such tax. In all other cases, interest at 1.5% per month starting from due date for filing ITR till assessment would be payable.
- No penalty under section 270A of the ITA would be levied on the "Undisclosed Income" disclosed in the ITR provided the taxpayer disclose the said income and files the ITR. Failure to comply with this would trigger penalty at 50% of the tax (30%).
- Similarly, no penalty under section 271AAD, 271D, 271DA or 271E would be leviable provided the taxpayer declares said income in the ITR and pays tax and further does not object that part of income in any appeal.
- The AO shall be required to complete the assessment of "Block Years" within period of 12 months from the end of the month of last authorization.
- Assessment order passed under section 158BC has been made appealable order before Commissioner of Appeals under section 246A of the Act.
- If undisclosed income belongs to or pertains to or relates to any other person other than person searched under section 132 or whose

books or documents or any assets requisitioned under section 132A, in such case, AO shall hand over material relied to Assessing officer of other person who is empowered to carry out assessment under section 158BD for block period as stated above, which is power akin to erstwhile section 153C of the Act.

- If any evidence found in search or requisition made relates to 'international transaction' or specified domestic transaction under section 92CA of the Act which relates to year in which last authorization of search was executed, such evidence shall not be considered for determining total income of block period and it would form part of assessment governed under other provisions of the Act like section 143 / 148 of the Act
- Search action taken place under section 132 or requisition made under section 132A in period between April 1, 2021 to August 31, 2024 shall continue to govern by provisions of section 148 of the Act as stood immediately before changes proposed in Bill.

#### Computation of Income and Tax for block period

- The provisions of section 158BA requires Assessing officer to assess total income of the block period in accordance with provisions of section 158BB which state that 'total income' for block period shall be aggregate of:
  - Additional Income disclosed in return furnished under section I58BC
  - Income assessed under section 143(3) / 144 / 147 / 153A / 153C prior to date of initiation of search
  - Income declared in return filed under section 139 or 142(1) or 148 of the Act



- Total Income of previous year which has not ended on basis of entries in books maintained on or before date of last authorization for search or requisition made
- Undisclosed income determined by AO basis evidence found in search / requisition or during course of proceedings
- If Assessee has incurred loss for any previous year in block period, same need to be ignored while computing above total income.
- Set off of brought forward losses prior to first year of block period including unabsorbed depreciation shall not be available for set off against undisclosed income, however, same shall be allowed for set off in previous year subsequent to assessment year in which block period ends.
- Tax so determined at 60% under section 113 of the Act shall further be increased by surcharge as applicable as per Finance Act.
- No interest under section 234A / 234BB / 234C can be levied on undisclosed income assessed for the block period. However, if return under section 158BC furnished belatedly i.e., beyond time allowed by Assessing officer, simple interest at 1.5 percent of tax on undisclosed income for every month or part of month from expiry of period allowed by AO till month of completion of assessment by AO under section 158BC is levied.

#### Procedure for Assessment for block period

 AO shall issue notice under section 158BC requiring assessee to furnish return of income within period specified in notice (not exceeding 60 days) setting forth total income including undisclosed income for block period. Later, Assessing officer is required to determine income basis provisions stated above and pass necessary order determining tax payable if any.

- No Notice under section 148 is required to be issued for carrying out block assessment under section 158BC of the Act.
- Revision of Return furnished under section 158BC is not permitted.
- The ITR filed under section 158BC cannot be a loss return. Loss if any computed shall be ignored.



Sakshi Malik won the bronze medal in the women's 58 kg freestyle wrestling category at the 2016 Rio Olympics

- The provisions of section 144C shall not apply to assessment proceedings governed by Chapter XIV-B of the Act. In other words, there is no requirement to issue a draft assessment order by AO before passing final assessment order in case of eligible assessee and order so passed cannot be challenged before DRP.
- Prior Approval of Additional Commissioner or the Additional Director or the Joint Commissioner or the Joint Director is required before issuance of notice under section 158BC(1)(a) of the Act or before passing of order of assessment under section 158BC(1)(c) of the Act.
- The provisions of section 143(1) for preliminary processing of return of income by CPC shall not



apply to return furnished under section 158BC of the Act.

• If return not furnished within period mentioned in notice issued by AO, it shall not be deemed to be return furnished under section 139 of the Act.

### Time limit for completion of block assessment

- Order under section 158BC is required to be passed within 12 months from end of month in last authorization for search under section 132 or requisition under section 132A was executed or made.
- For computing period of 12 months above, the period relating from date of search to date of handing over of documents by Investigation Wing to Assessing officer shall require to be excluded, however, such period so excluded cannot exceed 180 days.
- In cases where block assessment pertains to 'Any other person' as covered by section 158BD, order under section 158BC is required to be passed within 12 months from end of month in which notice under section 158BC read with section 158BD is issued.
- The above time limit for completion of block assessment shall further get extended for a period of 12 months If the Assessing officer make reference to Transfer Pricing officer under section 92CA.
- Period of limitation of 12 months shall exclude periods such as (i) period during which proceedings are stayed by order of court (ii) rehearing opportunity is granted to assessee pursuant to section 129 of IT Act (iii) period relating to audit directed by Assessing Officer under section 142(2A) of IT Act (iv) period for which reference is made to valuation officer
   under section 142(1) and other circumstances

prescribed.

#### **Penalty Provisions**

- Assessing Officer or Commissioner (Appeals) may direct person to pay penalty at the rate of 50% of tax payable on undisclosed income determined by Assessing officer under provisions of section I 58BFA of the Act.
- Reasonable Opportunity of being heard is mandatory before passing order levying penalty.
- However, no penalty is leviable if undisclosed income offered in return furnished under section 158BC of the Act and pays taxes thereon at the time of filing of such return itself.
- Assessee may also subject to penalty under section 271AAD for false entry or omission of any entry which would be equivalent to 100% of amount of such false or omitted entry.
- No penalty under section 270A in respect of misreporting / underreporting of income is leviable under section 270A of the Act or under section 271AAB is leviable.
- If taxpayer has challenged the order of assessment under section 158BC before Commissioner (Appeals) or Appellate Tribunal, penalty order must be passed within financial year in which proceedings under section 158BC are completed or six months from end of financial year in which order of Commissioner (Appeals) or Appellate Tribunal is received by Commissioner, whichever is later.
- If same is not matter of appeal, penalty order must be passed within financial year in which proceedings under section 158BC are completed or six months from end of financial year in which notice for imposition of penalty is issued, whichever is later.



For ease of understanding the major differences in provisions governing assessment proceedings pursuant to search under section 132 or requisition made under section 132A under different regimes are highlighted below

Particluars	As per provision under section 153A / 153 C	As per provision under section 148 / 148 A	As per chapter XIV-B of the Act ( As per section 158 B to 158BI) proposed by Finance Bill No. 2 of 2024
Applicability	Search initiated on or after June I, 2003 but up to March 31, 2021	Search initiated on or after April I, 2021, to August 31, 2024	Search initiated on or after September 1, 2024
Period of assessment	6 / 10 previous years prior to year of search under section 153A and year of search under section 143(3) of the Act	3 / 10 years as per section 149	Block Period comprising of 6 years preceding to the date of search and period up to the date of concluding of search under section 158BA + year of search under section 143(3)
Abetment of pending proceeding	Assessment / Reassessment pending on the date of initiation of search relating to any year (6 years or specified year) shall be abated	No such provisions. Hence, proceedings pending on date of search shall continue	Assessment / Reassessment pending on the date of initiation of search pertaining to any year falling in <b>Block</b> <b>Period</b> shall be abated (including TP proceeding).
Scope of assessment	Limited to Incriminating material	Any escaped income for which information or deemed information is available	Undisclosed Income as defined in 158B(b) determined as a result of search or survey or requisition action or any information comes to the notice of AO during the course of proceeding
Scope and manner of computation of Total Income	To be computed as per the normal provisions of the Act	To be computed as per the normal provisions of the Act	Total Income is required to be computed in manner provided in section 158B8(1) of the Act and tax to be computed as per 158BB(5) of the Act. If any year in block period results into loss, same shall be ignored.
Set off brought forward losses	Set off of brought forward losses or unabsorbed depreciation loss not allowed against undisclosed income defined in section 79A.	Set off of brought forward losses or unabsorbed depreciation loss not allowed against undisclosed income defined in section 79A.	Set off of brought forward losses or unabsorbed depreciation loss not allowed against undisclosed income. Such loss can however be carried forward as per normal provisions of the Act for set off in year which block period ends.
Rate of Tax	As applicable for each of the year	As applicable for each of the year.	60% on total income (In our view - undisclosed Income)
Filling of revised ITR	There are no express restrictions in the law.	There are no express restrictions in the law.	Not permitted to Revise ITR under section 158BA
Interest under section 234A/ 234B / 234C	Leviable as per law	Leviable as per law	Not leviable. However, interest under section 158BFA @ 1.5% per month shall be levied on the amount of tax on undisclosed income determined by AO <b>provided only</b> when the ITR was either not filed in time or not filed
Penalty on Assessment	For 6 years - section 271(1)(c) / 270A / 271AAB Year of Search Section 271AAB	As per section 270A / 271AAB / 271AAC as the case maybe	Penalty at rate of 50% of the tax (30% of the undisclosed income) to be levied by AO / CIT(A).270A / 271AAB is not applicable.
Time Limit for completion of assessment	Within 12 months from the end of the FY in which last authorisation is executed	Within a period of 12 months from end of FY in which notice under section 148 is served	Within 12 months from the end of the month of last authorisation of search is executed

#### **Option to withdraw Advance Rulings Application in specific case**

Chapter XIX-B of the Act provides for the Advance Ruling provision allowing the taxpayers to seek clarity on the tax implications of specific transactions or arrangements before they are executed. Earlier, the applications were required to be filed with Authority for Advance Rulings (AAR), however, the CBDT





discontinued AAR with effect from September 1, 2021, and introduced the Board for Advance Rulings (BAR) to handle advance ruling applications. Due to this transition, applications pending with AAR, which had not yet received orders, were transferred to BAR. Many applicants have since sought to withdraw their applications due to delays and changes in the ruling process. To address this, it is proposed to amend sections 245Q and 245R to allow withdrawal of these applications pending with BAR by October 31, 2024, wherein BAR is required to process these withdrawals by December 31, 2024.

This amendment will be effective from October 1, 2024.

