

An Overview of Direct Tax Proposals



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Interim Budget

In view of the Lok Sabha elections earlier during the year, Hon'ble FM had presented Interim Budget on February 01, 2024. Now the full-fledged budget has been presented by Hon'ble FM on July 23, 2024.

DISCLAIMER

This analysis lists some of the direct tax and other proposals made by the Honourable Finance Minister in the Lok Sabha on July 23, 2024. While care has been taken in the preparation of this document it might contain errors for which we should not be held responsible. The information as given in this document provides summarised direct tax proposals and thus should not be relied upon for the purposes of decision making and expert advice should be sought.



Personal Income Tax

- No change is proposed in the basic exemption limit (for tax payers opting for old regime) which will remain as under:

Category	Exemption Limit
Senior Citizen above age of 80 years	Rs. 5,00,000
Senior Citizen (in age group of 60-80 Years)	Rs. 3,00,000
General	Rs. 2,50,000

- No change is proposed in the rate of income tax for individual and HUF (tax payers opting for old regime) which will remain as under:

Income range	Rate of Tax
Up to respective exemption limit	NIL
Amount in excess of respective exemption limit up to Rs 5,00,000	5%
Rs 5,00,001 - Rs 10,00,000	20%
Above Rs 10,00,000	30%

- Changes in income slabs is proposed for individuals and HUF under Section 115BAC (New Tax Regime), which will be as under:

Tax Rate (%)	Proposed Income Range	Existing Income Range
NIL	0-3 Lakhs	0-3 Lakhs
5%	3-7 Lakhs	3-6 Lakhs
10%	7-10 Lakhs	6-9 Lakhs
15%	10-12 Lakhs	9-12 Lakhs
20%	12-15 Lakhs	12-15 Lakhs
30%	Above 15 Lakhs	Above 15 Lakhs

Due to change in slab, there will be maximum saving up to Rs 10,000.

- Standard deduction** under Section 16(ia) is proposed to be increased to Rs. 75,000 from existing limit of Rs. 50,000 which will be **available under new tax Regime only** in case of Salaried employees.



Personal Income Tax

- No change is proposed in the rate of surcharge for individual and HUF which will remain as under:

In case of income including dividend or income under section 115AD

Income Range	Rate of Surcharge (under both Regimes)
Rs 50,00,001 - Rs 1,00,00,000	10%
Above Rs 1,00,00,000	15%

In case of income excluding dividend or income under section 115AD

Income Range	Rate of Surcharge	
	Old Regime	New Regime
Rs 2,00,00,001 - Rs 5,00,00,000	25%	25%
Above Rs 5,00,00,000	37%	25%

- No change is proposed in Health & Education Cess which will be levied @ 4%.
- Tax under new tax regime (Section 115BAC) will remain as default option. Accordingly, those who want to continue to opt for Old Tax Regime will have to opt for such option.
- For non government employees under new tax regime, the deduction under Section 80CCD is proposed to be increased up to 14% of the employee's salary in place of existing 10%.

Firms etc.

Firms

- No change is proposed in the tax rate for firms which will remain @ 30%. The surcharge also remains unchanged @ 12% in case the income exceeding Rs one crore.

Co-operative Societies

- No change is proposed in the tax rate of co-operative societies including those co-operative societies exercising option under Section 115BAD. No change is proposed in Alternate Minimum Tax and surcharge on co-operative societies.



Corporate Tax

- No change is proposed in the tax rate for domestic companies. In case of foreign companies, the rate is proposed to be reduced from 40% to 35%. The proposed rate of tax is as under:

Category	Rate of Tax
Domestic Company exercising option under Section 115BAA	22%
Domestic Company exercising option under Section 115BAB	15%
Domestic company, not exercising abovementioned options and having total turnover or gross receipt up to Rs 400 crores during previous year 2022-23	25%
Other Domestic Companies	30%
Foreign Companies	35%

- The surcharge is proposed to remain at the same level, as under:

In the case of domestic company whose income is chargeable to tax under Section 115BAA OR 115BAB, the rate of surcharge shall remain same at 10%. In other cases, it will remain same, as under:

Category	Total income between Rs 1 crore to Rs 10 crores	Total income exceeding Rs 10 crores
Domestic	7%	12%
Foreign	2%	5%

- No change is proposed in Health & Education Cess which will be levied @ 4%.
- No change is proposed in the tax rate under MAT.



