

# BUDGET 2023-24

Highlights

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# Preface

## Introduction

Hon'ble Finance Minister Nirmala Sitharaman presented Union Budget for the Financial Year 2023-24 on 1<sup>st</sup> February 2023. With Indian economy becoming the 5th largest globally and current year's economic growth estimated @ 7% (one of the highest among major economies), this year's Union Budget rests on the following priorities:

- **Inclusive Development** for sectors like agriculture, animal husbandry, dairy, fisheries, public health, pharmaceuticals, medical devices, education and skill development
- **Reaching the Last Mile** by improving socio-economic conditions of tribal groups, water for drought prone regions, support for poor prisoners
- **Infrastructure & Investment** including development of infrastructure projects, logistics, sustainable cities, urban sanitization, enhanced capital outlay for railways and continued financial assistance to State Governments
- **Unleashing the Potential** by adopting measures such as artificial intelligence based solutions in agriculture and health sectors, data governance policy to enable access to anonymized data, simplification of KYC processes, launch of e-courts, entity digi-locker and innovation in fintech services
- **Green Growth** focused on reducing environmental damage by implementing policies to promote green fuel, organic farming and green mobility for efficient use of energy across various sectors
- **Youth Power** to empower country's youth realize their dreams by undertaking policies focused on their skill development and facilitate job creation
- **Financial Sector** reforms such as revamped credit guarantee schemes for MSMEs, ease of doing business in GIFT IFSC, saving schemes for women & senior citizens and investor protection in banking sector

# Priority Areas of Indian Economy

## Key Points



# Tax Proposals

## Corporate Tax

- No changes to corporate tax rates
- Deduction of payments made to MSMEs beyond statutory timeline to be allowed only on actual payment basis
- No set off of unabsorbed depreciation and brought forward business loss for certain NRs taxable under presumptive taxation regime
- Sunset date for incorporation of start-ups to be eligible for tax holiday extended from 31 March 2023 till 31 March 2024
- Withdrawal of exemption from withholding tax on payment of interest on listed debentures paid to resident
- New provision proposed for taxation of net winnings from online games and related withholding obligation
- New mechanism provided for claim of withholding tax credit in respect of income offered to tax in past year but corresponding tax is withheld by payer in subsequent year

# Tax Proposals

## Indirect Tax

### Goods and Services Tax

- ITC will not be available in respect of goods or services used for activities relating to corporate social responsibility.
- Filing of returns and statements will not be allowed after three years from the relevant due dates.
- Minimum threshold for launching prosecution will be increased from INR 10million (€ 115,000) to INR 20million (€ 230,000) except in case of issuance of invoice without supply.

### Customs

- As part of rate rationalization of customs duty rate structure, BCD, SWS, AIDC rates will be reduced on a number of goods.
- Validity period of two years imposed on certain customs exemptions, will not be applicable to identified categories such as imports under FTAs, re-imports, exemptions under FTP schemes, personal baggage.
- Settlement Commission to pass order within nine months from the last day of the month in which application is made, or else the proceedings shall abate.

# Tax Proposals

## Indirect Tax

### Transfer Pricing

- Time limit to furnish TP documents to TPO has been reduced from 30 days to 10 days

### Transaction Tax

- Angel tax extended to funds from non-residents as well
- Benefit of carry forward of business loss to eligible 'start-ups' will not be denied within 10 years (extended from seven years) from the year of incorporation subject to certain conditions
- Distribution (other than interest, dividend, rental income or capital gains), say, in the nature of 'repayment of debt', by business trust to unit holder to be taxed as 'other income' in hands of unit holders. Such distribution to be reduced by cost of acquisition where units are redeemed
- Carry forward of accumulated losses and unabsorbed depreciation allowed on merger of erstwhile public sector companies subsequent to strategic disinvestment by the Government or public sector company where merger takes place within five years from prescribed date