#### **Reference to dispute resolution panel**

The Finance Bill 2009 brought in an additional option to assist in the litigation relating to transfer pricing matters called the Dispute Resolution Panel (DRP). The DRP is an Alternative Dispute Resolution (ADR) mechanism for resolving disputes related to Transfer Pricing in International Transactions. This Panel has been set up with a view to providing speedy disposal of cases in a fair and just manner.

The assessees who can opt for resolution under the Dispute Resolution Panel are those assessees against whom an unfavourable order has been passed by a Transfer Pricing Officer or a NR or a foreign company.

The FB 2024 has proposed to introduce new framework for conducting search assessment under chapter XIVB. The said chapter contains self-regulated provisions dealing with the manner of conducting the assessment for "block assessment period". Therefore, it has been proposed that such person, in whose case search has been conducted on or after September I, 2024 and assessment is completed in accordance with the provision of said chapter, would not be eligible to approach DRP against any order passed by the AO under

said chapter.

It is interesting to note that as per the provisions of the newly inserted chapter XIV- B, it is proposed that any assessment / reassessment / re-computation proceeding pending on the date of search for any year falling within the "block period" shall stands abated. The "undisclosed Income" of "block period" offered in relation to "International Transaction" or "Specified Domestic Transaction" would be assessed as per the provision of chapter XVI-B. However, as per the newly inserted framework for search assessment under this chapter, any income in relation to "International Transaction" or "Specified Domestic Transaction" of the "searched year" would be assessed as per the other normal provision of the Act. Therefore, the assessment of "searched year" would not be an assessment under the chapter XVI-B. However, as per the amendment proposed in section 144C, "such person" in whose case search has been initiated after September 1, 2024 has been disqualified to be an "eligible assessee" and therefore, even if the order of the "searched year" has not been made under the new chapter XVI-B, considering the above, he would still not be eligible to file an application before the DRP against the order passed for the "searched years" under the normal provision, i.e., 143(3).

Similarly, the person, other than the "searched person" in whose case proceedings under section 158BD has been initiated, would be also equally disqualified from approaching DRP.

It is further important to observe that the bare language of the amendment proposed in section 144C, any person in whose case search has been initiated on or after September 1, 2024 is permanently disqualified. However, this does not appear to be the intention of the legislature and therefore, appropriate clarification in the law would be required.

This amendment will take effect from September 1, 2024. The Hon'ble ITAT, Ahmedabad in the case of



M/s. Rubamin Ltd<sup>15</sup> and Hon'ble Madras High Court in the case of M/s. Vedanta Limited<sup>16</sup> has categorically held that the amendment made by the Finance Act 2009 in introducing section 144C is a substantive in nature, and therefore, it applies to AY 2009-10 onward. However, the Hon'ble Kerala High Court in the case of Parmeswara Krishna Kaimal<sup>17</sup> has held that amendment made by Finance Act 2009 is a procedural amendment and it applies to even pending proceedings. It is therefore possible to take a view that the amendment proposed by the Finance Bill 2024 being substantive in nature, the "block period" starting from AY 2025-26 would only be covered by the amendment. However, one would have to be mindful that the said issue may lead to potential litigation.

# Trusts and Charitable organisation

# Taxation of Charitable Trust and Institutions

Under the existing provisions, Income of any fund or institution or trust or any university or educational institution or hospital or medical institution is exempt under either of two regimes:

- Exemption to fund or institution or trust or any university or educational institution or hospital or medical institution referred to in subclause (iv) or sub-clause (v) or sub-clause (vi) or sub-clause (via) of clause (23C) of section 10 of the Act ('First Regime')
- Exemption to trusts registered under section 12AA/12AB read with section 11 of the Act ('Second Regime')

Over the recent years, there were various amendments made to align the procedure and conditions across both the regimes. In order to simplify the procedures and reduce administrative burden, the Bill proposes to entity claiming exemption under First Regime to be transited to the Second Regime in gradual manner. It is therefore proposed as below:

- Entities currently approved under the First Regime would be eligible to claim benefit of such exemption till the validity of such approval.
- Applications filed by entities till October 1, 2024 under the First Regime would be processed under the First Regime itself and such entities shall continue to claim benefit under First Regime till validity of such approval.
- Approval in the First Regime shall not be granted for applications on or after October 1, 2024.
- Upon expiry of approval under the Frist Regime, Entities would be eligible to apply for renewal of registration under the Second Regime.
- Currently, Entities under the First Regime are allowed to invest funds in certain specified modes, which are not present for Entities under the Second Regime. On account of the transition proposed, investments can be continued to be held by such entities under the Second Regime. This includes assets held by the Trust forming part of Corpus as on specified dates, accretion to shares forming part of said corpus on specified date and voluntary contributions maintained in form of jewelry, furniture and any other article, as may be prescribed.

The aforesaid amendments are applicable from October 1, 2024.







#### Condonation of delay in filing application for registration by Trusts or Institutions

Trusts or institutions shall require to seek renewal of registration for exemption under section 12A within specified period of time as provided under the Act. However, if trusts or institutions fail to do so, they shall subject to tax on accreted income at maximum marginal rate over & above income tax payable in respect of its total income. Such may also result in permanent withdrawal of exemption granted under section 12A to such trusts or institutions.

Considering such rigorous consequences of delay in making applications for registration / renewal, the Bill proposes to amend relevant provisions of the Act to allow Commissioner or Principal Commissioner to condone delay in filing application when there is reasonable cause for same. Amendment shall be applicable from October 1, 2024. Similar provisions have also been made for trust requiring registration / renewal of registration under section 80G(5) of the Act.

#### Rationalization of Timeline for disposing applications made by Trusts/ Funds/Institutions seeking registration under section 12AB or approval under section 80G

Under the existing provisions of the Act, Principal Commissioner of Commissioner shall require to pass necessary order either granting or rejecting application for registration or renewal of registration sought by trusts or institutions under section 12AB or under section 80G of the Act within period of 6 months from end of the month in which such application is received. For ease of administration, the Bill proposes to amend relevant provisions of the Acts to extend such time whereby Principal Commissioner of Commissioner shall require to pass such order within period of 6 months from end of quarter in which such application is received. The above amendment shall take effect from October 1, 2024.

#### Conditions to be prescribed for merger of trusts registered under section 12AB or 10(23C) to be considered as tax neutral

The existing provisions of section 115TD levy tax on 'accreted income' in case of merger of trusts or institutions registered under section 12AB or under section 10(23C)(iv)/(v)/(vi)/(via) with other trusts or institutions registered under section 12AB or under section 10(23C)(iv)/(v)/(vi)/(via) having different set of objects compare to former one. The Bill proposes to introduce section 12AC to provide further conditions to be prescribed by the government on fulfillment of which such merger shall not attract such tax on accreted income under section 115TD of the Act.

The above amendment shall take effect from April 1, 2025

#### Rationalization of Timeline for Funds/ Institutions to file application for approval under section 80G

As per the current provisions, Funds/Institutions are required to file application for approval under section 80G of the Act as per prescribed timelines. As per said provision, where activities of the Trust have been commenced, the Trust can make application for approval under section 80G of the Act, at any time after commencement, subject to condition that no income of the said Trust has been excluded from total income under section 11, 12 or section 10(23C) of the Act for any year prior to date of application. The Bill proposes to remove such rigorous condition that trusts or institutions should not have claimed any exemption in years prior to making application for registration under section 80G(5) of the Act. The aforesaid amendment is applicable from October 1, 2024.



### **Penalty and Prosecution**

Penalty under section 271FAA for furnishing inaccurate statement of financial transaction or reportable account

The existing provisions of section 271FAA provides for penalty of INR 50,000 against a person who is required to furnish a statement of specified financial transactions as per the provisions of section 285BA(1) of the Act and provides inaccurate information in the statement, where such inaccuracy is due to the circumstances specified in clauses (a) to (c) therein.

In order to expand the scope & coverage of the provisions of this section, the Bill proposes to amend the above provision and provides penalty of INR 50,000 in case where the person provides inaccurate information in the statement or fails to furnish correct information within the period specified in section 285BA(6) or it has failed to comply with the requirement of due diligence prescribed under section 285BA(7) of the Act.

Further, the Bill also proposes to amend section 273B to provide relief from such penalty where the Assessee proves that there was reasonable cause for such failure referred to in section 271FAA of the Act.

This amendment is proposed to be effective from October I, 2024.

#### New Penalty for failure to submit statement under section 285 & amendment in period of compliance

As per section 285 of the Act, a non-resident having a liaison office in India, is required to prepare and deliver a statement in respect of its activities in a financial year to the Assessing Officer within sixty days from the end of such financial year.

The Bill proposes to prescribe the time limit to be notified via the Rules for filing such statement instead of existing time limit of 60 days. Further, currently, the provisions of the Act do not penalise a nonresident for the failure to submit such statement. In order to ensure compliance with this requirement of filing the form in time, the Bill proposes to levy penalty by inserting new section 271GC as under:

- INR 1,000 per day if such failure does not exceed three months
- INR 1,00,000 in any other case

However, in cases where the Assessee proves that there was reasonable cause for such failure, the Bill also proposes to widen the scope of section 273B of the Act to provide relief from such penalty.

This amendment is proposed to be effective from April 1, 2025.

# Penalty for failure to furnish TDS/TCS returns

Section-271H of the Act provides for the penalty (INR 10,000 to INR 1,00,000) in case of failure to furnish TDS/TCS returns within the prescribed due date. However, no such penalty is leviable where the person proves that after paying TDS/ TCS along with fees and interest to the credit of the Central Government, the person has filed TDS/TCS statements within I year from the prescribed time.

Pertinent to note that the last date for filing belated tax return falls on December 31 of the same Assessment year. Accordingly, the belated time limit for furnishing TDS/TCS statement (which is exempted for levy of penalty) used to fall post the due date of belated tax return. This led to inconvenience for the deductee in claiming TDS/TCS credit in the tax return resulting into mismatch thereof.



In order to minimise this issue and ensure timely filing of the statements by the deductors, the Bill proposes to reduce such time limit from I year to I month for filing the TDS/TCS statement post payment of TDS/TCS along with fees and interest to the credit of the Central Government post which the deductor will be liable to pay the prescribed penalty.

This amendment is proposed to be effective from April 1, 2025.

