The Union Budget of India 2024-25

24th July 2024

Notes from the CIO's Desk

The Union Budget 2024-25 has laid down a structural road map and clear vision for 'Viksit Bharat'. This budget has imparted top-down clarity regarding policymaking around 9 identified priority areas, which will ensure secular channelization of policy impetus and resources.

Fiscal prudence has been the hallmark of this incumbent government, which has shown utmost resilience around fiscal discipline. Therefore, the revised target of 4.9% is another stepping stone in that direction with a positive overlapping effect. The policy thrust around rural recovery and measures to aid broader consumption was expected. An agricultural package, along with a slight relaxation of personal income tax, is likely to serve both areas. Monsoons have started on a good note and a normalized scenario will further boost overall prospects.

We have seen much-needed continuity of budget outlay towards capex, manufacturing, infrastructure, housing, and defense. Policy conviction of this magnitude is substantive and creates multiplier opportunities as we move along. Quality of spending is likely to remain top tier thus giving rest to all the noise around policy deviation and fiscal slippages.

The gross and net borrowings have gone down, albeit marginally. Tax estimates, at large are reasonable, while surplus dividends received from the Reserve Bank of India (RBI) have judiciously been channeled to reduce the fiscal burden and partially towards expenditure.

There have been concerns about distortions in Foreign Direct Investment (FDI) flows lately. This is of significance with FDI being a non-debt reservoir and given the various strategic causes they cater to. The policy move announced today augurs well for attracting patient capital.

The angel tax was punitive in more ways than expected. The abolition of this tax takes away financial burden, will enhance overall systemic liquidity, and is well poised to offer a necessary boost to our startup ecosystem.

As expected, markets have reacted negatively to the increase in Securities Transaction Tax (STT) and capital gains. One can never be certain about the markets. It appears to be a continuation of a broader endeavor to bring about parity, simplification of the regime, and plug leakages (if any).

All in all, we have quite a targeted budget for now.

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Key Budgetary Announcements – Sectoral Overview

Infrastructure

- A provision of INR 11.11 Lakh crore for infrastructure spending in FY'25, which is 3.4% of the GDP.
- INR 1.5 Lakh crore provided to the states as a long-term interest-free loan to support resource allocation.
- Phase IV of Pradhan Mantri Gram Sadak Yojana (PMGSY) to be launched to provide all-weather connectivity to 25,000 rural households.
- INR 15,000 crore to be provided towards the Andhra Pradesh Reorganization Act to be utilized towards the completion of the Polavaram Irrigation project, development of essential infrastructure (water, power, railways, and roads) in Kopparthy node on the Vishakhapatnam – Chennai Industrial Corridor and the Oravakal node on Hyderabad – Bengaluru Industrial Corridor.
- Initiate the development of an industrial node at Gaya, Bihar, within the Amritsar-Kolkata Industrial Corridor.

Agriculture

- To focus on a comprehensive review of agriculture research setups, raising productivity, and developing climate-resistant variants.
- Release of 109 new high-yielding and climate-resilient variants of 32 field and horticulture crops to farmers.
- Promotion of FPOs, cooperatives, and startups focused on vegetable supply chains primarily towards collection, storage, and marketing.
- Achieving self-sufficiency in oil seeds such as mustard, groundnut, sesame, soybean, and sunflower.
- One crore farmers across the country are to be initiated into natural farming, supported by certification and branding in the next two years.
- 10,000 need-based bio-input resource centers to be established.
- Financing for Shrimp farming, processing, and export is to be facilitated through NABARD.
- Reduction in basic customs duties applicable on shrimp and fish feed by 5% to enhance competitiveness in marine exports.
- Leveraging Digital Public Infrastructure (DPI) towards land coverage, crop surveys, and issuance of Kisan Credit Cards.

