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Highlights of the Indian Union Budget 2023

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Introduction

The Indian Central Government unveiled the Union Budget 2023 on 1st February 2023 with a focus on the below seven priorities:

1. Inclusive Development,
2. Reaching the Last Mile,
3. Infrastructure and Investment,
4. Unleashing the Potential,
5. Green Growth,
6. Youth Power and
7. Financial Sector.

The above priorities have been identified with a focus on India in the 100th year.

The Finance Bill, 2023 has proposed 154 amendments to various direct and indirect tax laws, out of which 122 amendments are proposed to be made in direct tax laws, 22 amendments have been proposed to be made in the GST and customs laws, and 10 amendments have been proposed in other miscellaneous laws. We have summarized key changes proposed by the Union Budget 2023 in the document below:

Income Tax

Tax Rates

1. No change has been proposed in the tax rates under the old/existing tax regime.

2. The maximum exemption limit and number of slabs in the alternate tax regime of Section 115BAC are proposed to be revised. The new maximum exemption limit shall be INR 3,00,000, and for every additional INR 3,00,000 of income, the next slab rate will apply. The highest slab rate of 30% will continue on income above INR 15,00,000.

   Proposed tax slabs for individual & HUF taxpayers under the New Tax Regime are as below:

Total Income (INR)	Tax Rates
Up to INR 300,000	NIL
INR 300,001 to INR 600,000	5%
INR 600,001 to INR 900,000	10%
INR 900,001 to INR 12,00,000	15%
INR 12,00,001 to INR 15,00,000	20%
Above INR 15,00,000	30%

3. The threshold limit of total income for rebate under Section 87A is increased from INR 5 lakhs to INR 7 lakhs for assessee's opting for the new tax regime.

4. In new tax regime, the highest rate of surcharge of 37% on income above INR 5 crores is reduced to 25%.

5. New tax regime of Section 115BAC shall apply to AOP, BOI and Artificial Juridical Persons (AJP).

6. Employees opting for the new tax regime of Section 115BAC will be allowed a standard deduction from salary income.

7. The new tax regime of Section 115BAC will be a default regime unless the existing regime is opted.

8. Manufacturing co-operative societies established on or after 1st April, 2023 and beginning production on or before 31st March, 2024 may pay tax at a reduced rate of 15% (plus 10% surcharge and cess) under the new tax regime of Section 115BAE, provided specified incentives or deductions are not claimed.

9. Winnings from any online game shall be taxable at a rate of 30% (plus applicable surcharge and cess) under a new Section 115BBJ.

Deductions and Exemptions

1. Receipts from life insurance policies issued on or after 1st April, 2023 shall be taxed as income from other sources, if the premium paid is above INR 5,00,000 in a year. Exemption shall continue in the case of receipt on the death of the insured person.

2. To claim a deduction under Section 10AA, a return of income will have to be filed on or before the due date prescribed under Section 139(1).

3. Deduction under Section 10AA shall be allowed only when proceeds from the sale of goods or provision of service are received within 6 months from the end of the previous year.

4. Exemption under Section 10(22B) to news agencies is abolished.

Business or Profession

1. Deduction for sum payable to MSMEs being Micro and Small enterprises shall be allowed only on a payment basis under Section 43B.

2. Section 28(iv) also applies where the benefit or perquisite provided to the recipient is partly in cash and partly in kind.

3. Threshold limit for presumptive taxation scheme section 44AD and section 44ADA is increased to INR 3 crores and INR 75 lakh, respectively. The increased threshold limit shall apply where at least 95% of receipts and payments are made through non-cash methods.

4. The process for claiming amortization of preliminary expenses is being streamlined by amending Section 35D. The requirement that the work be carried out by a concern approved by the CBDT has been removed. The assessee will now only need to submit a statement with details of the expenditure to the prescribed income-tax authority.

Capital Gains

1. Conversion of physical gold into Electronic Gold Receipts and vice-versa by a SEBI-registered Vault manager shall not be considered a transfer for capital gains.

2. The cost of acquisition of select intangible assets and rights shall be nil.

3. Gains arising on transfer, redemption, or maturity of Market Linked Debentures are to be taxed as short-term capital gains under Section 50AA.