# Rationalisation of provisions relating to prosecution for late payment of TDS

Existing provisions of section 276B, inter alia, provides that if a person fails to pay any tax deducted by him as required under chapter XVII-B, he shall be punishable with imprisonment for the period of 3 months-7 years along with fine. Though such prosecution is compoundable subject to certain conditions, the current provision is applicable even if the there is a delay of I day in payment of TDS.

In order to provides a relief from such rigorous provision, the Bill proposes to provide that such provision is not applicable to a person if he has deposited TDS on or before of the due date of furnishing TDS return of respective quarter in which such tax is deducted.

This amendment is proposed to be effective from October I, 2024.

### **Equalisation Levy**

#### Withdrawal of Equalisation Levy – Precursor to Pillar One and Pillar Two provisions?

As a consequence of the Action I under Base Erosion and Profit Shifting (BEPS) project of OECD i.e., tax challenges arising from digitization, Equalisation Levy @ 6% was introduced by India in April 2016. This levy, which was independent of and did not constitute 'tax on income', was aimed at taxing providers of online advertisement services to customers in India. (EL 1.0)

As a next step, Equalisation Levy @ 2% was introduced on revenue of foreign e-commerce sellers of goods and services from the Indian market. (EL 2.0)

Since 2018 and as a consequence of the BEPS Action I, several countries had introduced Digital Services Tax as a measure to tax foreign companies for revenue earned from customers located in their countries. This led to a discussion on reallocation of taxing rights to market jurisdictions on profits made by very large multinational groups (MNE groups).

US was a forerunner in opposing this unilateral taxation of digital service providers, primarily because it is the country of residence for few of the world's largest e-commerce operators who derive substantial profits from countries outside US, where its customer base is located. India and US had agreed as part of a 'trade deal' that India would phase out Equalisation Levy before June 2024, or adoption of Pillar One provisions, whichever is earlier.

Pillar One of BEPS 2.0 project aims at this reallocation of taxing rights to market jurisdictions. It would be applicable to very large MNE groups i.e., with total consolidated revenue of EUR 20 billion and total profits greater than 10% of their global revenue. As a part of the Pillar One framework, India had conceded to adoption of Pillar One instead of unilateral taxation of digital services tax in the form of Equalisation Levy.

The FM indicated in post-budget press conference that India is keen to adopt Pillar One and Pillar Two proposals and that as a responsible trade partner, also wished to do away with provisions that do not lead to constructive business relations between countries. As a compliance of its agreement with US



and as a precursor to such adoption, Equalisation Levy 2.0 has been withdrawn with effect from August 1, 2024.



Abhinav Bindra won the gold medal in the men's 10m air rifle shooting event at the 2008 Beijing Olympics.

### Vivad Se Vishwas Scheme, 2024

#### Direct Tax Vivad Se Vishwas Scheme, 2024

While presenting the Finance Bill, 2020, as a measure to reduce tax litigations pending before various Appellate Authorities, the Government launched "No Dispute but Trust Scheme – Vivad se Vishwas Scheme and thereby the Direct Tax Vivad se Vishwas Act, 2020 was enacted for reducing tax litigations pending as on January 31, 2020. The Scheme provided settlement of pending appeals on payment of tax, and it further waived interest or penalty levied or leviable on such disputed tax. In view of the winwin situation garnered by the Government, the scheme was highly successful and now the Bill proposes to insert a new Chapter under the Act to provide for Direct Tax Vivad se Vishwas Scheme, 2024. The Vivad se Vishwas Scheme 2024 is more or less similar to the scheme introduced in 2020, the synopsis of Vivad se Vishwas Scheme 2020 qua 2024 is as follows:





	Direct Tax Vivad se Vishwas Act,2020	Direct Tax Vivad se Vishwas Scheme,2024
Enactment	The Direct Tax Vivad se Vishwas Bill, 2020	Introduction of new chapter under the Act
Scope	Appeal or Writ petition or Special Leave Petition is pending before Appellate forum on the specified date.	No change proposed
	Order has been passed and time limit for filing appeal has not expired before the specified date	Not covered under the proposed Scheme
	Objections before DRP are pending and directions not issued before specified date.	No change proposed
	Directions issued by DRP but assessment is not is not completed before the specified date.	No change proposed
	Application for revision under section 264 is filed but pending as on date.	No change proposed
Coverage	Appeals / Applications pending as on January 31, 2020	Appeals / Applications pending as on July 22, 2024
Disputed Tax	Appeal, Writ Petition or Special Leave Petition pending before appellate forum-Tax payable as if appeal or Writ or petition is decided against	No change proposed
	Order is passed and time limit for filing appeal before higher appellate authorities has not expired-Tax payable after giving effect of the order so passed	Not covered under the proposed Scheme
	Objection filed before DRP, and directions not issued- Tax payable as if DRP was to confirm variation proposed in the draft order	No change proposed
	DRP issued direction but assessment is not completed -Tax payable as per the assessment order to be passed by AO	No change proposed
	Application for revision under section 264 -Tax payable as if such application is not accepted	No change proposed
	Issue of notice for enhancement under section 251 by Commissioner (Appeals)-Disputed tax to be increased by amount of tax pertaining to issues for which enhancement notice	Not covered under the proposed Scheme



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#### K C Mehta & Co LLP Chartered Accountants

		Tax Arrear		
Appeal or Objection or Application for Revision under section 264 is filed on or before January 31, 2020- other than search cases	Date of payment	Amount to be paid	Date of payment	Amount to be paid
	Before Cut-off date	100% of Disputed Tax	Before Cut-off date	110% of Disputed Tax
	After Cut-off date	110% of Disputed Tax subject to maximum of aggregate of disputed tax + interest + penalty	After Cut-off date	120% of Disputed Tax
Appeal or Objection or Application for Revision			Date of payment	Amount to be paid
under section 264 is filed on or after January 31, 2020 but before July	Not Applicable		Before Cut-off date	100% of Disputed Tax
22, 2024			After Cut-off date	110% of Disputed Tax
	Date of payment	Amount to be paid		
Search case	Before Cut-off date	125% of Disputed Tax	Not eligible	
	After Cut-off date	135% of Disputed Tax subject to maximum of aggregate of disputed tax + inerest +penalty	5	
Disputed Interest / Penalty / fees where	Date of payment	Amount to be paid	Date of payment	Amount to be paid
Appeal or Objection or Application for revision under section 264 is	Before cut-off date	25% of Disputed Interest / penalty / fees	Before cut-off date	30% of Disputed Interest / penalty / fees
filed on or before January 31, 2020	After cut-off date	30% of Disputed Interest / penalty / fees	After cut-off date	35% of Disputed Interest / penalty / fees
Disputed Interest / Penalty / fees where	Not Applicable		Date of payment	Amount to be paid
Appeal or Objection or Application for Revision under section 264 is			Before cut-off date	25% of Disputed Interest / penalty / fees
filed on or after January 31, 2020 but before July 22, 2024			After cut-off date	30% of Disputed Interest / penalty / fees
Department Appeal	50% of Disputed Tax		No change proposed	
lssues covered in favour of the Appellant in preceding years	50% of Disputed Tax		NO change proposed	





Assessment leading to Reduction of loss/ unabsorbed depreciation	Option to either carry forward reduced loss/unabsorbed depreciation and pay No Tax or carry forward the entire amount of loss to the subsequent years and pay the consequent tax payable as above.	No change proposed
Reduction of MAT/AMT credit	Option to either carry forward reduced MAT/AMT credit or carry forward the entire amount of credit to the subsequent years and pay the tax pertaining to such MAT/AMT credit.	No change proposed
	Exclusions	
Exclusions	Assessment made under section 143(3) / 144 / 147 / 153A / 153C on the basis of search- initiated under section 132 or 132A <u>where tax</u> <u>amount exceeds INR 5 crores.</u>	All search cases are proposed to be excluded without any monetary limit
	Prosecution initiated on or before filing of declaration	No change proposed
	Tax arrear relating to undisclosed income or asset located outside India	No change proposed
	Relating to assessment / reassessment made based on information referred to in section 90 or 90A	No change proposed
	Order of detention under Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974	No change proposed
	Prosecution for offence punishable under various specified Acts	No change proposed
	Person Notified under section 3 of Special Court (Trial of Offences Relating to Transactions in Securities) Act, 1992	No change proposed







### **Transfer Pricing**

# Post facto identification of specified domestic transactions

Section 92CA deals with the powers of the Transfer Pricing Officer (TPO) to determine the Arm's Length Price (ALP) of international transactions and specified domestic transaction. As per the existing provisions of section 92CA, TPO possesses the right to determine the ALP of the international transactions even in the following scenarios:

- International transactions reported in the Form 3CEB but not referred by the Assessing Officer ('AO') to the TPO for determination of the ALP, or
- Non-reported international transactions identified by the TPO during the TP assessment proceedings.

The above provisions did not explicitly give similar powers to the TPO for Specified Domestic Transactions (SDT). The Bill introduces amendments to section 92CA which aim to streamline and clarify the TPO's powers and procedures.

**Amendment to Section 92CA(2A):** The amendment to section 92CA(2A) clarifies that the TPO can determine the ALP of an international transaction or specified domestic transaction that has not been referred to them by the AO but has come to their notice during the proceedings. This ensures that all transactions identified during the proceedings can be evaluated for transfer pricing adjustments, thereby enhancing the accuracy and fairness of the transfer pricing assessments.

Amendment to Section 92CA(2B): The amendment to section 92CA(2B) of the Act allows the TPO to examine and determine the ALP for any international transaction or 'specified domestic transaction' that comes to their notice during the course of proceedings, even if these transactions were not reported by the Assessee in the audit report obtained under section 92CE. This empowers the TPO to include such transactions in the ALP determination to ensure comprehensive assessment and prevent tax avoidance.

This amendment is proposed to take effect from AY 2025-26.

# BLACK MONEY ACT

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## Liability under the Black Money Act would be an "existing liability"

According to the existing provision of section I32B of the ITA, seized asset (including cash) can be adjusted /applied for payment of the "existing liability".

Presently, the above provision does not provide for application of seized assets against the liability determined under the Black Money (undisclosed foreign income and assets) and Imposition of Tax Act, 2015 (BM Act in short)

Accordingly, it is proposed to amend section 132B such the liability under the BM Act may also be recovered from the assets seized or requisitioned during the search. Thus, henceforth, the Tax Authorities are authorised to apply / adjust the assets seized against the liability determined under the BM Act.

This amendment will take effect from October 1, 2024.

