Tax Matters

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Key direct tax proposals of the Finance (No.2) Bill, 2024

The Indian Finance Minister ('FM') presented Budget 2024-25, her record-breaking seventh consecutive Budget, on 23 July 2024, with the NDA 3.0 coalition Government back on track. During Financial Year ('FY') 2023-24, the resilient Indian economy emerged strong and surging, with a Gross Domestic Product ('GDP') growth of 8.2%.

The team at JMP Advisors is pleased to summarise below the significant direct tax proposals announced in Budget 2024-25. These proposals are subject to enactment of the Finance (No. 2) Bill, 2024 and are effective from FY 2024-25 unless otherwise stated.

Simplification of the Income-tax Act, 1961 ('the Act')

- It is proposed to undertake a comprehensive review of the Act within a period of six months.

Rates of tax

- ***Corporate tax* –** No amendments have been proposed in the rates of tax for domestic companies. The base rate of corporate tax applicable to foreign companies is proposed to be reduced from 40% to 35%.

- ***Personal tax* -** The slab rates under the new tax regime are proposed to be revised as under:

Existing Income tax slabs	Existing Rates of Income tax	Proposed Income tax slabs	Proposed Rates of Income tax
Upto INR 300,000	NIL	Upto INR 300,000	Nil
INR 300,001 - INR 600,000	5%	INR 300,001 - INR 700,000	5%
INR 600,001 - INR 900,000	10%	INR 700,001 - INR 1,000,000	10%
INR 900,001 - INR 1,200,000	15%	INR 1,000,001 - INR 1,200,000	15%
INR 1,200,001 - INR 1,500,000	20%	INR 1,200,001 - INR 1,500,000	20%
Above INR 1,500,000	30%	Above INR 1,500,000	30%

- Under the new tax regime, it is proposed to increase the standard deduction from salary from INR 50,000 to INR 75,000 and the deduction for contributions to the National Pension Scheme ('NPS') from 10% to 14% of salary.

Capital gains

- In order to simplify the Capital gains regime, it is proposed to have only two holding periods to determine whether the nature of capital gains is Short Term or Long Term i.e. 12 months for all listed securities and 24 months for all other assets including unlisted securities.

- The rate of tax on Short Term Capital gains on equity shares, units of a mutual fund and units of a business trust which have been subject to Securities Transaction Tax ('STT') proposed to be increased from 15% to 20%.

- It is proposed to provide a uniform tax rate of 12.5% on all Long Term Capital assets as against the existing rates of 10% and 20% applicable to different categories of Long Term capital assets.

- It is further proposed to abolish the provision of indexation of cost in respect of Long Term Capital assets.

The above amendments are proposed to be effective from 23 July 2024.

- It is proposed to provide the mechanism for computation of cost of acqisition of unlisted equity shares which are subsequently listed under an offer for sale. This amendment is proposed to be retrospectively effective from 1 April 2017.

Transfer Pricing

- The process of scrutiny of Transfer Pricing cases is proposed to be rationalized by including Specifid Domestic Transactions.

- It is proposed to expand the scope of the Safe Harbour Rules in order to reduce litigation and provide certainty in international taxation.

Withholding tax/tax collected at source

- It is proposed to simplify and rationalise compounding provisions in respect of withholding tax defaults.

- The rates of Withholding Tax ('WHT') for various payments to residents are proposed to be reduced as under:

Nature of payment	Existing rate	Proposed rate	Effective date of amendment
Insurance commission	5%	2%	1 April 2025
Payment in respect of Life insurance policies including bonus	5%	2%	1 October 2024
Commission or brokerage	5%	2%	1 October 2024
Payment of rent exceeding specified threshold by individuals, Hindu Undivided Families ('HUFs'), etc.	5%	2%	1 October 2024
Specified payments in the nature of contractual payments, commission, brokerage, fees for professional services	5%	2%	1 October 2024
Payments by e-commerce operators to e-commerce participants	1%	0.1%	1 October 2024

- It is proposed to allow credit for Tax Collected at Source ('TCS') in computing tax to be deducted at source on salary payments.

- It is proposed to levy TCS at 1% of the sale consideration exceeding INR 1 million (~ USD 12,000), of luxury goods which may be notified in this regard.

- It is proposed to increase the STT on the sale of an option in securities from 0.0625% to 0.1% of the option premium and on the sale of a future in securities from 0.0125% to 0.02% of the price at which futures are traded.

Dispute resolution

- It is proposed to introduce the Vivaad Se Vishwas Scheme, 2024 as a mechanism for the settlement of disputed issues with a view to reduce litigation.

Equalisation Levy

- It is proposed that the 2% Equalisation Levy will no longer apply to the consideration received or receivable for e-commerce supplies or services from 1 August 2024. Earlier, income subject to Equalisation Levy was exempt, subject to conditions. With the 2% levy being abolished, it is proposed that only the income from e-commerce supply or services provided or facilitated between 1 April 2020 and 31 July 2024, will be exempt.

- The Equalisation Levy of 6% on digital advertising services continues to be applicable.

Abolition of Angel Tax

- Currently, if any consideration is received by an unlisted company on the issue of shares to any person, at a price in excess of the Face Value ('FV') of such shares, the consideration received in excess of the Fair Market Value ('FMV') of such shares, is taxable in the hands of the unlisted company.

- In order to promote investments in unlisted companies, it is now proposed to abolish the aforesaid provision.

Other key proposals

- Every 'Ordinarily Resident' is required to disclose all foreign assets (including investments in shares and securities) and income from such foreign assets in their Return of Income. Failure to accurately report the details of foreign income and assets located outside India in the Return of Income may result in a penalty under the Black Money Act, 2015 amounting to INR 1 million (~ USD 12,000), irrespective of the value of the foreign assets. It is proposed that the penalty provisions shall not apply to assets (other than immovable property) where the aggregate value does not exceed INR 2 million (~ USD 24,000).

- It is proposed that from 1 October 2024 the amount paid by a domestic company for the buyback of its shares will be taxed as deemed dividends in the hands of shareholders. No deductions for expenses will be allowed against such dividends. The cost of acquisition of the shares bought back will result in a capital loss for the shareholder which will be allowed to be set off against capital gains.

- It is proposed to simplify the process relating to the reopening of scrutiny cases and also to reduce the time limit for reopening of cases to six years from the end of the relevant FY, where the income that has escaped scrutiny exceeds INR 5 million (~ USD 60,000).

Should you wish to discuss any of the above issues in detail or understand the applicability to your specific situation, please feel free to reach out to us at coe@jmpadvisors.in.

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