

BUDGET SPEAK 2024



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INTRODUCTION

Dear Readers,

Welcome to the budget special of our legal newsletter. This is, not just a highlights budget 2024, which if it were, would have got released about 10 days ago. Rather, we as a responsible law firm, also took it upon ourselves to delve into areas where more action is necessary, as we know, "a chain is only as strong as it's weakest link".

While we have faithfully re-produced the highlights of the budget, in areas, the business community will like to see, we have also sought to see what the Budget could have done in impacting human lives and what they could have done better.

This is our small effort, and we hope to improve on it as we go along, so that we are able to provide a more holistic effort of the development initiatives undertaken by the Government.

The Union Finance Minister, Mrs. Nirmala Sitharaman presented the Union Budget 2024 on 23rd July, 2024. In the 7th consecutive Union Budget for 2024-25, she highlighted the key priorities of the Government.

The Finance minister listed nine priorities for this year and upcoming years. These include:

- 1) Productivity and resilience in agriculture
- 2) Employment and skilling
- 3) Inclusive human resource development and social justice
- 4) Manufacturing and services
- 5) Urban development
- 6) Energy security
- 7) Infrastructure
- 8) Innovation and research and development
- 9) Next generation reforms.

► HIGHLIGHTS OF UNION BUDGET

KEY IMPACTS FROM AN INDUSTRY PERSPECTIVE:

• Abolishment of Angel Tax:

The Union Minister has announced the abolishment of angel tax on the premium which exceeded the "fair market value". The tax rate was around 30.9%, which was a significant burden on startups seeking funding. This move will spur growth and both Investors and Startups will benefit.

• Abolition of the e-commerce equalization levy:

The Indian Finance Budget 2024 has proposed the abolishment of the e-commerce equalization levy. This abolition is proposed effective August 1, 2024. This means that any consideration received or receivable for e-commerce supplies or services on or after this date will not be subject to the 2% equalization levy. This levy was applicable to non-resident e-commerce operators operating in Indian territory and was intended to create a level playing field between domestic and foreign e-commerce players. However, this was seen as protectionist by the global community and hence there was a need to ensure alignment of the Indian tax policies with the evolving global frameworks like the Organisation for Economic Co-operation and Development (OECD)'s two pillar solution.

• Tax Deducted at Source for E-Commerce Operators:

TDS for E-Commerce Operators has been reduced from 1% to 0.1% of the gross amount of sales, effective from October 1, 2024. This aims to align e-commerce tax

HIGHLIGHTS:

Budget 2024 on Agriculture:

1. Budget allocation: The Budget allocated ₹1.52 Lakh Crore for farming and allied sectors Agriculture.
2. Digital Public Infrastructure: covers crop survey of kharif crop in 400 districts. The center will provide financial support for setting up a network of Nucleus Breeding Centres for shrimp broodstocks through NABARD.
3. Natural Farming: Expands to 1 crore farmers, promoting sustainable method, supported by certification and branding.
4. Department of Agriculture and Fertilizer: Agriculture has received an allocation of ₹1,22,528.77 Crore. The allocation for fertilizers is ₹1,64,150.81 Crores. This has decreased by about 34.7% from the last budget.

provisions with those applicable to traditional retail transactions.

• TDS Rate Reduction on VDAs:

Currently, Virtual Digital Assets (VDAs) income is taxed at a flat rate of 30%, regardless of holding period. The proposed change would differentiate between short-

HIGHLIGHTS (Cont.)

Budget 2024 on Agriculture:

5. **Price Stabilisation Fund:** This Fund controls the prices of essential commodities. The Budget has allocated ₹10,000 crore to the Price stabilisation fund. This has been raised from the Rs. 10 lakh that was allocated last year.

6. **Climate-Resilient Crops:** Introduces 109 new varieties for better adaptation.