#### Obtaining Tax Clearance Certificate in relation to liabilities under Black Money Act

Every person who is domiciled in India and who is leaving India is required to obtain a tax clearance certificate before his departure for income tax authorities under section 230(1A) of the Act. Presently, the scope of tax clearance certificate covers only liabilities under the Act, or the Wealthtax Act, 1957, or the Gift-tax Act, 1958, or the Expenditure-tax Act, 1987. Accordingly, it is proposed enlarge the scope of tax clearance certificate to cover liabilities under The BM Act as well.

This amendment will take effect from October 1, 2024.

**Rationalisation of penalty provisions** 

Not disclosing foreign income or assets can lead to levy of significant penalties under BM Act by the assessing authorities.

Under the The BM Act a penalty is provided for failure by a resident taxpayer to furnish or furnishing inaccurate particulars of foreign assets or foreign incomes in the return of income. The penalty is INR 10 lakh, and the only exception is for a foreign bank account whose balance was less than equivalent of INR 5 lakh during the year.

The CBDT, in a circular issued in 2015, had clarified that non-disclosure in Schedule FA (Foreign Assets Schedule) of the tax return, of a foreign asset acquired out of disclosed income, would attract the penalty.

The relaxation provided under the provisions of BM Act is presently provided for the foreign bank account alone. In recent past, several notices have been issued to relatively large number of cases (small taxpayers) in whose case discrepancies relating to reporting of foreign assets / income in the ITR have been observed. In order to provide relaxation to such genuine and small taxpayers, the Bill has proposed that no penalty henceforth would be levied in case where the aggregate value of such asset or assets does not exceed INR 20 lakhs.

The said proposition shall include in the exception all types of movable assets whose aggregate values does not exceed INR 20 lakhs. Earlier the exception applied only in relation to bank accounts having aggregate value up to INR 5 lakhs only. Hence, the Bill has considered and resolved the practical challenges faced in relation to the quantum of penalty vis-à-vis such a low value of asset. Therefore, the scope of the assets covered and corresponding value of the asset has been widen providing relief from penalties to the Assessee.

This amendment will take effect from October 1, 2024.





### **Benami Property Transactions Act**

#### Amendments in Prohibition of Benami Property Transactions Act, 1988 (the PBPT Act)

Section 24 of the PBPT Act deals with the provision relating to issue of notice and provisional attachment of benami property by the Initiating Officer (IO). The existing provision provides for outer timeline for passing an order for either continuing or releasing of provisional attachment by IO. However, the law does not provide for any statutory time limit for complying with the notice / show cause notice by the benamidar and beneficial owner.

The Bill therefore proposes to appropriately modify the said law by mandatorily providing statutory time limit for making the compliance as under.

Particulars	Existing Provision	Proposed Amendments
Time limit to comply with notice/show cause notice by benamidar and beneficial owner	No time limit specified for compliance	Compliance withing three months from the end of month in which notice is issued
Provisional attachment order [Amendment in section 24(3) and 24(4)]	90 days from the last day of the month in which notice under section 24(1) is issued	120 days (4 months) from the last day of month in which notice under section 24(1) is issued
Reference to Adjudicating Authority [section 24(5)]	15 days from the date of the attachment	l month from the date of the attachment

Section 53 deals with penalty for benami transaction. As per existing provision, the beneficial owner, benamidar and any other person who induces other person to enter into benami transaction shall be punishable with rigorous imprisonment for period one year or seven year and penalty up to 25% of fair market value of the property. The penal provisions under the PBPT Act are very stringent and imposes equal punishment on all parties involved in benami transactions, which hinders the effective implementation of the law.

In order to widen and strengthening the spread of the PBPT Act, the government proposes to introduce an immunity scheme for "informer"/ "Approver" who shall assist the IO in gathering more evidence in respect of benami transaction and for conducting due process of law more effectively.

The proposal for immunity is subject to true and full disclosure of facts in respect of benami transaction. In case of default in disclosure or incorrect disclosure the immunity granted shall be withdrawn and consequently he shall be liable to penal provisions under the PBPT Act.

The above amendments will be effective from October 1, 2024.

# GOODS AND SERVICES TAX





### **Goods and Services Tax**

The following amendments have been proposed in the Bill for the Central Goods and Services Tax (CGST) Act, 2017 and the Integrated Goods and Services Tax (IGST) Act, 2017. These changes would come into effect from a date to be notified.

#### **Input Tax Credit**

 A retrospective amendment has been proposed to insert section 16(5) by way of an extension of the time limit for availing Input tax credit (ITC). Now, for any invoices or debit notes relating to the supply of goods or services received from the Financial Years 2017-18 to 2020-21, the registered persons can claim ITC in any return filed by the 30 of November 2021.

The 53rd Council meeting was held on June 22, 2024, wherein it was proposed to extend the time limit for the availment of ITC. Considering the above recommendation the amendment is proposed in the Bill

• Proposed to insert section 16(6) of the CGST Act, 2017 for the time limit to claim ITC after the revocation of cancellation of the GST registration certificate as follows.

> a) 30th November of the following year or the furnishing of the relevant annual return, whichever is earlier; or

> b) Within 30 days from the date of the order of revocation of cancellation of registration, whichever is later.

Subject to the condition that the time-limit for availment of credit in respect of the said invoice or debit note should not have already expired under 16(4) of the CGST Act, 2017 on the date of order of cancellation of registration.

No refund shall be granted in case of tax has already been paid or ITC has already been reversed.

#### **Blocked Credit**

Presently, any taxes paid under section 74 of the CGST Act, 2018 shall be covered under the category of blocked credit under section 17(5). Now, this section has been amended to be applicable up to FY 2023-24.

It has been proposed to amend clause (i) of section 17(5) to delink any taxes paid in accordance with the provisions of sections 129 (Detention, seizure and release of goods and conveyances in transit) and 130 (Confiscation of goods or conveyances and levy of penalty) from the list of the blocked credit.

Further, if any taxes are paid under section 74A related to fraud or non-fraud cases, then ITC shall be eligible, as the provisions are silent on inadmissibility of it. *The provision shall be applicable from FY 2024-25*.

#### **Restriction on refund of taxes**

It has been proposed to insert sub-section 15 of section 54 of the CGST Act, 2017 to restrict a refund of unutilized ITC as well as the refund of IGST on account of zero-rated supplies with payment if the goods are subjected to export duty.

It has been proposed to omit the 2nd proviso of section 54 of the CGST Act, 2017. This proviso presently restricts to claim of a refund on a zero-rated supply of goods which are subject to collect export duty.

(Similar amendment has been proposed under IGST Act)

#### **TRAN | Credit**

Another retrospective amendment has been proposed through section 140(7) of the CGST Act 2017 to enable availment of transitional credit on account of Input Services received by Input Service Distributor (ISD), wherein the invoices received on or before or after the enactment of GST law.



This provision would support reducing the pending litigation at various high courts. In the case of Siemens Limited [2024(3) TMI 272], the Hon'ble Bombay HC granted an interim stay stating that the ITC related to the ISD unit cannot be lapsed due to lack of effective mechanism. The said provision was also recommended in the 53 GST Council Meeting.

#### **Restrict the scope of supply**

Article 246A (1) read with clause 12(A) of article 366 of the constitution of India, GST shall not be levied on the manufacture of alcoholic liquor.

It is proposed to amend section 9 of the CGST Act to exclude "Extra Neutral Alcohol" (ENA) used in the manufacture of alcoholic liquor for human consumption from the purview of GST. Previously, only alcoholic liquor for human consumption was excluded from the GST.

(Similar amendment has been proposed under IGST Act & UTGST Act)

# Exclusion from the ambit of supply of goods or services

As recommended in the 53<sup>rd</sup> GST Council Meeting, it has been proposed to insert paragraphs 8 and 9 in Schedule III – "Activities or transactions which shall be treated neither as a supply of goods nor a supply of services" regarding the insurance sector which are as follows:

• Activity of apportionment of co-insurance premium by the lead insurer to the co-insurer for the insurance services jointly supplied by the lead insurer and the co-insurer to the insured in coinsurance agreements, subject to the condition that the lead insurer pays the central tax, the State tax, the Union territory tax and the integrated tax on the entire amount of premium paid by the insured.

 Services by the insurer to the reinsurer for which ceding commission or the reinsurance commission is deducted from the reinsurance premium paid by the insurer to the reinsurer, subject to the condition that the central tax, the State tax, the Union territory tax and the integrated tax is paid by the reinsurer on the gross reinsurance premium payable by the insurer to the reinsurer, inclusive of the said ceding commission or the reinsurance commission.

## Empowering Govt. to regularize non-levy or short levy

The newly inserted section 11A of the CGST Act, 2017 has empowered the Government to regularize non-levy or short-levy of tax where it is found that such non-levy or short-levy was a result of general practice.

Previously, there was no clarity regarding these common practices. However, the GST Council, in its 53rd meeting, recommended bringing provisions related to this subject matter, which will be enforced by notification.

(Similar amendment has been proposed under IGST Act & UTGST Act)

#### Reverse Charge Mechanism (RCM)

It has been proposed to amend clause (f) of subsection (3) of section 31 of the CGST Act, 2017 via which a registered person shall be required to issue a self-invoice where the tax is payable under the reverse charge. The proposed amendment aims to prescribe a time limit for issuing such invoices which shall be prescribed by rules.

However, the GST Council, in its 53rd meeting, recommended bringing the provisions related to this subject matter in respect of RCM supplies received from unregistered persons, has also been clarified in



circular 211/5/2024 dated June 26, 2024.

Section 13 (3) provides the time of supply for services (TOS) under the Reverse Charge Mechanism (RCM), this section has been amended by amending clause (b) and inserting clause (c) to determine TOS in the case of RCM. The revised TOS shall be earlier than the following:

(a) The date of payment entered in the books of accounts of the recipient or the date on which payment is debited in his bank account, whichever is earlier or

(b) The date immediately following sixty days from the date of invoice issued by the supplier, in cases where the supplier is required to issue the invoice, or

(c) The date of issuance of the invoice, in cases where the recipient is required to issue the invoice.

An explanation has been proposed to insert to define the term – "the supplier who is not registered" shall include a supplier who is solely registered for GST TDS provisions.

#### Tax deducted at source

Section 39 (3) of the CGST Act, 2017, is amended to provide rules for prescribing the due date for filing returns by a person liable to deduct tax at source under section 51. The amended provision would mandate the filing of returns even if there are no deductions of tax in a particular month.