CAPITAL GAINS

- ✚ It is proposed that there will only be two holding periods, 12 months and 24 months, for determining whether the capital asset is short-term capital asset or long-term capital asset. **It is further proposed that all listed securities (including units of listed business trust) shall be treated as short term capital asset if it is held for less than 12 months and long-term capital asset if the holding period is more than 12 months. In case of capital assets other than listed securities, it shall be treated as short term capital asset if it is held for less than 24 months and long-term capital asset if the holding period is more than 24 months.** Due to proposed amendment, the holding period for listed bonds, debentures, gold will be reduced from 36 months to 24 months for the purpose of long-term capital gain. For unlisted shares and immovable property, there will be no change and it shall remain at 24 months for the purpose of long-term capital gains.
- ✚ The rate for short-term capital gain (STCG) under provisions of section 111A on STT paid equity shares, units of equity oriented mutual fund and unit of a business trust is proposed **to be increased to 20% from the present rate of 15%.** As per the memorandum explaining the provisions of the Finance Bill, the present rate of STCG is too low and the benefit from such low rate is flowing largely to high net worth individuals. (In our view, if that be the case then some benefit should have been given to small investors up to some threshold limit of STCG).
- ✚ No changes are proposed in the rates of other STCG, which shall continue to be taxed at existing applicable rate.
- ✚ Rate of taxes for the purpose of long-term capital gain is proposed to be 12.5% for all categories of long- term capital assets as against various rates for different types of assets, as detailed below:

Category of asset	Existing Rate of tax	Proposed rate of tax
STT paid listed equity shares, units of equity-oriented fund and business trust under section 112A	10%	12.5%
Bonds and Debentures	20% without indexation	12.5% without indexation
Other Assets under Section 112	20% with indexation	12.5% without indexation

- ✚ Exemption from long-term capital gains on STT paid equity shares, units of equity-oriented fund and business trust under section 112A is proposed to be increased from Rs. 1 lakh to Rs. 1.25 lakh in aggregate.



CAPITAL GAINS

- Unlisted bonds and debentures are proposed to be brought under Section 50AA and accordingly, capital gain arising on transfer of such bonds shall be treated as STCG and shall be taxed at normal applicable rate of tax.
- Indexation benefit available under second proviso to section 48 is proposed to be removed for calculation of any long-term capital gains which is presently available for property, gold and other unlisted assets.** In our view, this will **adversely affect transfer of old property etc**, which is explained below by way of an example. Suppose a property purchased in 1990 is sold during 2024-25 as detailed below

Particulars	Sold before 23-07-2024	Sold after 23-07-2024
Sale consideration	50,00,000	50,00,000
Fair value of property as on 01.04.2001	12,00,000	12,00,000
Indexed cost / cost for capital gains	43,56,000	12,00,000
Long-term capital Gain	6,44,000	38,00,000
Tax thereon (20% / 12.5%)	1,28,800	4,75,000

The comparison reveals a significant rise in capital gains following the removal of indexation benefits, leading to a higher tax liability despite lowering of proposed rate to 12.5%.

- Special rate of tax on capital gains under section 115AD, 115AB, 115AC, 115ACA and 115E are proposed to be amended to 12.5% in case of long-term capital gains and 20% in case of short term capital gains.
- All these proposals relating to capital gains are proposed to be given effect immediately i.e. with effect from 23-07-2024. Thus, any transfer taking place before 23-07-2024 shall be taxed at existing rates whereas any transfer taking place on or after 23-07-2024 shall be taxed at proposed rates. Since the rates are revised in between a financial year, the calculation of capital gains will be complicated with multiple rates applicable before and after 23-07-2024.**
- Presently, any transfer of a capital asset under a gift or will or an irrevocable trust is not considered as transfer for the purposes of chargeability under 'Capital Gains' under section 45. It is now proposed to restrict the same to an individual or a Hindu undivided family. Thus, any transfer of a capital asset by an individual or a Hindu undivided family, under a gift or will or an irrevocable trust shall not be regarded as transfer for the purpose of capital gain. (Applicability from 01.04.2025)



