

# Union Budget 2024

The budget aimed for a 'Viksit Bharat,' but did it hit the mark?

## Hits

Focuses on core issues like: Employment generation, MSMEs, Infrastructure sector, Education

Fiscal deficit to be significantly reduced, but Rs 289000 crores targeted by potential dividends and gains, signaling offer for sale or PSU dividends

## Misses

Tax proposal unlikely to please capital markets or promote long term capital

No major relief in alternative tax structure, barring mild tweaking of the slabs and increase in standard deduction



## Support for financing the MSMEs

### MUDRA Loans

- Pradhan Mantri MUDRA Yojana (PMMY) scheme launched on April 8, 2015.
- Provides loans up to INR 10 lakh to non-corporate, non-farm small/micro enterprises.
- Loan categories: Shishu, Kishore, and Tarun;
- Limit raised to Rs. 20 lakh for successful 'Tarun' category repayments (loans above Rs. 5 lakh).

### Credit guarantee scheme in the manufacturing sector

- For term loans without collateral or third party guarantee
- Self financing guarantee fund covering upto Rs 100 Cr (maximum limit), based on pooling of credit risks. Scheme details awaited; we will write at length on the scheme
- Initial guarantee fee followed by annual fee on reducing loan balance

### Guarantee for loans to SMA-tagged MSMEs

- If tagged SMA beyond their control, credit availability will be supported through guarantee from government promoted fund. SMA [special mention accounts] are those with upto 89 days default

### New assessment models for MSME credit

- Public Sector Banks to build inhouse credit assessment capability
- Credit assessment model to factor in scoring of digital footprints in the economy

### Other changes

- Proposal to reduce turnover threshold for buyer onboarding from Rs 500 crore to Rs 250 crore.
- Medium enterprises to be covered under suppliers' entitlement for prompt payment and payable interest as per Sections 15 and 16 of the MSME Act, 2006.

# Education and employment

## Subvention for education loans

- Loans for higher education in Domestic educational institutions, upto a value of Rs 10 lakh
- 1 lakh students to receive e-vouchers for annual interest subvention of 3% of the loan amount.
- NBFCs/ banks giving educational loans, and educational institutions to benefit.

## Employment linked incentive (for employees with wage/salary upto 1 lakh)

- Scheme A (for 2 years): **First Timers**
  - 1 month wage as subsidy (Max 15000) in 3 installments to all new persons entering the workforce (EPFO)
  - Employee must undergo compulsory online Financial Literacy course before claiming the second instalment.
  - Refunded by employer employment ends within 12 months of recruitment.
- Scheme B (for first 4 years): **Job creation in manufacturing**
  - Eligible Employers - corporate entities and those non-corporate entities with a 3 year track record of EPFO contribution
  - To hire - at least 50% or 25% of baseline (previous year's number of EPFO employees)
  - Refunded by employer employment ends within 12 months of recruitment.
- Scheme C: **Support to employers**
  - Eligible Employers - Increases employment above the baseline
  - Government will reimburse EPFO contributions of employers up to ₹3000 per month for 2 years for all new hires.

## Internship Scheme

Refer subsequent slides

# Infrastructure funding, urban development, and housing..

## Funding towards Infra

- INR 11.11 lakh crores or 3.4 % of the GDP allocated towards improving infrastructure.
- States to receive interest free loans for development of infrastructure as per their policies, for which Rs.1.5 lakh crores is earmarked
- State specific infrastructure support announced, including for prevention of natural disasters.
- Financial support for projects such as Koshi-Mechi intra-state links etc.

## Infrastructure Development

- A market based framework to be developed to promote private investment in infrastructure.
- Investment ready “plug and play” industrial parks in or near 100 cities in partnership with states and private sector;
- 12 new industrial parks under National Industrial Corridor Development Programme.
- Initiatives to boost tourism in various states

## Urban Development

- Encouraging states to lower stamp duties for properties purchased by women
- A scheme to develop 100 weekly ‘haats’ or street food hubs in select cities
- Transit oriented development plans for 14 large cities with a population above 30 lakhs
- Promote water supply, sewage treatment and solid waste management projects and services for 100 large cities through bankable projects.

## Housing

- Creation of rental housing spaces using Public Private Partnership mode for industrial workers
- Interest subsidy for creation of 1 crore houses under the PMAY, and an overall creation off 3 crore houses in rural and urban areas under PMAY, with investment of INR 10 lakh crores
- Enabling policies and regulations for efficient and transparent rental market

# Energy Security

## PM Surya Ghar Muft Bijli Yojana

- Encouraging PM Surya Ghar Muft Bijli Yojana, enabling households to avail 300 units of free electricity per month using rooftop solar plants.

## Formation of Policies

- Appropriation of energy transition ensuring generation of employment, growth and environmental sustainability.
- Pumped storage projects to ensure smoother integration of renewable energy resources in the overall energy mix.