Presently a return is required to be filed within 10 days only for the month in which deduction has been made.

#### Amnesty scheme under GST

Concerning reducing the litigations, an amnesty scheme was recommended in the 53rd Council Meeting for the period July 2017 to March 2020 for non-fraud cases. Section 128A "waiver of interest or penalty or both relating to demands raised under section 73 for certain tax periods" has been proposed to be inserted. It will be applicable from the date to are notified.

Eligibility: In case, the matter is pending at any of the following levels:

- A SCN issued under section 73 Form DRC-01
- An order issued under section 73(9) -Form DRC-07
- An order passed by the 1st Appellate Authority -Form APL-04
- A revision order passed under section 108(1)
- Where SCN issued under section 74 (fraud cases) but the Appellate Authority directs the adjudicating authority to pass an order under section 73

Tax payment shall be discharged for the entire tax demanded in the SCN or the order, as the case may be, on or before the date to be notified. It will waive off the interest or penalty, or both.

In case the Dept. has filed any appeal/ revision proceeding or any other proceeding and the amount payable shall be higher than the actual, then incremental amount (Full) shall be discharged within 3 months from the date of order.

Condition:

• Any legal proceeding shall be restricted against the order issued under section 128A

Limitation:

• Any amount payable on account of an erroneous refund



- Any appeal or writ petition has been filed for which an order is pending, and it has not been withdrawn before the date to be notified.
- No refund against the interest or penalty or both already paid
- Clarification awaited
- A notice issued for the period partially covered under the amnesty scheme, whether the benefit of the scheme shall be applicable for the partial period or not.

#### **Demands and Recovery**

Sections 73 (cases other than fraud, suppression, wilful misstatement etc.) and section 74 (cases of fraud, suppression, wilful misstatement etc.) have been amended for the determination of tax up to the FY 2023-24. The proposed changes were recommended in the 53rd GST Council Meeting.

Now, it has been proposed to insert a new section 74A "Determination of tax not paid or short paid or erroneously refunded or input tax credit wrongly availed or utilized for any reason of Financial Year 2024-25 onwards" by combining the provisions of sections 73 and 74 of the CGST Act, 2017.

The following are the significant changes proposed:

- A common section includes both the cases involving fraud and non-fraud.
- No Show Cause Notice (SCN) if the tax amount involved in a financial year < INR 1,000
- The limit to issue an SCN has been proposed to 42 months from the due date of furnishing the annual return. However, the time limit to issue a SCN under section 73 and under section 74 is 33 months and 54 months respectively from the due

date of furnishing the annual return.

- The time limit to conclude the proceedings has been proposed to increase from 30 days to 60 days from the date of issuance of SCN if the person pays the tax along with interest for nonfraud cases and in case of fraud cases, a person pays Tax, interest, and 25% penalty.
- Further, the time limit to conclude the proceedings has been proposed to increase from 30 days to 60 days from the communication of the order for fraud cases if a person pays Tax, interest, and 50% penalty.
- The time limit to pass an order has been proposed to be 12 months from the date of the issuance of the SCN. However, the time limit to pass an order under section 73 and under section 74 is 36 months and 60 months, respectively from the due date of furnishing the annual return.

The relevant changes have also been proposed in the various sections to substitute the reference of sections 73 and 74 with the newly proposed section 74A.


# Appeal

An amendment has been proposed under clause (b) of section 107(6) of the CGST Act, 2017 for appeals to the appellant authority. Section 107 (6) and section 112 (6) of the CGST Act are being proposed to amend as follows:

Stage	At present	Proposed
Pre-deposit in case of appeal to First Appellate Authority. [Insertion of section 24(2A)]	10% with a maximum amount of 25 Crores CGST & 25 Crores SGST OR 50 Crores in case of IGST	10% with a maximum amount of 20 Crores CGST & 20 Crores SGST OR 40 Crores in case of IGST
Pre-deposit in case of appeal to Tribunal.	20% with a maximum amount of 50 Crores CGST & 50 Crores SGST OR 100 Crores in case of IGST	10% with a maximum amount of 20 Crores CGST & 20 Crores SGST OR 40 Crores in case of IGST

Section 112(1) & 112(3) are proposed to be amended with effect from August 1, 2024, to provide that the date of filing an appeal to the Tribunal is the date of communication of the order for which the appeal sought to be filed or the date notified for filing an appeal, whichever is later.

#### Summons

It has been proposed to insert the new subsection 70(1A) to enable a summoned person to appoint an authorized person to act, appeal, plead, and argue for and on behalf of him/her before the proper officer. Earlier, there is a mandatory provision to appear by the summoned person only.

#### Penalty

Section 122(1B) of the CGST Act, 2017 imposes penalties for certain offences for electronic commerce operators.

The proposed amendment shall apply to only those e-commerce operators who are required to collect tax (TCS) under section 52(4) CGST Act, 2017 and not to the other e-commerce operators. It is applicable from October I, 2023 retrospectively.

# **Refund on Zero Rated Supply**

It has been proposed to amend section 16(4) of IGST

Act, 2017 to notify the class of the persons who may make zero rated supplies of goods or services or both or class of goods or services on payment of IGST and claim the refund under section 54 of the CGST Act, 2017. The applicable rules relating to these provisions shall be notified.

#### **Anti-profiteering**

Section 109 has been proposed to amend to provide that appeals related to the Anti-profiteering measure shall be heard by the Principal Bench. Additionally, the government may issue notifications for the matters which can be heard by the Principal Bench









# **Customs Act**

# Procedure regarding claim of a preferential rate of duty

Section 28DA of the Customs Act, 1962, has been amended to include the acceptance of different types of "Proof of origin" provided in trade agreements in order to align the said section with new trade agreements, which provides for selfcertification.

This section was earlier restricted to the term "Certificate of origin", which now will lead to a simpler compliance procedure.

# Manufacture and other operations in relation to goods in a warehouse

A proviso has been added to section 65 subsection (1) of the Customs Act, 1962, empowering the Central Government to specify certain manufacturing and other operations in relation to a class of goods that shall not be permitted in a warehouse.

This will restrict the applicability of section 65(1) to a specified class of goods as may be notified by the Central Government from time to time.

#### Power to simplify or provide different procedure, etc., to facilitate trade

Section 143AA of the Customs Act, 1962 has been amended to include the words "or any other person" after the term "importers or exporters" enabling smoother compliance procedures to be followed by "Importers or Exporters or any other person" for better facilitation of trade.

#### **General power to make regulations**

Clause (m) of section 157 (2) of the Customs Act, 1962 has been amended to include the words "or any other person" after the term "importers or exporters".

Earlier, the measure and separate procedure or documentation for a class of importer or exporter were only covered, now the word "or any other person" has been inserted which has widened the scope of this clause i.e., not restricted only to importers or exporters.

#### **GST Compensation Cess**

GST Compensation Cess is being exempted with retrospective effect from July 1, 2017 on imports by SEZ units or developers for authorized operations.

#### Power of Central Government to levy protective duties in certain cases.

Section 6 of the Customs Tariff Act, 1975 has been omitted with effect from the date of enactment of the Bill.



### **Tariff rate changes for Basic Customs Duty**

Sr No	Particulars	Increase in Duty	
I.	Chemicals and Plastics	From	То
I	Ammonium Nitrate, whether or not in aqueous solution	7.5%	10%
п	IT and Electronics Sector		
I	Printed Circuit Board Assembly (PCBA) of specified telecom equipment	10%	15%
ш	Renewable Energy Sector		
I	Solar glass for manufacture of solar cells or solar modules	Nil	10% (with effect from October 1, 2024)
2	Tinned copper interconnect for the manufacture of solar cells or solar modules	Nil	5% (with effect from October 1, 2024)
Sr No	Particulars	D	ecrease in Duty
Т	Agricultural Products	From	То
I	Shea nuts	30%	15%
П	Aquafarming & Marine Exports	From	То
I	Live SPF Vannamei shrimp	10%	5%
2	Live Black tiger shrimp broodstock	10%	5%
3	Artemia	5%	Nil
4	Artemia cysts	5%	Nil
5	SPF Polychaete worms	30%	5%
6	Fish lipid oil for use in manufacture aquatic feed	15%	Nil
7	Crude fish oil for use in manufacture of aquatic feed	30%	Nil
8	Algal oil for use in manufacture of aquatic feed	15%	Nil
9	Algal Prime (flour) for use in manufacture of aquatic feed	15%	Nil
10	Mineral and Vitamin Premixes for use in manufacture of aquatic feed	5%	Nil
П	Insect meal for use in Research & Development purposes in aquatic feed manufacturing	15%	5%