- It is proposed to reduce the rate of TDS in case of undernoted sections with effect from the date as detailed in the table below:

Section	Existing TDS Rate	Proposed TDS Rate	Effective Date
Section 194D - Payment of insurance commission (in case of person other than company)	5%	2%	01.04.2025
Section 194DA - Payment in respect of life insurance policy	5%	2%	01.10.2024
Section 194G – Commission etc on sale of lottery tickets	5%	2%	01.10.2024
Section 194H - Payment of commission or brokerage	5%	2%	01.10.2024
Section 194-IB - Payment of rent by certain individuals or HUF	5%	2%	01.10.2024
Section 194M - Payment of certain sums by certain individuals or Hindu undivided family	5%	2%	01.10.2024
Section 194-O - Payment of certain sums by e-commerce operator to e-commerce participant 1% 0.1% 1.10.2024	1%	0.1%	01.10.2024
Section 194F relating to payments on account of repurchase of units by Mutual Fund or Unit Trust of India	20%	Proposed to be omitted	01.10.2024

- Presently while deducting tax at source on Salary under Section 192, any other income and TDS thereon is required to be taken into account if declared by the assessee. It is proposed that TCS shall also be considered while deducting tax at source under Section 192. (Effective Date – 01.10.2024).
- It is proposed that on Fees for professional or technical services, remuneration etc to a director, royalty etc on which tax is deductible under Section 194J, shall not be treated as “work” for the purpose of deduction of tax under Section 194C. Accordingly, on such sum tax will only be deducted under Section 194J. (Effective Date – 01.10.2024).
- It is proposed to introduce TDS on payments to partners of a firm under Section 194T. It is proposed that a firm shall deduct tax at source on payment in the nature of salary, remuneration, commission, bonus or interest to partner of the firm at the time of payment or credit, whichever is earlier, at the rate of 10% provided the aggregate sum paid or credited exceeds Rs 20,000 during the financial year. (effective date 01.04.2025)**



TAX DEDUCTED /COLLECTED AT SOURCE

- ✚ For deduction of tax at source under Section 194-IA on payment for transfer of certain immovable property, presently it is interpreted that the consideration being paid or credited refers to each individual buyer's payment rather than the total consideration paid for the immovable property if there are more than one transferee. Based on that tax is deducted by individual transferee on his share of consideration. It is proposed that where there is more than one transferor or transferee in respect of any immovable property, then the consideration for the purpose of TDS shall be aggregate of amounts paid or payable by all the transferees to the transferor(s) for transfer of such immovable property. (Effective Date – 01.10.2024)
- ✚ Under Section 197 relating to certificate for deduction of tax at lower rate, Section 194Q (TDS on purchase of goods) is proposed to be included with effect from 01.10.2024.
- ✚ Presently under Section 200, a person deducting tax at source can file correction statement for rectification of any mistake etc. It is proposed to provide a time limit for filing correction statement which shall be 6 years from the end of financial year in which the statement was required to be filed. Similar time limit is proposed to be provided in case of TCS under Section 206C. (effective date 01.04.2025)
- ✚ Presently sale of motor vehicle for value exceeding Rs 10 lacs attract TCS @ 1%. **It is proposed to include sale of any other goods as may be notified by the Central Government for value exceeding Rs 10 lacs under Section 206C(1F) besides motor vehicle for the purpose of TCS. (effective date 01.01.2025).**
- ✚ Presently, for delay in payment of TDS, interest is payable @ 1.5% for every month or part thereof. Whereas in case of delay in payment of TCS, interest is payable @ 1% for every month or part thereof. In order to align uniformity, **it is proposed to increase the rate of interest on delayed payment of TCS from 1% to 1.5% for every month or part thereof. (effective date 01.04.2025)**
- ✚ It is proposed to allow inclusion of TCS pertaining to minor child in the hands of the parent with whom the income of minor is clubbed. (Effective date 01.01.2025)