7. The Department of Food and Public Distribution saw a decrease in its allocation from ₹.2,83,744.53 Crores to ₹.2,21,924.64 Crore.

term and long-term capital gains, potentially offering lower tax rates for long-term investors. This could encourage investors to hold VDAs for longer periods, fostering stability in the market and attracting more long-term investments. In addition this will allow for the following:

a) Promoting Tax Compliance: Lowering the TDS rate encourages users to choose registered VDA service providers, making it easier for the government to track transactions and monitor the ecosystem.

b) Attracting Investment: Aligning tax norms with capital assets could incentivize long-term investments in VDAs, contributing to market stability and growth.

c) Enhancing Transparency: Rationalizing tax provisions brings more clarity and transparency to the VDA sector, fostering trust among investors and businesses.

d) Curbing Illegal Activities: The reduced TDS rate, along with the registration of VDA service providers under the Prevention of Money Laundering Act (PMLA), can help mitigate the risks of money laundering and terror financing.

Repeal of Indexation Benefits:

Prior to the repeal of indexation benefits in Budget 2024, the tax rates for long-term capital gains (LTCG) on assets like property and gold were as follows:

a) Earlier Slab Rates (with indexation benefit):

- 20%: This was the tax rate for LTCG on assets held for more than 24 months. The indexed cost of acquisition was used to calculate the taxable gain.
- LTCG on listed equity shares and equity-oriented mutual funds held for more than 12 months was taxed at 10%.

b) Slab Rates After Repeal of Indexation Benefit (from April 1, 2024):

- 12.5%: This rate will now be applicable for LTCG on all assets (including property, gold, etc.) held for more than 24 months. However, the indexed cost of acquisition will not be used anymore, resulting in a higher taxable gain.

The LTCG rate on equity shares and equity-oriented mutual funds has been increased to 12.5%.

Asset type	Proposed Holding Period	Existing Holding Period	Proposed tax rate
Immoveable Property	>24 months	20% with indexation	12.50%

Rationalisation of Capital Gains:

Several significant changes have been made to the capital gains tax structure.

a) Long term capital gains

Asset type	Proposed Holding Period	Existing Holding Period	Proposed tax rate	Existing Tax Rate
Listed Equity	>12 Months	>12 months	12.5%	10%
Listed Units of Business Trust	>12 Months	>36 months	12.5%	10%
Unlisted Equity	>24 Months	>24 Months	12.5%	20%
Unlisted Debt	>24 Months	>36 Months	Applicable slab rate	20%

HIGHLIGHTS:

Budget 2024 allocates ₹2 lakh crore for employment and skilling initiatives, targeting 4.1 crore youth over 5 years.

Budget 2024 prioritizes social welfare and empowerment with initiatives like the Mahila Samman Savings Certificate Program for women, a mission to eliminate sickle cell anemia, and a ₹15,000 crore program for tribal groups. Additionally, it invests in education through a digital library, promotes affordable books, and supports traditional Indian games. These measures aim to create a more inclusive society with equal opportunities for all.

Other Assets (including listed debt)	>24 Months	>36 months	12.5%	20%
Physical Gold	>24 months	>36 months	12.5%	Applicable slab rate

b) Short term capital gains

Asset type	Proposed Holding Period	Existing Holding Period	Proposed tax rate	Existing Tax Rate
Listed Equity	≤ 12 Months	≤ 12 months	20%	15%
Listed Units of Business Trust	≤ 12 Months	≤ 36 months	20%	15%
STCG on other assets	≤ 24 Months	≤ 36 Months	Applicable slab rate	20%
Physical Gold	≤ 24 Months	≤ 36 Months	Applicable slab rate	Applicable slab rate

Notes:

a) The exemption limit for long-term capital gains (LTCG) on listed equity shares, units of equity-oriented funds, and business trusts has been increased from ₹1 lakh to ₹1.25 lakh per annum. This means that if your total LTCG from these assets is below ₹1.25 lakh, you won't have to pay any tax on it.