# Tax Proposals

## Direct Tax

### Personal Tax

- Concessional Tax Regime (CTR) will be regarded as the default tax regime while an option to consider existing tax regime will be available to the taxpayers
- Benefits for Taxpayers opting for Concessional Tax Regime:
- Enhancement in the basic exemption limit to INR 300,000 (€3530) from the existing limit of INR 250,000 (€2950). Rebate limit enhanced to INR 700, 000 (€8235) from the existing limit of INR 500,000 (€ 5900)
- Introduction of standard deduction of INR 50,000 (€ 590)
- Maximum surcharge rate reduced from 37% to 25% in case of taxpayer having taxable income exceeding INR 50 million (€590,000) (maximum marginal rate reduced from 42.744% to 39%)
- Tax Collected at Source (TCS) has been enhanced to 20% (from existing 5%) on certain foreign remittances (except education & medical treatment), without any threshold limit
- Leave encashment limit announced to increase from existing INR 300,000 (€3530) to INR 2,500,000 (€29400).

# Tax Proposals

## Direct Tax

### Personal or Salary Tax

- CTR now provides a change in the tax structure with reduced slabs as under:
  - Up to INR 300000 – Nil
  - Above INR 300000 - 600000 – 5%
  - Above INR 600000 - 900000 – 10%
  - Above INR 900000 - 1200000 – 15%
  - Above INR 1200000 - 1500000 – 20%
  - Above INR 1500000 - 30%
- Capital gain exemption under section 54 & 54F capped at INR 100 million (€ 1.18 million) where the capital gain/ net consideration is reinvested in a residential house.

# Sector Highlights

## Agriculture

### Investments and financial support

- Agricultural credit target to be increased to INR 20 lakh crore (€ 235000 million)
- Agriculture Accelerator Fund to be set up to encourage agri-start ups
- Outlay of INR 2,200 crore (€ 260 million) towards Atmanirbhar Horticulture Clean Plant Program to boost availability of quality planting material
- Outlay of INR 6,000 crore (€ 700 million) towards PM Matsya Sampada Yojana to expand the market for fishermen and MSMEs & Assistance of INR 5,300 crore (€ 623 million) to be given to Upper Bhadra Project to provide sustainable micro irrigation and filling up of surface tanks for drinking water

### Infrastructure

- Digital public infrastructure for agriculture to be built to enable farmer-centric solutions for support and growth of agri-tech industry and start-ups
- Critical infrastructure projects to be undertaken for improving supply chain logistics of fertilisers and food grains
- Decentralised storage capacity to be set up to enable farmers to realize sales in a timely manner
- Multipurpose cooperative societies, primary fishery societies and dairy cooperative societies to be set up in next five years

# Sector Highlights

## Automotive

- In order to promote domestic manufacturing, non-creditable custom duty rates (after factoring effect of SWS) on vehicles covered under HSN 8703 increased: from 33% to 35% (SKD vehicles including Electric Vehicles (EV)); from 66% to 70% (CBU EV having CIF value upto\$40K; and other CBU vehicle having CIF value upto\$40K or/ and engine capacity upto3000 cc for petrol-run vehicles/ upto2500 cc for diesel-run vehicles)
- Re-emphasis laid on National Green Hydrogen Mission which was recently launched with outlay of INR19,700 crores, for supporting green mobility to reach annual production target of 5 MMT by 2030
- The concessional BCD rate is extended upto 31 March 2024: On import of lithium-ion cell for manufacture of battery of EV /Hybrid Vehicles; On import of other specified parts, components and sub-parts (excluding PCBA) for manufacture of lithium-ion battery or PCBA of lithium-ion battery
- BCD exemption introduced on import of specified capital goods/ machinery required for manufacturing of lithium-ion cells for batteries used in EV
- Additional budget allocation to support scrappage of old vehicles of Central and State Government
- BCD exemption introduced on import of specified vehicles, automobile parts/ components, sub-systems and tyres when imported by notified testing agency