PROFIT OR GAINS FROM BUSINESS / PROFESSION

- ✚ It is proposed that any income arising from letting out of a residential house or part thereof by the owner shall not be chargeable under “Profits and gains from business or profession” and shall be chargeable under the head “Income from house property”.
- ✚ Presently, any sum paid by the assessee as an employer (other than central or state governments) by way of contribution towards a pension scheme, as referred to in section 80CCD, on account of an employee, to the extent it does not exceed 10% of the salary of the employee in the previous year, is allowed as a deduction to the employer. The limit of 10% is proposed to be increased to 14% with effect from 01.04.2025.
- ✚ It is proposed to disallow any expenditure incurred by an assessee to settle proceedings initiated in relation to a contravention under any law for the time being in force, as may be notified by the Central Government in the Official Gazette in this behalf under Section 37. (effective Date 01.04.2025).
- ✚ The limit of allowance of remuneration to the partners under Section 40(b), with effect from 01.04.2025, is proposed to be enhanced as under:

On the first Rs. 6,00,000 of the book-profit or in case of a loss	Rs. 3,00,000 or at the rate of 90 per cent of the book-profit, whichever is more;
On the balance of the book-profit	at the rate of 60 per cent

- ✚ It is proposed to insert a new section 44BBC, providing presumptive taxation for non-resident cruise-ship operator. 20% of the aggregate amount received/ receivable by, or paid/ payable on account of the carriage of passengers, is proposed to be considered as profits and gains of such cruise-ship operator from this business. Accordingly, provisions of section 44B relating to presumptive taxation for shipping business of non-residents, shall therefore, no longer apply to cruise-ship business. Effective date – 01.04.2025



Simplification of Income Tax Act

It is proposed that a comprehensive review of the Income Tax Act will be carried out in six months to make it concise, lucid and easy to understand. In the past also efforts had been made to replace Income Tax Act with Direct Tax Code.

Introduction of Vivad Se Vishwas Scheme, 2024


A new scheme for settlement of pending appeals is proposed to be made applicable from a date to be specified.

Proposals relating to two Regimes of Trusts, Funds & Institutions

Presently trusts or funds or institutions can claim exemption under 2 different regimes. First regime is governed by Section 10(23C) and the second regime is governed under Sections 11 to 13. As both the regimes intend to grant similar benefit, it is proposed that the first regime i.e. Section 10(23C) be sunset and trusts, funds or institutions be transited to the second regime (Sections 11 to 13) in a gradual manner. It is, therefore, proposed that:

- Applications seeking approval or provisional approval under Section 10(23C), and filed on or after 01.10.2024, shall not be considered. Applications filed before 01.10.2024, and which are pending would be processed and considered under the extant provisions of the first regime itself.
- Approved trusts, funds or institutions would continue to get the benefit of exemption, as per the provisions of Section 10(23C), till the validity of the existing approval.
- Upon cessation of the existing approval under Section 10(23C), such trusts, funds or institutions would be eligible to apply for registration only under the second regime.
- Certain eligible modes of investment, under the first regime (viz. those specified in clause (b) of third proviso to clause (23C) of section 10) shall be protected in the second regime, by way of necessary amendment in section 13.

All these amendments shall be made applicable with effect from 01.10.2024.

-  In case a trust or institution is unable to apply within time specified, it may become liable to tax on accreted income as per provisions of Chapter XII-EB of the Act. It is proposed that the Principal Commissioner / Commissioner may be empowered to condone the delay in filing application for registration for trusts etc and to treat such application as filed within time, if he considers that there is reasonable cause for such delay.