	12	Single Cell Protein from Natural Gas for use in Research & Development purposes in aquatic feed manufacturing	15%	5%
	13	Krill Meal for use in manufacture of aquatic feed	5%	Nil
	14	Pre-dust breaded powder for use in processing of sea-food	30%	Nil
	15	Prawn and shrimps feed	15%	5%
	16	Fish feed	15%	5%
	ш	Critical Minerals	From	То
	I	Natural Graphite	5%	2.5%
	2	Natural sands of all kinds, whether or not coloured, other than metal bearing sands of chapter 26 of The Customs tariff Act, 1975	5%	Nil
	3	Quartz (other than natural sands); quartzite, whether or not roughly trimmed or merely cut, by sawing or otherwise, into blocks or slabs of a rectangular (including square) shape	5%	2.5%
	4	Strontium sulphate (natural ore)	5%	Nil
	5	Copper ores and concentrates	2.5%	Nil
	6	Cobalt ores and concentrates	2.5%	Nil
	7	Tin ores and concentrates	2.5%	Nil
	8	Tungsten ores and concentrates	2.5%	Nil
	9	Molybdenum ores and concentrates	2.5%	Nil
	10	Zirconium ores and concentrates	2.5%	Nil
	П	Hafnium ores and concentrates	2.5%	Nil
	12	Vanadium ores and concentrates	2.5%	Nil
	13	Niobium or tantalum ores and concentrates	2.5%	Nil
	14	Antimony ores and concentrates	2.5%	Nil
	15	Tellurium	5%	Nil
	16	Silicon, containing by weight not less than 99.99% of silicon	5%	Nil
A.	17	Other silicon	5%	Nil
	18	Selenium	5%	Nil
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19	Alkali or alkaline earth metals, Rare-earth metals, scandium and yttrium, whether or not intermixed or inter alloyed	5%	Nil
20	Silicon dioxide	7.5%	2.5%
21	Potassium hydroxide	7.5%	Nil
22	Oxides, hydroxides and peroxides, of strontium or barium	7.5%	Nil
23	Cobalt oxides	7.5%	Nil
24	Cobalt hydroxides	7.5%	Nil
25	Commercial cobalt oxides	7.5%	Nil
26	Lithium oxide and hydroxide	7.5%	Nil
27	Vanadium oxides and hydroxides	2.5% / 7.5%	Nil
28	Germanium oxides	7.5%	Nil
29	Molybdenum oxides and hydroxides	7.5%	Nil
30	Antimony oxides	7.5%	Nil
31	Cadmium oxides	7.5%	Nil
32	Chlorides of Nickel	7.5%	Nil
33	Strontium chloride	7.5%	Nil
34	Sulphates of Nickel	7.5%	Nil
35	Nitrates of potassium	7.5%	Nil
36	Lithium carbonates	7.5%	Nil
37	Strontium carbonates	7.5%	Nil
38	Salts of oxometallic or peroxometallic acids of Beryllium and Rhenium	7.5%	Nil
39	Compounds, inorganic or organic of rare earth metals	7.5%	Nil
40	Bismuth citrate	7.5%	Nil
41	Artificial Graphite, colloidal or semi-colloidal graphite, preparations based on graphite or other carbon in form of pastes, blocks, plates or other semimanufactures	7.5%	2.5%
42	Unwrought Tin	5%	Nil
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43	Unwrought tungsten, including bars and rods obtained simply by sintering	5%	Nil
44	Unwrought molybdenum, including bars and rods obtained simply by sintering	5%	Nil
45	Unwrought tantalum, including bars and rods obtained simply by sintering, powders	5%	Nil
46	Cobalt, unwrought	5%	Nil
47	Bismuth, unwrought	2.5%	Nil
48	Unwrought zirconium, powders, Containing less than 1 part hafnium to 500 parts zirconium by weight	10%	Nil
49	Unwrought antimony, powders	2.5%	Nil
50	Beryllium unwrought, powders	5%	Nil
51	Hafnium unwrought, waste and scrap, powders	10%	Nil
52	Rhenium unwrought	10%	Nil
53	Cadmium unwrought, powders	5%	Nil
54	Cadmium, wrought	5%	Nil
55	Unwrought: waste and scrap: powder of: 1. Gallium 2. Germanium 3. Indium 4. Niobium 5. Vanadium	5%	Nil
IV	Steel Sector	From	То
I.	Ferro Nickel	2.5%	Nil
2	Ferrous Scrap	Nil (till September 30, 2024	Nil (till March 31, 2026)
3	Certain specified raw materials for manufacture of CRGO steel	Nil (till September 30, 2024)	Nil (till March 31, 2026)
v	Copper	From	То
1	Blister Copper	5%	Nil
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VI	Chemical and Plastics	From	То
I	All goods other than poly vinyl chloride (PVC) flex films / flex banner	25% (with effect from July 24, 2024	10%
2	All goods other than poly vinyl chloride (PVC) flex films / flex banner	25% (with effect from July 24, 2024	15%
VII	Textile and Leather Sector	From	То
I	Methylene Diphenyl Di-isocyanate (MDI) for use in the manufacture of Spandex Yarn	7.5%	5% subject to IGCR conditions
2	Wet white, Crust and finished leather for manufacture of textile or leather garments, leather / synthetic footwear or other leather products, for export	10%	Nil Items under SL. No. 257B and 257C of Notification 50 / 2017 Customs, dated 30.06.2017
3	Certain additional accessories and embellishments for manufacture of textile or leather garments, leather / synthetic footwear or other leather products, for export	As applicable	Nil Items under SL. No. 257B and 257C of Notification 50/2017-Customs, dated 30.06.2017
4	Real Down Filling Material from Duck or Goose for use in the manufacture of textile or leather garments for export	30%	10%
VIII	Cancer Drugs	From	То
	<ul><li>(i) Trastuzumab Deruxtecan,</li><li>(ii) Osimertinib,</li><li>(iii) Durvalumab</li></ul>	10%	Nil
IX	Precious Metals	From	То
I	Gold bar	15%	6%
2	Gold dore	14.35%	5.35%
3	Silver bar	15%	6%
4	Silver dore	14.35%	5.35%
5	Platinum, Palladium, Osmium, Ruthenium, Iridium	15.4%	6.4%
6	Coins of precious metals	15%	6%
7	Gold / Silver findings	15%	6%



8	Platinum and Palladium used in the manufacture of noble metal solutions, noble metal compounds and catalytic convertors	7.5%	5%
9	Bushings made of platinum and rhodium alloy when imported in exchange of wom out or damaged bushings exported out of India	7.5%	5%
x	Medical Equipment	From	То
I	All types of polyethylene for use in manufacture of orthopaedic implants falling under sub-heading 9021 10	As applicable	Nil
2	Special grade stainless steel, Titanium alloys, Cobalt-chrome alloys, and all types of polyethylene for use in manufacture of other artificial parts of the body falling under sub-heading 9021 31 or 9021 39	As applicable	Nil
3	X-ray tubes for use in manufacture of X-ray machines for medical, surgical, dental or veterinery use	15%	5% (till March 31, 2025) 7.5% (with effect from April 1, 2025 to March 31, 2026) 10% (with effect from April 1, 2026)
4	Flat panel detectors (including scintillators) for use in manufacture of X-ray machines for medical, surgical, dental or veterinary use	15%	5% (till March 31, 2025) 7.5% (with effect from April 1, 2025 to March 31, 2026) 10% (with effect from April 1, 2026)
XI	IT and Electronics Sector	From	то
I	Cellular mobile phone	20%	15%
2	Charger / Adapter of cellular mobile phone	20%	15%
3	Printed Circuit Board Assembly (PCBA) of cellular mobile phone	20%	15%
4	Specified parts for use in manufacture of connectors	5% / 7.5%	Nil
5	Oxygen Free Copper for use in manufacture of Resistors	5%	Nil
6	Specified die-cut parts for use in manufacture of cellular mobile phones	As applicable	Nil
7	Specified mechanics for use in manufacture of cellular mobile phones	As applicable	Nil
XII	Renewable Energy Sector	From	То
I	Specified capital goods for use in manufacture of solar cells or solar modules, and parts for manufacture of such capital goods	7.5%	Nil
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XIII	Shipping	From	То
I	Components and consumables for use in manufacture of specified vessels	As applicable	Nil
2	Technical documentation and spare parts for construction of warships	As applicable	Nil
XIV	Capital goods	From	То
I	Goods under S. No. 404 of Notification No. 50/2017 Customs, used for petroleum exploration operations	As applicable	Nil

## Amendment in customs Tariff Rate

Α	Increase in Tariff Rate (to be effective from July 24, 2024)	Rate of Duty	
Sr No	Particulars	I	ncrease in Duty
I	Plastics	From	То
Ι	Poly vinyl chloride (PVC) flex films (also known as PVC flex banners or PVC flex sheets)	10%	25%
П	Consumer goods	From	То
I	Garden umbrellas	20%	20% or INR 60 per piece, whichever is higher
ш	Chemicals	From	То
I	Laboratory chemicals	10%	150%
В	Tariff rate changes (To be effective from October I, 2024)	From	То
I	Other roasted nuts and seeds, including such arecanuts	30%	150%
2	Other nuts, otherwise prepared or preserved, including such arecanuts	30%	150%



## Tariff rate changes for Export Duty

Sr No	Particulars	D	ecrease in Duty
Т	Changes in Export Duty	From	То
I	Raw Hides & skins, all sorts (other than buffalo)	40%	40%
2	Raw Hides & skins of buffalo	30%	30%
3	Tanned or crust hides of skins, whether or not split, but not further prepared	40%	20%
4	E.I. tanned leather	Nil	Nil
5	Finished leather as defined by DGFT finished leather norms	Nil	Nil
6	Raw fur skins	60% / 10%	40%
7	Tanned or dressed furskin	60%	20%









# Tax Rates\* for AY 2025-26

\*[To be increased by applicable surcharge and health & education cess (see Notes)]

#### Default Tax regime for all Individual, HUF, AOP, BOI -section | | 5BAC)

Taxable Income (in INR)	All Individual, HUF, AOP, BOI
Upto 3,00,000	Nil
3,00,001 to 7,00,000	5%
7,00,001 to 10,00,000	10%
10,00,001 to 12,00,000	15%
12,00,001 to 15,00,000	20%
15,00,001 and above	30%

This tax regime shall be exercised without claiming specified exemption or deductions except standard deduction under section 16(ia) and deductions under section 57(iia), 80CCD(2) & 80CCH(2).

#### Optional Tax regime for Individual, HUF, AOP & BOI

Taxable Income (in INR)	All Individual, HUF, AOP & BOI	Resident Individual of 60 years or more age	Resident Individual of 80 years or more age
Upto 2,50,000	Nil	Nil	Nil
2,50,001 to 3,00,000	5%	Nil	Nil
3,00,001 to 5,00,000	5%	5%	Nil
5,00,001 to10,00,000	20%	20%	20%
10,00,001 and above	30%	30%	30%

This tax regime shall be adopted by exercising the option prescribed under section 115BAC(6).



#### Partnership Firm & Foreign Company

Particulars	General Tax Rate
Partnership Firm & LLP	30%
Foreign Company	35%

#### **Domestic Company**

Particulars	General Tax Rate
Domestic Company with Turnover / Gross Receipts up to INR 400 Crores in FY 2022-23	25%
Domestic Company opted for taxation under section 115BA	25%
Domestic Company opted for taxation under section 115BAA	22%
Domestic Manufacturing Company incorporated on or after October 1, 2019 opted for taxation under section 115BAB	
-Income derived from Manufacturing or Production	15%
-Other income for which no specific rate of tax is specified	22%
-Short-term capital gain of a non-depreciable capital asset	22%
Domestic Company not covered above	30%

Optional tax regime under section 115BAA shall be exercised by Company without claiming any exemption or deductions as provided in respective section and filing prescribed Form as per relevant rule.