Energy

- Provision of INR 1 lakh crore towards setting up Bharat Small Reactors and investing in R&D in small modular reactors and newer nuclear technologies to be achieved via Public-Private Partnership (PPP) mode.
- Financial support to help transition small and medium industries to cleaner sources of energy.
- Setting up an 800 MW Thermal commercial plant as a JV between NTPC and BHEL.
- Introduction of Pradhan Mantri Surya Ghar Muft Bijli Yojana to provide free electricity for up to 300 units to one crore households via rooftop solar.
- New 2.4GW thermal Plant in Bihar for INR 21,400 crore.

Defense

- INR 6.2 lakh crore allocated to defense spending for FY25, which is still below 2% of GDP, but marking the highest allocation of almost 13% of the total union budget.
- The capital outlay of INR 1.72 lakh crore is allocated to the Armed Forces, 9.40% more than FY 2023-24.
- 75% of the modernization budget, amounting to INR 1.05 lakh crore, is earmarked for domestic capital procurement.
- INR 92,000 crore is allocated for operational readiness, while INR 6,500 crore is allocated to further accelerate our border infrastructure.
- Additionally, INR 7,651.80 crore is allocated for the Indian Coast Guard, and INR 23,855 crore for the Defense Research and Development Organization (DRDO).
- To foster innovation in the defense sector, the budget allocates INR 518 crore to the iDEX scheme, supporting technological solutions from startups & MSMEs.
- INR 6,968 crore is allotted to the Ex-Servicemen Contributory Health Scheme (ECHS), up by 28% from the previous year.

Manufacturing & Services

- Credit Guarantee Scheme up to INR 100 crore for MSMEs in the manufacturing sector.
- ‘Mudra’ loan limits enhanced to INR 20 lakh from INR 10 lakh for those who repaid under the ‘Tarun’ category.
- Twelve industrial parks sanctioned under the National Industrial Corridor Development Programme.
- Establishment of Critical Minerals Mission for domestic production, recycling, and overseas acquisition.
- Strengthening of the tribunal and appellate tribunals to speed up insolvency resolution and additional tribunals to be established.
- Internship opportunities in the top 500 companies to one crore youth in five years with an allowance of INR 5,000 per month, including a one-time assistance of INR 6,000 through the Corporate Social Responsibility (CSR) fund.

Housing

- PM Awas Yojana Urban 2.0 launched with an allocation of INR 1 lakh crore to provide housing assistance to one crore urban poor and middle-class families.
- Expanding Pradhan Mantri Awas Yojana (PMAY) to make provisions for three crore additional houses.
- The government also pledged support towards dormitory-style rental housing for industrial workers via the PPP model.
- Interest subsidy to be provided.
- Encouraging states to lower stamp duties for properties purchased by women.

Gems and Jewellery / Duty Reduction

- Custom duties reduced by 6% on the import of gold and silver and by 6.4% on platinum to promote exports.
- Status quo on tobacco.

Consumer Discretionary & Staples

- Reduction in customs duty from 20% to 15% for cell phones, components, and chargers.
- Increase in budget Production-Linked Incentive (PLI) outlay for white goods by 4.5x year-on-year (YOY) and large-scale electronics by 36%YOY.
- 21% higher allocation in agriculture and allied sectors; 11% allocation in rural development.

Employment & Skilling

- First Timer Entrants: Direct benefit transfer of one-month salary in three installments to first-time employees, as registered in the Employees' Provident Fund Organisation (EPFO), will be up to INR 15,000.
- Job Creation in Manufacturing: Incentive to both employees and employers for EPFO contributions in the specified scales for the first four years.
- Support to Employers: The government will reimburse EPFO contributions of employers up to INR 3000 per month for two years for all new hires.
- Twenty lakh youth will be skilled over five years. One thousand Industrial Training Institutes will be upgraded in the “hub and spoke” arrangements with outcome orientation.
- Loans up to INR 7.5 lakh with a guarantee from a government-promoted Fund.
- Financial support for loans up to INR 10 lakh for higher education in domestic institutions. Direct e-vouchers to one lakh students every year and an annual interest subvention of 3%.