# Sector Highlights

## Consumer Products & Retail

- Capital investment has steeply risen for the third year in a row by 33%
- Tourism taking center stage in Budget 2023-24
- Promote entrepreneurship, job creation and boost consumption
- Customs duty rate changes focused on 'Make in India' and export promotion
- Exemptions/ concessions extended to seeds for lab grown diamonds and certain parts for kitchen chimneys and components of mobile phones and televisions
- Increase in effective duty rates on import of toys, bicycles and motor vehicles
- Increase in effective excise duty on manufacture of specified cigarettes
- Import duty rate have been increased on silver doré, and articles made of precious materials, imitation jewelry, electric chimneys
- Clarification added in section 194R to apply TDS on benefit or perquisite in cash or in kind or partly in cash and partly in kind
- Concessional corporate tax rate of 15% extended to co-operative societies
- Tax officer empowered to get inventory valuation done from cost accountant
- Expenses related to MSMEs to be allowed as deduction on actual payment basis.

# Sector Highlights

## Defense

- Defense budget allocation of INR 1,62,600 crores for capital outlay and INR 2,70,120 crores for revenue expenditure
- 6.7% and 15.9% increase in INR terms in budget allocation for capital outlay and revenue expenditure, respectively, over FY 22 -23
- An Agniveer Corpus fund is proposed to be created to incentivize Agniveers under the Agnipath Scheme, 2022
- Each Agniveer to contribute 30% of monthly package to this fund. Government will make matching contribution and also pay interest on overall contributions
- Consolidate amount (called Seva Nidhi) in the account will be paid to Agniveer on completion of four years of service
- In 2021, aircraft and engine leasing activities were permitted in GIFT IFSC. Various measures have been proposed to simplify the IFSC regulatory framework
- Powers under the SEZ Act to be delegated to the IFSC Authority to avoid dual regulations
- A single window IT System shall be set up for registrations and approvals under various regulations
- Custom Duty exemption in relation to specified defense and aerospace products has been extended up to 31 March 2024 (subject to review during the year)
- Duty rate structure revamped for specified aeroplanes, aircraft and aircraft tyres without change to effective rate of Customs duty

# Sector Highlights

## Financial Services

### Tax proposals

- Following tax incentives are proposed for IFSC: Sunset clause for tax neutral transfer in case of relocation of a fund to IFSC is extended from 31 March 2023 to 31 March 2025
- Exemption provided to non-residents on income received from Offshore Derivate Instruments issued by IFSC Banking Units
- Threshold limit to withdraw cash without TDS increased to INR3 crores (€ 350,000) for co-operatives societies
- Clarified that benefits/ perquisites in cash are taxable and subject to withholding
- Tax treaty benefits with respect to withholding tax on income in respect of units of mutual fund will be available to non-residents
- Disallowance of interest under thin capitalization rules now relaxed for Non-banking financial companies (NBFC) to bring parity with banking and insurance companies
- TCS rate increased from 5% to 20% on certain foreign remittances (except education & medical treatment) and on sale of overseas tour packages
- Repayment of debt by business trusts to its investor is now taxable

# Sector Highlights

## Financial Services

### Policy Proposals

- Revamping of the credit guarantee scheme for MSMEs through introduction of INR9,000 crores (€ 1050 million) in the corpus, enabling additional collateral-free guaranteed credit of INR 2 lakh crore
- Proposed to set up a national financial information registry to serve as the central repository of financial & ancillary information
- Public consultations to be brought to the process of regulation-making and issuing subsidiary directions
- Financial sector regulators to carry out a comprehensive review of existing regulations to ease and reduce the cost of compliances
- Amendments proposed in the Banking Regulation Act, the Banking Companies Act and the RBI Act to improve bank governance and enhance investors' protection
- To further incentivize operations from the International Financial Services Centre (IFSC), the following incentive are proposed:
  - Delegating powers under the SEZ Act to IFSCA and adopting a single window approach for registration and approvals from IFSCA
  - Permitting acquisition financing by IFSC banking units of foreign banks
  - Recognition of offshore derivative instruments as valid contracts in IFSC