#### **Co-operative society**

Total Income (in INR)	General Tax Rate
Upto 10,000	10%
10,001 to 20,000	20%
20,001 and above	30%



#### Resident Co-operative Society (section 115BAD)

Particulars	General Tax Rate
Co-operative Society opted for taxation under section 115BAD	22%

#### Resident Manufacturing Co-operative Society (section 115BAE)

Particulars	General Tax Rate
Resident Manufacturing Co-operative society	15%

#### **Special Rate of Tax**

Nature of Income	Rate of Tax
Minimum Alternate Tax (section 115JB) excluding company opted under section 115BAA and 115BAB.	15%
Alternate Minimum Tax (section 115JC) excluding person opted for tax regime under section 115BAC, 115BAD and 115BAE. (1) If Co-operative society	15%
(2) Other than Co-operative society	18.5%
<ul> <li>STCG on STT paid equity shares, units of equity oriented mutual funds, or a business trust (section 111A)</li> <li>(1) If transfer takes place before July 23, 2024</li> <li>(2) If transfer takes place on or after July 23, 2024</li> </ul>	15% 20%
LTCG on listed equity shares, units of equity oriented mutual funds, units of business trust exceeding INR 1,25,000 (section 112A) (1) If transfer takes place before July 23, 2024	10%
(2) If transfer takes place on or after July 23, 2024	12.5%
LTCG on assets other than listed securities and zero- coupon bonds derived by a <b>Resident</b> (section 112) (1) If transfer takes place before July 23, 2024	20%
(2) If transfer takes place on or after July 23, 2024	12.5%



LTCG on assets other than securities, zero -coupon bonds derived by a <b>Non-Resident</b> (section 112)	20%
<ul><li>(1) If transfer takes place before July 23, 2024</li><li>(2) If transfer takes place on or after July 23, 2024</li></ul>	12.5%
LTCG on unlisted securities or shares of a company in which the public are not substantially interested derived by a <b>Non-Resident</b>	
(Section 112) (1) If transfer takes place before July 23, 2024	10%
(2) If transfer takes place on or after July 23, 2024	12.5%
LTCG on listed securities (other than units) or zero-coupon bonds (Section 112) (1) If transfer takes place before July 23, 2024	10% / 20%
(2) If transfer takes place on or after July 23, 2024	12.5%
Royalty & Fees for Technical Services by <b>Non-Resident</b> (section 115A)	20%
Dividend derived by non-resident subject to tax treaty benefit	20%
LTCG payable by an Offshore Fund on income by way of transfer of units purchased in Foreign Currency (section 115AB) (1) If transfer takes place before July 23, 2024	10%
<ul><li>(2) If transfer takes place on or after July 23, 2024</li></ul>	12.5%
LTCG payable by a Non-resident on the income by way of transfer of specified Bonds or Global Depositary Receipts (Section 115AC) (1) If transfer takes place before July 23, 2024	10%
(2) If transfer takes place on or after July 23, 2024	12.5%
LTCG payable by a specified resident employee on the income arising from transfer of specified Global Depositary Receipts (Section	
<ul><li>(1) If transfer takes place before July 23, 2024</li></ul>	10%
(2) If transfer takes place on or after July 23, 2024	12.5%
STCG on income of Specified Fund or FII from transfer of securities referred to in section 111A (Section 115AD) (1) If transfer takes place before July 23, 2024	15%
<ul><li>(2) If transfer takes place on or after July 23, 2024</li></ul>	20%



LTCG on income of Specified Fund or FII from transfer of securities referred to in section 112A in excess of INR 1,25,000 (1) If transfer takes place before July 23, 2024	10%
(2) If transfer takes place on or after July 23, 2024	12.5%
LTCG on income from assets other than specified assets of a Non- resident Indian (section 115E) (1) If transfer takes place before July 23, 2024	10%
(2) If transfer takes place on or after July 23, 2024	12.5%
Tax payable by any Company (other than Foreign) on Buy -back of Shares (section 115QA) - (Applicable up to September 30, 2024)	20%
Income by way of Royalty in respect of a patent developed and registered in India derived by <b>Resident</b> (section 115BBF)	10%
Tax on Virtual Digital Assets (section 115BBH)	30%
Tax on specified Income of Trusts and certain Institutions (section I 15BBI)	30%
Tax on winnings from Online games (section 115BBJ)	30%



Note I. Rate of surcharge on Income Tax

Total Income	Up to INR 50 Lakhs	INR 50 Lakhs to INR I Cr.	INR I Cr. to INR 2 Cr.	INR 2 Cr. to INR 5 Cr.	INR 5 Cr. to INR 10 Cr.	Above INR I0 Cr.
Individual / HUF / AOP / BOI - tax regime under section 115BAC	Nil	10%	15%	25%**	25%**	25%**
Individual / HUF / AOP / BOI	Nil	10%	15%	25%**	37%**	37%**
Co-operative Society	Nil	Nil	7%	7%	7%	12%
Co-operative Society - tax regime under section 115BAD & 115BAE	10%	10%	10%	10%	10%	10%
Partnership Firm / LLP	Nil	Nil	12%	12%	12%	12%
Foreign Company	Nil	Nil	2%	2%	2%	5%
Domestic Company						
Domestic Company (not opting for lower taxation under section 115BAA & 115BAB)	Nil	Nil	7%	7%	7%	12%
Domestic Manufacturing Companies under section 115BAA & 115BAB	10%	10%	10%	10%	10%	10%

\*\* In case of AOP the applicable surcharge would be 15% in case all the members of AOP are companies. Further the above rate of increased surcharge shall not be applicable on tax payable on dividend and capital gains arising from transfer of certain securities under section 111A, 112, 112A for all classes of taxpayers.

Note 2: Health & Education Cess @ 4% will be charged to all assessees on the amount of Income Tax & Surcharge.

Note 3: In case where person is opting for taxation under section 115BAA / 115BAB / 115BAC / 115BAD or 115BAE, tax payable on capital gains arising will be at the rate specified in section 111A, 112 & 112A in respect of capital asset covered within the scope of these sections.

Note 4: A non-resident including foreign company can also avail lower rate of tax, if any, specified under applicable tax treaty subject to compliance with treaty access provision as provided under the Act.





#### TDS Rates for FY 2024-25 Rates of tax deducted at source (see notes)

Section	Nature of payment	Threshold Limit	Rate
192	Salary	As per Slab	As per Slab
192A	Provident Fund amount which is not exempt from tax	50,000	10%
	Interest on Securities		
193	<ul> <li>(1) Interest on Debentures         <ul> <li>(Listed/Unlisted debentures issued by company in which             public are substantially interested)</li> </ul> </li> </ul>	5,000**	10%
	(2) Interest on 7.75% Savings (Taxable) Bonds, 2018	10,000	10%
	(3) Any Other Interest on Securities (Unlisted)	0	10%
194	Dividend (including deemed dividend) to Resident	5,000*	10%
194A	(1) Interest paid by Banking Company, Co-operative Society/Banks engaged in banking business, post office under a deposit scheme framed by Central Government	40,000***	10%
17.03	(2) Interest other than Interest on Securities (Other than above)	5,000	10%
194B	Winning from Lotteries (Excluding Online Games)	10,000	30%
194BA	Net Winning from any Online Games	0	30%
I 94BB	Winnings from Horse Races	10,000	30%



Section	Nature of payment	Threshold Limit	Rate
	Payments to Contractors		
1040	(1) Payment to Transporter covered by Section $44AE^{[2]}$	NA	Nil
194C	(2) Payment to individual HUF (other than above)	<b>30,000</b> <sup>[3]</sup>	۱%
	(3) Payment to Others (other than above)	<b>30,000</b> <sup>[3]</sup>	2%
194D	Insurance Commission	15,000	5%
194DA	Income component received from LIC (including ULIP) which are not covered under section 10(10D) (1) Up to September 30, 2024	I,00,000	5%
	(2) From October 1, 2024		2%
194E	Non-Resident Sportsman / Sports Association / Entertainer	0	<b>20%</b> <sup>[1]</sup>
194EE	Payment of deposits under NSS to Resident / Non-Resident	2,500	<b>10%</b> <sup>[1]</sup>
194F	Repurchase of units of Mutual Fund / UTI from Resident / Non-resident (Applicable up to September 30, 2024)	0	<b>20%</b> <sup>[1]</sup>
194G	Commission on Sale of lottery tickets to Resident / Non- resident (1) Up to September 30, 2024	15,000	
	(2) From October 1, 2024		2%



#### Rates of Tax Deducted at Source (See Notes)

Section	Nature of payment	Threshold Limit	Rate
194H	Commission or Brokerage to Resident (1) Up to September 30, 2024 (2) From October 1, 2024	15,000	5% 2%
	Rent to Resident		
1941	(a) Rent for machinery / plant / equipment	2,40,000	2%
	(b) Rent for other than in (a)	2,40,000	10%
194-IA	Payment on transfer of certain immovable properties (Other than agricultural land)	50,00,000	1%
l 94-IB	Payment of Rent by certain Individuals or HUF (other than those who are covered under section 1941) to a resident (1) Up to September 30, 2024	50,000 p.m.	<b>5%</b> <sup>[4]</sup>
	(2) From October 1, 2024		<b>2%</b> <sup>[4]</sup>
194-IC	Payment under specified agreement (in case of joint development agreement excluding payment in kind)	0	10%
	Payment to resident taxpayer for professional services, royalty, sum referred under section 28(va) excluding fees for technical services	30,000	10%
194j	Payment to resident taxpayer for fees for technical services or payment to assessee engaged in the business of call centre	30,000	2%
	Remuneration, fees, commission paid to Director (other than those on which tax is required to be deducted under section 192) which is not in the nature of Salary	0	10%
194K	Income / Dividend in respect of Units of Mutual Fund registered under section 10(23D) payable to resident	5000	10%



#### Rates of Tax Deducted at Source (See Notes)

Section	Nature of payment	Threshold Limit	Rate
194LA	Compensation to a resident on acquisition of immovable property (excluding compensation received under RFCTLAAR Act, 2013)	2,50,000	10%
194LB	Interest paid to a Non-Resident by the Notified Infrastructure Debt Fund	0	<b>5%</b> <sup>[1]</sup>
194LBA	Payment to a resident Unit Holder specified in Section 115UA (in respect of dividend if SPV opted for 115BAA)	0	10%
	Payment of Interest to a non-resident Unit Holder specified in Section 115UA	0	<b>5%</b> <sup>[1]</sup>
	Payment of Dividend to a Non-resident Unit Holder specified in Section 115UA if SPV opted for 115BAA	0	I 0% <sup>[1]</sup>
	Income in respect of units of investment fund under Section 115UB		
I 94LBB	(1) In case of payee being Resident	0	10%
	(2) In case of payee being Non-Resident	0	Rate in Force <sup>[1]</sup>
194LBC	Income distribution to an investor by Securitisation Trust in respect of Section 115TCA		
	(1) In case of payee being Resident Ind / HUF	NA	25%
	(2) In case of payee being Resident - any other person	NA	30%
	(3) In case of payee being Non-Resident	NA	Rate in Force <sup>[1]</sup>