Annexure – Direct & Indirect Tax Change Overview

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Direct Tax Proposals

1. Enhanced Limit of Standard Deduction and Family Pension Deduction Under New Tax Regime (NTR)

- Standard Deduction for salaried individuals - increased to INR 75,000 from INR 50,000.
- Deduction on family pension for persons having pension income - increased to INR 25,000 from INR 15,000

2. Changes in Tax Structure Under the New Regime

Under the New tax regime, the tax structure is revised as follows:

Pre-Budget Slab	Pre-Budget Tax Rate	Post-Budget Slab	Post-Budget Tax Rate
Up to ₹INR 3 lakh	Nil	Upto ₹ 3 lakh	Nil
₹ 3 lakh - ₹ 6 lakh	5%	₹ 3 lakh - ₹ 7 lakh	5%
₹ 6 lakh - ₹ 9 lakh	10%	₹ 7 lakh - ₹ 10 lakh	10%
₹ 9 lakh - ₹ 12 lakh	15%	₹ 10 lakh - ₹ 12 lakh	15%
₹ 12 lakh - ₹ 15 lakh	20%	₹ 12 lakh - ₹ 15 lakh	20%
More than 15 lakh	30%	More than 15 lakh	30%

3. Simplification of Taxation of Capital Gains

Asset Type	Earlier STCG	Revised STCG	Holding Period	Earlier LTCG	Revised LTCG
Listed stocks and Equity MFs/ETFs	15%	20%	12 months	10%	12.50%
Unlisted shares	slab rate	slab rate	24 months	20% with indexation	12.50%
Foreign shares	slab rate	slab rate	24 months	20% with indexation	12.50%
Debt MFs and ETFs	slab rate	slab rate	NA	slab rate	slab rate
Listed bonds	slab rate	slab rate	12 months	10%	12.50%
REITs and InVITs	15%	20%	12 months	10%	12.50%
Physical real estate	slab rate	slab rate	24 months	20% with indexation	12.50%
Gold/Silver ETFs	slab rate	slab rate	12 months	slab rate	12.50%
Physical gold	slab rate	slab rate	24 months	20% with indexation	12.50%

- *Annual LTCG exempt amount hiked from INR 1 lakh to INR 1.25 lakh for stocks & equity MFs.*
- *All changes effective for assets sold after 23rd July 2024.*

4. Changes in TDS Rates:

The Union Budget 2024 reduced the Tax Deducted at Source (TDS) rates on specified payments to facilitate business and improve taxpayer compliance.

The table below shows the specified payments:

TDS Sections	Current TDS Rate	Proposed TDS Rate	Effective from
Section 194D - Payment of insurance commission in case of other than company	5%	2%	1st April 2025
Section 194DA - Payment in respect of life insurance policy	5%	2%	1st Oct 2024
Section 194G -Commission on sale of lottery tickets	5%	2%	1st Oct 2024
Section 194H - Payment of commission or brokerage	5%	2%	1st Oct 2024
Section 194-IB - Payment of Rent by certain individuals or HUF	5%	2%	1st Oct 2024
Section 194M - Payment of certain sums by certain individuals or HUFs	5%	2%	1st Oct 2024
Section 194-O - Payment of certain sum by e-commerce operator to e-commerce participants	1%	0.10%	1st Oct 2024
Section 194F - Payment on account of repurchase of units by mutual funds or UTI	*20%*	*Proposed to be deleted*	*1st Oct 2024*

5. Introduction of TDS on Payments Made to Partners by Firms (Section 194T)

Payment by a firm to the partners by way of salary, remuneration, interest, bonus, or commission exceeding INR 20,000 shall be subjected to the TDS at the rate of 10% u/s 194T.