b) With respect to debt linked funds and fund of funds, with more than 65% debt, there is no distinction between short-term and long-term capital gains anymore. All gains, irrespective of the holding period, are treated as short-term capital gains (STCG) and taxed as per the individual's applicable income tax slab rate.

c) Hybrid mutual funds (with neither equity nor debt exceeding 65%) will now be considered long-term after 24 months instead of 36 months, and taxed at 12.5%. Short-term gains remain taxed at your income tax slab rate.

d) Budget 2024 clarifies that income from unlisted debt, previously ambiguous, will now be treated as short-term capital gains upon redemption or maturity.

e) The reduction of long-term capital gains tax for companies from 20% to 12.5% could indirectly incentivize offshore investors to invest in Indian companies and their debt instruments, as it reduces the tax burden on long-term investments.

HIGHLIGHTS:

Budget 2024's manufacturing boost includes:

- Expanding Production-Linked Incentives (PLIs): Encouraging domestic production in key sectors like automobiles, mobile phones, and pharmaceuticals.
- Reducing Customs Duty: Lowering import duties on components like camera lenses and lithium-ion cells to support local electronics manufacturing.
- Supporting MSMEs: Extending the Emergency Credit Line Guarantee Scheme (ECLGS) with ₹50,000 crore infusion.
- National Green Hydrogen Mission: Promoting green energy and reducing dependence on fossil fuels.

Reduced Corporate Tax:

The corporate tax rate for foreign companies has been reduced from 40% to 35%. This aims to attract more foreign investment into India and boost economic growth.

Reverse Tax Incidence on buy-back:

Budget 2024 does not explicitly mention reverse tax incidence on buybacks of shares. However, the Finance Bill, 2023, does introduce a concept akin to reverse tax incidence in certain scenarios related to buybacks. Key points to be noted are:

Inter - corporate gifting

a) Buyback Tax Shifted to Shareholders: The Finance Bill proposes that the tax burden on buybacks be shifted from companies to shareholders. This is done by taxing the entire buyback proceeds in the hands of shareholders as if they were dividends, at their respective slab rates.

b) Impact on Companies: Companies will no longer be liable to pay the buyback tax (20% plus surcharge and cess) on the distributed income. However, they are still liable to pay Securities Transaction Tax (STT) on the buyback transaction value.

c) Impact on Shareholders: Shareholders will now have to pay taxes on the buyback proceeds as per their income tax slab rates. This change may discourage some shareholders from participating in buybacks, especially those in higher tax brackets.

Budget 2024 proposes a significant change to the tax treatment of inter-corporate gifts. Previously, gifts made by companies during corporate restructuring were exempt from capital gains tax under Section 47(iii) of the Income Tax Act.

Starting April 1, 2024, tax exemption for inter-corporate gifts during restructuring will be limited to individuals and HUFs. Companies

gifting assets to other companies will face capital gains tax on the fair market value, potentially discouraging such gifts during restructuring activities. However, gifts under family settlements remain exempt. This change aims to prevent tax avoidance and ensure proper taxation of asset transfers.

Key impact from an Agriculture Perspective:

Decrease in Fertiliser and Food subsidies: Farmer organisations have decried a cut of over 34.7% in allocation towards fertilizers.

The Zero Budget Natural Farming: now renamed as “Bharatiya Prakritik Krishi Paddhati” has had both encouraging and worrying results. This Indian Institute of

Farming Systems Research (IIFSR) raises concerns about the sustainability and yield potential of this farming method. Experts assert, citing the Sri Lankan debacle in natural farming, that efforts should be focused on supplementary food stuff rather than cereals, in order that there is no threat to food security.

Key Impact from an Employment and Skilling Perspective:

First Scheme: Support the hiring of first-time employees, with a wage subsidy of upto Rs.15,000 paid to the employee, and is expected to cover one crore people.

Second Scheme: Aimed at hiring of first-time employees, specifically in the manufacturing sector, with wage subsidies to be paid to both employees and employers for four years, with a maximum incentive of 24% of a Rs.25,000 monthly wage.