## Energy Audits

- Investment grade energy audits of micro and small industries shall be carried out.

## Financing MSMEs

- For shifting to cleaner and greener energy sources,
- Implementing energy efficiency measures.

## Nuclear Energy

- Partnering with Private Sector for setting up Small Bharat Reactors and
- Setting up of research and development of Bharat Small Modular Reactor and newer technologies. This will be supplemented with R&D funding announced in the interim budget.

# Variable capital structure entities for providing an efficient and flexible mode for financing leasing of aircrafts and ships, and pooled funds for private equity

Companies currently have a fixed capital structure

Any reduction of capital requires specific processes to be followed, even involving NCLT in certain cases

Variable capital entities will permit their owner to withdraw capital based on certain conditions

Essentially, LLP is also a variable capital entity

What about variable capital companies in the budget?

- The Budget speech refers to:
  - Aircraft and ship leasing
  - Pooled funds for private equity - similar to AIFs
- The FM talks about a legislative approval - seemingly this legislation will be Central law and not limited to IFSCA

VCCs were intended to be launched in IFSC. IFSC is reportedly awaiting this legislative change.

IFSCA had constituted a committee under chairmanship of Dr Sahoo on VCCs :  
<https://tinyurl.com/ytx3ykt6>

Read our article on the topic:

<https://vinodkothari.com/2024/07/variable-capital-companies/>

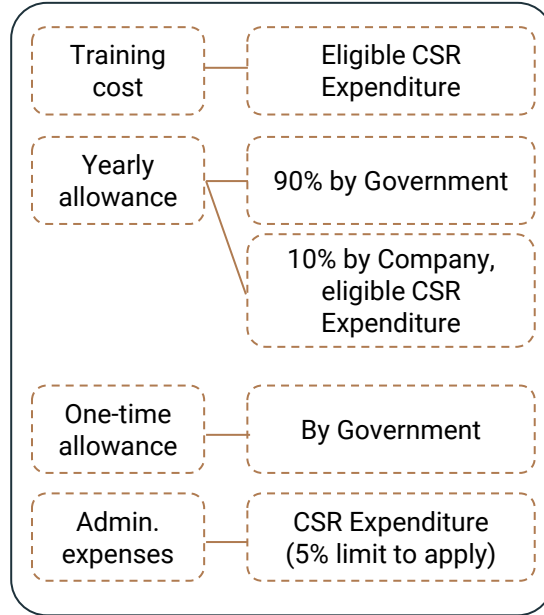
# Other reforms in corporate laws

## Internship scheme as eligible CSR

- Voluntary participation
- Top 500 companies in India
- To eligible youth as per the Scheme
- Working experience may also be given in group companies or companies in supply chain

### Benefits:

- Will boost the social image of the company
- Fulfilment of statutory obligation of CSR spending
- May result in creation of skilled labour for contribution to company's workforce



Read our article on the topic: <https://vinodkothari.com/2024/07/scaling-up-skilling-by-using-csr-funds-any-takers/>

## IBC and Debt Recovery

- Integrated technology platform will be set up for timely dissemination of information and bringing efficiency in IBC process
- Steps to be taken for strengthening DRTs.
- Addl. tribunals will be set up, some will be exclusively for Companies Act matters

## Closure of LLPs

C-PACE will be available for voluntary closure of LLPs as well for closure of LLPs as well in time-bound and faceless manner [under sec 63 read with rule 37 of the LLP Act]

# Reforms in FDI and Overseas Investments

FDI and OI norms will be simplified

- To facilitate FDI
- Nudge prioritization
- Promote opportunities for using Indian Rupee as a currency for overseas investments  
(Presently, transactions are made in freely convertible currency)

Amendments will be made in the existing regime:

- FEMA (Non-Debt Instruments) Rules, 2019 read with FEM (Mode of Payment and Reporting of Non-Debt Instruments) Reg, 2019
- FEMA (Overseas Investment) Rules, 2022 read with FEMA (Overseas Investment) Regulations, 2022 & FEMA (Overseas Investment) Directions, 2022

- There was a drop in total FDI inflows by 3.49% in the FY 23-24 as compared to FY 22-23\*.
- The financial commitment for FY 23-24 has decreased by 5.21% as compared to FY 22-23\*.

\*Source for FDI data is [RBI](#) & ODI data is [DEA](#)



## Changes in Direct Taxes: The headliners

### Angel tax abolished

- Sec. 56(2)(viib) taxed premiums on shares issued by non-publicly interested companies.
- Supported by Rule 11UA, which defined valuation principles.
- Rule 11UA underwent significant revision in September 2023.
- Just 11 months later, the Finance Ministry decided to repeal the section.
- The repeal will take effect from Assessment Year 2025-26, starting April 1, 2024.