6. Abolishment of Angel Tax

The Angel Tax provisions of Section 56(2)(viib) have been proposed to be removed.

Angel Tax is a tax levied on companies that issue fresh shares to investors at a price above the company's Fair Market Value (FMV). The excess of the Issue Price over and above the FMV was made taxable u/s 56(2)(viii) as an angel tax in the hands of the Company. This provision is proposed to be removed.

The startup ecosystem will benefit considering the frequent fundraises, the compliance cost, and the time that is consumed by the said provision while conducting a fundraise in a startup.

7. Corporate Taxes on Foreign Companies

Corporate taxes are imposed on the company's net income or profit. In the Budget 2024, it has been proposed to reduce the corporate tax on foreign companies from 40% to 35%.

8. Taxability Of Income Distributed By Domestic Companies On Buy Back Of Shares

With effect from 1 October 2024, the taxability of distributions made by a domestic company on the buyback of shares is proposed to be amended as follows:

- No tax implications on the domestic company undertaking the buyback of shares.
- Distribution received on the buyback of shares is proposed to be taxed as dividend income of recipient shareholders at the applicable tax rates. Moreover, no deduction of expenses will be allowed.
- The recipient shareholders shall be entitled to claim the original cost of acquisition of the shares bought back as a capital loss.
- TDS at the rate of 10% is to be applied on the buyback of shares.

9. Increased Deduction on Employer's Contribution to Pension Scheme

Section 80CCD provides a deduction for the employer's contribution to the pension scheme up to 10%. The Budget 2024 has now increased the deduction limit to 14% of the salary of the employee during the previous year.

10. STT on Futures and Options

Effective 1 October 2024, it is proposed to increase the rates of STT as follows:

- On the sale of options: 0.0625% to 0.1%
- On the sale of a future in securities: 0.0125% to 0.02%

11. Tax incentives to IFSC

- 'Specified fund' in IFSC is entitled to certain tax concessions and exemptions. It is proposed to widen the ambit of 'specified fund' to cover funds registered as a retail scheme or an Exchange-Traded Fund (ETF) under the International Financial Services Centres Authority (IFSCA) (Fund Management) Regulations, 2022 and satisfying such conditions, as may be prescribed.
- Specified income of Core Settlement Guarantee Funds set up by recognized clearing corporations in the IFSC is proposed to be exempted.
- Regarding unexplained cash credit, relaxation from providing an additional explanation in case of borrowings from a Venture Capital Fund (VCF) or a Venture Capital Company (VCC) registered with the Securities and Exchange Board of India (SEBI) is proposed to be extended to VCFs registered under the IFSCA (Fund Management) Regulations, 2022.
- The relaxation from the applicability of thin capitalization provisions available to banking, insurance, and specified non-banking financial companies is proposed to be extended to finance companies located in the IFSC, subject to such conditions as may be prescribed.
- It is proposed that the surcharge will not apply to other income (i.e., dividend and interest income) of specified funds in IFSC.

Indirect Tax Proposals

Customs Duties reductions and exemptions for critical goods:

Particulars	From	To
Mobile phone, mobile PCBA and chargers	20%	Basic customs duty reduced to 15%
Gold and silver	15%	Customs duty reduced to 6%
Platinum	15.40%	Customs duty reduced to 6.4%
Broodstock, polychaete worms, shrimp and fish feed	10%, 30%, and 15% respectively	Basic customs duty reduced to 5%
Alkali or alkaline earth metals, 25 rare earth minerals (like lithium)	5%	Exempted from customs duty
Capital goods for manufacturing of solar panels	7.50%	Exempted from customs duty
Cancer drugs (Trastuzumab Deruxtecan, Osimertinib and Durvalumab)	10%	Exempted from customs duty
Ferro nickel and blister copper removed	2.50%	Nil BCD
Ammonium nitrate	7.50%	10%
PVC flex banners	10%	25%
PCBA of specific telecom equipment's	10%	15%

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