#### Rates of Tax Deducted at Source (See Notes)

	Interest paid by Specified Company to a Non-Resident on ECB	0	<b>5%</b> <sup>[1]</sup>
194LC	Interest paid by specified Company to a Non-Resident on Long term Bond or Rupee Denominated Bonds listed on recognized stock exchange in any IFSC	0	<b>4%</b> <sup>[1]</sup>
194LD	Interest payments to FII and QFI's on their Investment in Govt. Securities and RDB of an Indian Company, Municipal debt securities	0	<b>5%</b> <sup>[1]</sup>
194M	Payment by Individual / HUF for carrying out any work pursuant to contract, commission & fees for profession services (not covered by 194C, 194D & 194J) (1) Up to September 30, 2024	INR 50 Lakhs	5%
	(2) From October 1, 2024		2%
	TDS on cash withdrawal		270
194N	<ul> <li>Person who did not file ITR for preceding three Ays &amp; time limit to file original ITR is expired and said person withdrawing cash not exceeding INR 1 Crore</li> </ul>	INR 20 Lakhs	2%
	<ul> <li>Person who did not file ITR for preceding three AYs &amp; time limit to file original ITR is expired and said person withdrawing cash exceeding INR I Crore (INR 3 Cr. In case of Co- Operative Society)</li> </ul>	On amount exceeding INR I Cr. / INR 3 Cr.	5%
	<ul> <li>Any other person (Except Co-Operative Society)</li> <li>Co-Operative Society</li> </ul>	INR I Cr. INR 3 Cr.	2% 2%
1940	Payment by e-commerce operator to e-commerce participant in respect of sale of goods or services (1) Up to September 30, 2024	INR 5 lakhs <sup>[5]</sup>	1%
	(2) From October 1, 2024		0.1%





Section	Nature of payment	Threshold Limit	Rate
194P	TDS in case of resident senior citizen having age of 75 year or more and receiving only pension in the bank and interest income from the same bank.	As per Slab <sup>[6]</sup>	As per Slab <sup>[6]</sup>
194Q	TDS on payment for purchase of goods by specified buyer	50,00,000	0.1%
194R	TDS on benefits or perquisites in respect of business or profession to a resident assessee	20,000	10%
1945	TDS on payment for transfer of Virtual Digital Assets to a resident assessee (1) Specified person <sup>[8]</sup>	50,000	1%
	(2) Other than Specified person	10,000	1%
194T	TDS on payment of any sum in nature of salary, remuneration, commission, bonus or interest to a partner of a firm (with effect from April 1, 2025)	20,000	10%
195	Payment of other sums to Non-Resident (Other than those specified in Section 194LB)	Rates specified under part II of First Schedule of Bill, including applicable surcharge and health and education cess subject to rate specified under applicable DTAA	
196A	Income to non-residents in respect of units of MF as specified under section 10(23D) or of specified company as specified under section explanation of $10(35)^{[7]}$	0	20%[1]
I 96B	Income from units (including long term capital gain on transfer of such units) to an offshore fund (1) Up to July 22, 2024 (2) From July 23, 2024	0	10%[1]
	(a) Income from units referred in 115AB(1)(I)		10%[1]
	(b) LTCG from units referred in 115AB		12.5% <sup>[1]</sup>



196C	Income from foreign currency bonds or GDR (including long term capital gain on transfer of such Bonds or GDR) of Indian Company (I) Up to July 22, 2024 (2) From July 23, 2024	0	10%[1]
	<ul><li>(a) Income from bonds / units referred in 115AC</li><li>(b) LTCG from bonds / units referred in 115AC</li></ul>		10% <sup>[1]</sup>
196D	Income of FII from securities not being long term and short-term capital gain	0	20% <sup>[1]</sup>

(\* in case of Resident Individual only)

(\*\* in case of Resident Individual / HUF only)

(\*\*\* INR 50,000 in case of Resident Senior Citizen)

[1] All rates of TDS for Non-Resident Assessee shall be increased by applicable Surcharge, Health & Education Cess

[2] Transporter means persons engaged in plying, hiring and leasing of Goods Carriages having Income under section 44AE and not owning more than 10 goods carriage. Nil rates will be applicable if the transporter quotes his PAN and furnishes prescribed declaration.

[3] This limit is for individual transaction. However, if aggregate payment to contractors during the year exceeds INR 1,00,000 then tax will have required to be deducted even where individual transaction is less than the threshold limit of INR 30,000

[4] In case TDS is to be made as per section 206AA, TDS amount shall not exceed rent payable for the last month of financial year or last month of tenancy.

[5] This limit is provided to only e-commerce participant being resident individual or HUF whose gross amount from sale of services and goods does not exceed INR 5 lakhs and provided PAN or Aadhar card.

[6] Specified senior citizen need to submit declaration in the prescribed Form and manner to the Specified Bank. Accordingly, such specified senior citizen is not required to file ITR for the year in which TDS is deducted.

[7] No TDS will be withheld, in case where units have been acquired from UTI out of Non-Resident External account maintained in India or remittance of Funds in foreign currency as per FEMA regulations.

[8] Individuals or HUF whose Total Sales or Gross Receipts or Turnover does not exceed INR I Crore in case of Business or INR 50 lakhs in case of Profession during the financial year immediately preceding the financial year in which such asset is transferred.



Note 1: A non-resident including foreign company is subject to lower withholding tax, if any, specified under applicable tax treaty subject to compliance with treaty access provision as provided under the Act.

Note 2: In order to strengthen the PAN /Aadhar Mechanism, as per section 206AA of the Act any person whose receipts are subject to TDS i.e. the deductee, shall furnish his PAN / Aadhar to the deductor failing which the deductor shall deduct tax at source at higher of the following rates:

- (i) prescribed in the Act;
- (ii) at the rate in force i.e. the rate mentioned in the Finance Act; or
- (iii) 20%

However, in the case TDS is required to be deducted under section 1940 and 194Q, the maximum TDS rate will be 5% instead of 20%. Further, in case of TDS deductible under section 192A where PAN in not furnished, TDS shall be deducted at 20%.

- In addition to above, section 206AB of the Act provides higher rate of TDS in case where deductee who is non-filer of income-tax return (in respect of latest assessment year for which time limit for filing of tax return is already expired) excluding a non-resident not having PE in India.
- Accordingly, except in case of TDS falling under section 192, 192A, 194B, 194BB, 194LBC, 194N, 194IA, 194IB and 194M and TDS by specified person under section 194S; if deductee has not filed income tax return for immediately preceding AY for which time limit to file original return has expired and aggregate of TDS deducted and TCS collected in such AY is INR 50,000 or more, the deductor is required to deduct TDS at higher of the following rates;
  - (i) Twice of the rate prescribed in the Act;
  - (ii) at twice the rate in force i.e. the rate mentioned in the Finance Act; or
  - (iii) 5%



Section	Nature of payment	Threshold Limit	Rate
206C	Sale of alcoholic Liquor for human cosumption & Indian made foreign Liquor	0	۱%
206C	Sale of Timber obtained by any mode and any other forest produce	0	2.5%
206C	Sale of scrap	0	1%
206C	Parking Lot / Toll plaza / mining and Quarrying	0	2%
206C	Sale of tendu Leaves	0	5%
206C	Minerals, being coal or lignite or iron ore	0	1%
206C(IF)	Sale of Motor Car or any other goods as specified	10,00,000	1%
206C(IG)	Remittance out of India under the LRS for purpose other than educational, medical and overseas tour package	7,00,000	20%
206C(IG)	Remittance out of India - Education Loan (Loan is taken from financial institution as defined under section 80E)	7,00,000	0.5%
206C(IG)	Remittance out of India - Medical treatment or Educational Purpose other than above	7,00,000	5%
206C(IG)	Sale of overseas Tour Package	Upto 7,00,000	5%
		Above 7,00,000	20%
206C(1H)	Sale of goods (not covered under any of the above provision) excluding the case where the buyer of goods is liable to deduct tax at source on such goods under any other provision and has deducted such TDS)	50,00,000 <sup>[1]</sup>	0.1%*



\*TCS will not be applicable in cases where the buyer being deductor has already deducted TDS from the consideration as per the provision of Chapter XVII-B.

[1] The provisions of section 206C(1H) is applicable to seller whose turnover exceeded INR 10 crore during the immediately preceding financial year. Further, certain specified buyer such as central or state government, local authority or any other person as specified are excluded from the provision of the said section.

Note I: In order to strengthen the PAN/Aadhar Mechanism, as per section 206CC of the Act, any person who makes above nature of payment which is subject to TCS shall furnish his PAN/ Aadhar to the seller failing which the seller shall collect tax at source at higher of the following rates:

- (I) at twice the rate specified in the section, or
- (ii) at the rate of 5%

Further, in a case where TCS need to be collected under section 206C(1H) and buyer has not provided PAN or Aadhar Card, TCS will be collected at the rate of 1%.

In addition to above, section 206CCA provides higher rate of TCS in case where buyer being non-filer of income-tax return excluding non-resident not having PE in India.

Accordingly, if buyer has not filed income tax return for immediately preceding AY for which time limit to file original return is expired and aggregate of TDS deducted and TCS collected in such AY is INR 50,000 or more, seller is required to collect TCS higher of the following rates:

- (i) At twice of the rate prescribed in the Act;
- (ii) 5%

#### **Other Rates**

Rates of Equalisation Levy

Section	Nature of transaction	Threshold Limit (in INR)	Rate
165	Equalisation Levy in respect of Specified Services (e.g. online advertisement) provided by non-resident excluding case where services are not for business or profession	1,00,000	6%
165A	Equalisation Levy in respect of e-commerce supply or services made by Non-Resident e-commerce operator (Applicable up to July 31, 2024)	2 Crore	2%





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