Third Scheme: This supports employers, not necessarily first timers, by reimbursing upto Rs.3,000 of their monthly EPFO contribution.

Fourth Scheme: Upgrade Industrial Training Institutes and boost skilling efforts, with 20 lakh students expected to benefit.

Final Scheme: This is aimed at on-the-job skilling, with an ambitious target of one crore youth to be given internships in India’s top companies with a monthly allowance of Rs.5,000 for one year, with the companies bearing training costs and 10% of the allowance.

BUDGET 2024'S FOCUS ON ENERGY SECURITY INCLUDES:

1. **Renewable Energy Boost:** Significantly increased funding for renewable energy sources like solar and wind power.
2. **Green Energy Incentives:** Continuation of PM-KUSUM scheme and introduction of Green Credit Programme.
3. **Energy Storage Solutions:** Viability Gap Funding for battery energy storage and pumped hydro storage projects.
4. **Energy Transition Policy:** Formulation of a policy document for a balanced energy transition and a roadmap for cleaner production in energy-intensive industries.
5. **Nuclear Power Development:** Encouragement for private sector participation in nuclear power research and development.

Small industrialists say that the conditions built into the above schemes may create obstacles for effective implementation. For instance, in the First Scheme, the wage subsidy of Rs.15,000 is paid out in three instalments, the second instalment being only payable if the employee undergoes a compulsory online financial literacy course. Also worrying is the condition that the subsidy is “to be refunded by the employer if the employment to the first timer ends within 12 months of recruitment”. If the employer switches jobs in 10 months, he has already received the benefits of the scheme but the employer is required to bear the costs.

In the Second Scheme, the minimum threshold for hire is 50 employees or 25% of the baseline. This may discourage smaller companies from availing of this scheme. If the employment to the first timer ends before twelve months, the incentive will have to be returned.

However there appears to be a larger structural reason behind why the economy has not been able to create jobs. Jobs need to be created, not in the top 500 companies but in the MSME based labour intensive sectors, in the small towns, which will have a multiplier effect. MNREGA type employment guarantee schemes could work well for urban workers, hence kickstarting consumption.

However, the Centre has instead curbed MNREGA funding itself, hence creating a vacuum in viable employment generation opportunities.

The problem appears to partly lie in the government’s dogged insistence on the accuracy of the official GDP estimates, whose veracity has been questioned by many. The latest provisional estimates of India’s GDP shows real growth in 2023-24 at 8.2% which implies an annual price inflation of 1.4% only, while the retail inflation shows a worrisome

5.4%. The point is that the economy is not growing as fast as the official GDP estimates suggest. The Economic Survey 2024 states that India has to create 78.5 lakh jobs annually in the non-farm sector, if India needs to sustain its growth. This creates an ambitious target that needs enormous political will and direction.

BUDGET 2024 ALLOCATES ₹11.11 LAKH CRORE FOR INFRASTRUCTURE DEVELOPMENT FOCUSING ON:

1. Increased capital expenditure across sectors like roads, railways, ports, and airports.
2. Supporting states with long-term interest-free loans for infrastructure projects.
3. Encouraging private investment through viability gap funding and supportive policies.
4. Prioritizing road and railway connectivity improvements.
5. Promoting green infrastructure and sustainable development.
6. Creating an Urban Infrastructure Development Fund for Tier 2 and Tier 3 cities.
7. This comprehensive approach aims to enhance connectivity, boost economic growth, create jobs, and improve citizens' quality of life

The Schemes, while laudatory for their noble intentions, stem out of flawed economic data. The jobs created are unlikely to last beyond the subsidy period.

Key Impacts from a Social Sector Perspective:

- Allocation for women and child welfare has been increased by 3% to Rs.21,000 for the women and child development ministry's integrated Saksham Angamwadi and Poshan 2.0 Scheme. Services under the Scheme have reached about 95 million beneficiaries, including 7.7 million children under age six, and 1.8 million pregnant women and lactating mothers. Prevalence of stunting in children has reduced from 38.5% to 35.5% and wasting from 21.0% to 19.3% and of underweight instances from 35.8% to 32.2%. Wasting occurs when a child's weight is too low for her height. While these are concerning figures, a start has been made in the right direction and is bound to yield progressively positive results in the years to come.