# Sector Highlights

## Infrastructure

- The 2023 Budget lays down a blueprint for a prosperous and inclusive India @ 100 which recognizes the Infrastructure sector as a key contributor to achieving the vision of sustainable growth in Amrit Kaal.
- The Budget provides INR 10 lakh crore (€ 120,000 million) allocation for development of the infrastructure sector and eventually creation of more jobs.
- Capital expenditure of INR 2.40 lakh crore (€ 28,000 million) allocated to Railways.
- 100 critical transport infrastructure projects with capital expenditure of INR 75,000 crores (€ 8800 million) identified for last and first mile connectivity.
- 50 additional airports, heliports, water aerodromes and advance landing grounds to be revived for improving regional air connectivity
- Following policy announcement have been proposed to support Green Growth:
  - Viability Gap Funding for Battery Energy Storage Systems with capacity of 4,000MWH.
  - Investment of INR 20,700 crores (€ 2500 million) to construct inter-state transmission system for renewable energy
  - Green Credit Program to be notified under the Environment (Protection) Act to incentivize environmentally sustainable and responsive actions.

# Sector Highlights

## Infrastructure

- Urban Infrastructure Development Fund to be established through use of priority sector lending shortfall for creating urban infrastructure in Tier 2 and Tier 3 cities.
- Coastal shipping to be promoted as the energy efficient and lower cost mode of transport, both for passengers and freight, through Public Private Partnership ('PPP') mode with viability gap funding.
- Repayment of debt being in the nature of income in the hands of the unit holder will be taxable effective Assessment Year 2024-25. It has been proposed to grant relief to taxpayers (such as Sovereign Wealth Funds and Pension Funds) from withholding of taxes subject to them obtaining a NIL withholding certificate.
- Customs duty exemption restricted up to 31 March 2024 on: Pneumatic tyres for MRO operations; specified goods for aircrafts, vessels; Cruise ships, fishing vessels, tugs & pusher crafts, barges;
- Customs duty exemption restricted up to 31 March 2025 on import of dredgers and raw materials/ parts used in manufacture of vessels/ ships.
- Solar power plant & projects excluded from Customs Project Imports Scheme.
- Place of supply for transportation of goods outside India (export freight) to be changed from destination of goods to the location of

the GST recipient.

# Sector Highlights

## Start Ups

- Eligibility criteria for entitlement to start-up specific tax benefits extended by one year to include start-ups incorporated up till 31 March 2024
- Period for which eligible start-ups are protected from lapse of carried forward losses under section 79 extended from seven years to 10 years from the incorporation date
- “Angel tax” provisions extended to share capital received from non-resident investors
- “Cost of acquisition” with respect to self-generated intangible assets treated as “Nil”; “cost of improvement” for intangible assets deemed to be "Nil“
- Net winnings from online gaming subject to withholding tax at 30% without any de-minimis threshold
- Capital gains tax exemption on investment in residential houses available to individuals, is now subject to a cap of INR10 crore
- TCS on remittances made under the Liberalized Remittance Scheme (other than education and medical treatment) increased from 5% to 20%
- Agriculture Accelerator Fund to be set up to encourage agri-start ups

# Sector Highlights

## Media & Entertainment

- Specific provision to tax winnings from online games introduced
- TDS at the rate of 30% in case of winnings from online games to now apply on 'net winnings' which will trigger at the end of financial year or upon withdrawal during the year, whichever is earlier. No minimum threshold prescribed
- Calculation of 'net winnings' to be prescribed. Provision effective from 1 July 2023 onwards
- Removal of income tax exemption for news agency w.e.f. AY 2024-25



# Octagona India

## Introduction

Octagona India Private Limited (OIPL), a subsidiary of Octagona S.r.L., has been operating in the domain of strategic and operational management consulting since 2002.

OIPL has its corporate headquarters in New Delhi and branch offices in Pune & Bangalore with external partners in most major cities in India.

The company's core competency lies in providing its clients with customized international development and subsidiary operations management solutions that are based on the key pillars of: transparency, confidentiality, consistency, integrity and duty of care.

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