4. Maximum exemption of INR 10 crores can be claimed under Sections 54 and 54F.

Charitable & Religious Trusts

1. Application by a charitable or religious trust before 1st April, 2021 out of corpus, loans or borrowings shall not be allowed when such amount is deposited back or invested in the corpus, or the loan or borrowing is repaid.
2. Repayment of loan or investment/depositing back into corpus shall be considered an application for charitable or religious purposes only within 5 years of application from the corpus or loan.
3. The donations by a trust or institution to another trust or institution shall be treated as the application of up to 85% of such donations.
4. The trusts and institutions that have commenced the activities shall make the application directly for regular registration instead of provisional registration.
5. The provisions of accreted tax under Section 115TD are extended to trusts or institutions if they fail to apply for re-registration.
6. To claim accumulation of income, the trusts or institutions shall file Form 9A and Form 10 at least 2 months before the due date of filing of return of income.
7. The trusts or institutions cannot claim the benefit of exemption provisions by filing an updated return of income.

Set-off and Carry Forward of Losses

1. Eligible start-ups can set off and carry forward the losses incurred during the 7 years of incorporation even in case of a change in shareholding, provided 100% of shareholders continue during the relevant period. The time limit of 7 years is increased to 10 year.

TDS & TCS

1. The threshold limit for TDS under Section 194N is increased from INR 1 crore to INR 3 crore where the recipient is a co-operative society.
2. The rate of TCS on overseas tour packages and select other cases increased from 5% to 20%, without any threshold benefit.
3. No benefit of the threshold for deduction of tax on winnings from online gaming. The tax shall be deducted on withdrawal or on the balance in the account at the year-end.
4. Exemption from TDS on payment of interest on listed debentures to a resident is removed.
5. The TDS shall be deducted at a rate lower of 20% or the rate provided in a tax treaty for certain income paid to non-residents or foreign companies. The relief will be provided if the payee furnishes a tax residency certificate.
6. A new provision is introduced to resolve the TDS mismatch and allow the assessee to claim TDS credit in the relevant assessment year. This can be done by applying to the Assessing Officer within two years of TDS.
7. Sections 206AB and 206CCA require higher TDS/TCS for those specified persons who have not filed their income tax returns and have a TDS/TCS aggregate of at least 50,000 in the previous year. An amendment is proposed to exclude persons who are not required to file a return of income and are notified by the Government from being considered as specified persons.
8. Payments made under the JDA agreements in the form of a cheque, draft, or another electronic mode shall be covered under the TDS net of Section 194-IC.

Goods and Service Tax (GST)

Composition levy available even if goods supplied through e-commerce operators

1. Person supplying goods through electronic commerce operator will also be entitled for composition schemes under section 10 of the CGST Act, 2017.
2. Person will continue to be ineligible for composition scheme if he supplies services through electronic commerce operator.
3. This is applicable, not only for Composition scheme for goods (1/2/5%) but also for composition scheme for services (6%). Meaning thereby, the person will be entitled for composition scheme for services (6%) also, even if goods are supplied by him through electronic commerce operator.

No ITC for CSR activities

1. Input Tax Credit for GST paid on Corporate Social Responsibility (CSR) expenditure will not be available.

Reversal for common ITC for warehoused goods

1. Value of supply of customs warehoused goods shall be included in the value of exempt supply for reversal of common Input Tax Credit under Section 17 (2) read with Rule 42. Its worth noting that for high seas sales and for merchant trade (purchase from and sale both to other countries), no such reversal is required.

No GST returns after 3 years

1. Person shall not be allowed to file the GSTR 1, GSTR 3B and GSTR 9 after the expiry of 3 years from the due date of filing such returns. However, government may allow filing of such returns beyond three years, by notification, subject to conditions and restrictions as may be specified therein.

Retrospective exemption to international transactions

1. Exemption to Merchant Trade (supply of goods from a place in the non-taxable territory to another place in the non-taxable territory without such goods entering into India), customs warehoused goods and High Seas Sales transactions is extended retrospectively from 01/07/2017.

Decriminalisation of certain offences

1. Following offences will not be subject to imprisonment:
   - To obstruct or prevent any officer in the discharge of his duties under this Act
   - To tamper with or destroys any material evidence or documents
   - To fail to supply any information which he is required to supply under GST Law or the rules made thereunder.

   Except in the case of issuance of bogus invoices, there shall be no imprisonment for offences where tax evaded does not exceed INR 2 Crores. Even in cases person availing ITC based on bogus billing, there shall be no imprisonment if such ITC does not exceed INR 2 Crores.

Disclaimer:

The information contained herein is in a summary form and is therefore intended for general guidance only.

This publication is not intended to address the circumstances of any particular individual or entity.

Questions?

For more information on India's Union Budget 2023 as well as other investment incentives and opportunities for doing business in India, please contact MGI Worldwide's Tax Experts at **C.R. Sharedalal & Co.** in Gujarat, India:

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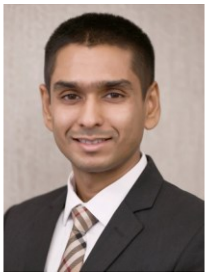

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