### Securities transaction tax on futures and options sees a steep increase

- STT on futures increased from 0.0125% to 0.02%
- STT on options increased from 0.0625% to 0.1%
- This comes a day after the Economic Survey stated that **derivatives are risky for retail investors**. The Survey dedicates a full para [2.83] to derivatives, calling it “gambling instinct”. It says generally investors world-over have lost money.

Buy-back tax removed and replaced by dividend tax  
*(refer slide 12)*

### Major changes in Capital Gains regime

- Exemption limit u/s 112A for LTCG on listed securities (equity shares, equity oriented mutual funds, units of business trust) has been increased from INR 1 lakh to INR 1.25 lakhs
- Change in Holding Period and Tax rate : Refer next slides
- Capital gain arising from transfer of units of funds (acquired on or after 1st April 2023) having 65% or more investment, directly or indirectly, in debt or money market instruments shall be taxed as STCG at applicable rates. (Applicable from AY 26-27)

# Capital Gains: Then and Now 1/2

Type of Asset	Holding Period & Tax Rate under the Existing Law		Holding Period & Tax Rate under the New Law	
	Short Term	Long Term	Short Term	Long Term
<b>Listed Shares and Equity Oriented Mutual Funds, ZCBs</b>	Less than 12 months Tax rate: 15%	More than 12 months Tax rate: 10%	Less than 12 months Tax Rate: 20%	More than 12 months Tax Rate: 12.5%
<b>Unlisted Shares</b>	Less than 24 months Tax rate: 15%	More than 24 months Tax rate: 20% (with indexation benefit)	Less than 24 months Tax Rate: 20%	More than 24 months Tax Rate: 12.5% (no indexation benefit)
<b>Units of listed business trust</b>	Less than 36 months Tax rate: 15%	More than 36 months Tax rate: 10%	Less than 12 months Tax Rate: 20%	More than 12 months Tax Rate: 12.5%
<b>Units of Debt oriented Mutual Funds</b>	Less than 36 months Tax Rate: Applicable Slab Rate	More than 36 months Tax Rate: 20% (with indexation benefit)	Less than 24 months Tax Rate: Applicable Slab rate	More than 24 months Tax Rate: 12.5%

## Capital Gains: Then and Now 2/2

Type of Asset	Holding Period & Tax Rate under the Existing Law		Holding Period & Tax Rate under the New Law	
	Short Term	Long Term	Short Term	Long Term
Listed Securities (Debentures, bonds, government securities, derivatives etc)	Less than 12 months Tax Rate: 15%	More than 12 months Tax Rate: 20% (without indexation benefit)	Less than 12 months Tax Rate: 20%	More than 12 months Tax Rate: 12.5%
Unlisted Bonds, Debentures & MLDs	Less than 36 months Tax Rate: Applicable Slab Rate	More than 36 months Tax Rate: 20% (with Indexation benefit)	Treated as STCG irrespective of the holding period Tax Rate: Applicable Slab Rate	
Immovable Property (Being Land or Building)	Less than 24 months Tax Rate: Applicable slab rate	More than 24 months Tax Rate: 20% (with Indexation benefit)	Less than 24 months Tax Rate: Applicable slab rate	More than 24 months Tax Rate: 12.5% (no indexation benefit)
Gold	Less than 36 months Tax Rate: Applicable slab rate	More than 36 months Tax Rate: 20% (with Indexation benefit)	Less than 24 months Tax Rate: Applicable slab rate	More than 24 months Tax Rate: 12.5% (no indexation benefit)

## Income received on buyback of shares to be taxed in the hands of the recipient.

Currently buyback of shares is taxed in the hands of the company and not the recipient

- Covered under section 115QA
- Effective rate of tax charged on buy back: 23.29% [20% (base rate) + 12% (surcharge) + 4% (health and education cess)]

Finance Bill proposes to tax the income as dividend in the hands of the recipient

- Entire consideration included u/s 2(22) of IT Act, and to be taxable as “dividend”
- Taxable at slab rates as applicable to respective shareholders, with a flat surcharge @ 15%
- Entire cost of acquisition in respect of shares bought back to be booked as “**capital loss**” [section 46A of IT Act]
- Such capital loss may be set off against capital gains subsequently
  - As per section 74 of IT Act, the set-off is available for a period of 8 AYs immediately after the AY in which loss arise
- No deductions allowed for any type of expense made in connection therewith [Section 57 of IT Act]

### Illustrating the taxability of a buy back transaction

Buy: 100 shares in 2020 @ INR 40 per share	INR 4000
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Buy back: 20 shares in 2024 @ INR 60 per share	INR 1200
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Income taxable as dividend	INR 1200
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Capital loss [40*20]	INR 800
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Sale: 50 shares in 2025 @ INR 70 per share	INR 3500
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Capital gain (3500 - 2000)	INR 1500
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Chargeable capital gain after set off	INR 700
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