Key Impacts from an Infrastructure Perspective:

- Train safety: In a welcome move, allocations for signalling and telecom work, under which the KAVACH (automatic train protection system) is included, has increased compared with FY24RE (revised estimates).
- Road Safety: With many road projects nearing completion, the focus needs to shift from asset creation to asset management as well as maintenance and safety, say experts. The Government needs to seriously start looking at this

BUDGET 2024'S FOCUS ON INNOVATION, RESEARCH, AND DEVELOPMENT INCLUDES:

1. National Research Foundation: A ₹50,000 crore fund established to support research in universities and colleges across various disciplines.
2. ICMR Labs: 157 new nursing colleges to be established alongside existing medical colleges. Government to incentivize ICMR labs in all districts.
3. Artificial Intelligence: Three centers of excellence for AI to be set up in top institutions, focusing on agriculture, health, and sustainable cities.
4. National Data Governance Policy: Framework to be created for sharing non-personal data to accelerate innovation.
5. Lab Grown Diamonds: Research grant provided to an IIT for 5 years to reduce import dependency.
6. Pharma Innovation: New program launched to promote research and innovation in pharmaceuticals.

need going forward. The industry needs standard operating procedures for construction of bridges and tunnels to avoid safety incidents like the Silkaya tunnel collapse in Uttarkhand in 2023.

- **Challenges faced by the Railways:** While the Rail network has increased over 77% over the last five years, thanks to the present dispensation, key challenges remain. Primary among them is the skewed freight movement share in favour of road. Long haul freight transportation through roads is 25% to 30% costlier than railways for distances less than 500 km. Sharing of lines by passenger and freight trains is also an issue that needs to be dealt with on an urgent basis.
- **Shipping:** Though there are more than 230 maritime ports, two ports at JNPT and Mundra handle nearly 40% of the export, import cargo. This skewed port traffic needs to be corrected so that all the important ports, especially along the east coast, get their due.
- **Privatization of airports:** There appears to be a plan to privatise 25 more airports. While this is a move that is aimed at improving efficiency in operations, the Government will also need to ensure that the profit does not come at the cost of discomfort to air passengers, either by charging them steep convenience fees or by providing them below par service at the airport.

BUDGET 2024'S FOCUS ON INNOVATION, RESEARCH, AND DEVELOPMENT INCLUDES:

7. Increased capital expenditure across sectors like roads, railways, ports, and airports.
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10. Prioritizing road and railway connectivity improvements.
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This comprehensive approach aims to enhance connectivity, boost economic growth, create jobs, and improve citizens' quality of life

CONCLUSION

This Budget Speak by Cornerstone Law, is an attempt, not just to highlight key announcements in sectors that business will consider pertinent, but also to do a deeper analysis into the weaker areas that need to be strengthened over time, because after all, a chain is just as strongest as it's weakest link.

A multi-faceted approach is key to ensuring that important areas which include social indices like health, nourishment, education, and employment are considered, so that the nation's progress can be correctly measured. This means, the powers that be, need to keep continuous tabs on the various indices or in other words, the engines of growth, to ensure that there is no detour or derailment. The end beneficiaries will have to be closely monitored to ensure that there is no leakage in the benefits due to them. In a country like India, the Government through its various agencies need to keep a continuous tab, with flags that will trigger an escalation mechanism and interventions at the right stage, so that each scheme is taken seriously and properly implemented. Challenges in implementation will have to be studied and recorded so that future schemes will be adequately fool proofed to ensure continuity and success in implementation.

The increased focus on the MSME Sector, coupled with focussed employment generation programmes, along with a watch over the nourishment, health and education indices is bound to yield results in the days and years to come.

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