OTHER PROPOSALS

- ✚ It is proposed that provisions of Section 56(2)(viib) relating to taxation of receipt of consideration in excess of fair value for issue of shares of private companies shall not apply from the Financial year 2024-25.
- ✚ Removal of Angel Tax is proposed for all types of investors
- ✚ Section 139AA is proposed to be amended to provide that every person who has been allotted permanent account number on the basis of Enrolment ID of Aadhaar application form filed prior to the 01-10-2024, shall intimate his Aadhaar number to such authority in such form and manner, as may be prescribed, on or before a date to be notified by the Central Government in the Official Gazette.
- ✚ With effect from 01-10-2024, it is proposed to increase the said rates of securities transaction tax on sale of an option in securities from 0.0625 per cent to 0.1 per cent of the option premium, and on sale of a futures in securities from 0.0125 per cent to 0.02 per cent of the price at which such “futures” are traded.
- ✚ It is proposed to amend section 198, to provide that income tax paid outside India by way of deduction, in respect of which an assessee is allowed a credit against the tax payable under the Act, is for the purpose of computing the income of the assessee, will be deemed to be income received.
- ✚ **Penalty under Section 271 (H) for failure to furnish TDS / TCS statement**
Currently there is no penalty for late filing if TDS/TCS is paid with fees and interest, and statement is filed within 1 year of due date. This rule was causing inconvenience to deductees /collectees due to mismatched TDS/TCS during income tax return processing. Proposed Amendment aims to reduce time limit for filing TDS/TCS statements to 1 month from due date to avoid penalty.(Amendment takes effect from 01.04.2025).
- ✚ **Submission of statement by liaison office of non-resident in India**
Currently Non-resident liaison offices in India must submit an annual statement of its activities to the Assessing Officer within 60 days of the financial year-end under section 285. The submission deadline is proposed to be specified in the Rules instead of the Act.
The amendment proposes to insert a new section 271GC for imposing penalty of ₹1,000/day up to 3 months and a flat penalty of ₹1,00,000 for delay beyond 3 Months, Penalty can be waived if the assessee proves "reasonable cause" for the delay.(Amendment takes effect from 01.04.2025).



OTHER PROPOSALS

- ✚ **Time** limit for imposing penalty under Section 275 is 6 months from end of month when appeal order is received by Principal Chief Commissioner/Chief Commissioner/Principal Commissioner /Commissioner. Reference to specific offices was causing ambiguity in calculating time limit for imposing penalties

Hence reference to Principal Chief Commissioner/Chief Commissioner offices is proposed to be omitted (Amendment takes effect from 01.10.2024).

- ✚ For Chapter XIV-B of the Income-tax Act, a new Chapter namely “SPECIAL PROCEDURE FOR ASSESSMENT OF SEARCH CASES” shall be substituted with effect from 01-09-2024. This chapter contains Section 158B (Definition), Section 158BA (Assessment of total income as a result of search), Section 158BB (Computation of Total Income of Block Period), Section 158BC (Procedure for Block Assessment), Section 158BD (Undisclosed income of any other person), Section 158BE (Time limit for completing of block assessment), Section 158BF (Certain interest or penalty not to be levied), Section 158BFA (Levy of interest or penalty in certain cases), Section 158BG (authority competent to make block assessment), Section 158BH (Application of other provisions of the Act), Section 158BI (Chapter not to apply in certain circumstances)

BUY BACK OF SHARES

- ✚ In respect of buy back of shares by a domestic company, **it is proposed that, the sum paid by such company for purchase of its own shares shall be treated as dividend in the hands of shareholders and shall be charged to income-tax at applicable rates.** No deduction for expenses shall be available against such dividend income while determining the income from other sources. It is further proposed that the value of consideration received by the shareholders under Section 46A shall be deemed to be nil. **The cost of acquisition of such bought back shares will be treated as capital loss and the shareholder would be entitled to set off against any other capital gain from sale of shares or otherwise subsequently.**

- ✚ **Accordingly, exemption under Section 10(34A) is proposed to be withdrawn from 01.10.2024.**

- ✚ These amendments will take effect from the 1st day of October, 2024, and will accordingly apply to any buy-back of shares that takes place on or after this date.



Section	Proposed Clause to be amended with effect from 1st day of September, 2024.	Existing Clause
149 - time limit for issuing notice	(1) No notice under section 148 shall be issued for the relevant assessment year	
	a) if three years and three months have elapsed from the end of the relevant assessment year, unless the case falls under clause (b)	a) if three years have elapsed from the end of the relevant assessment year, unless the case falls under clause (b)
	b) if three years and three months , but not more than five years and three months , have elapsed from the end of the relevant assessment year, amounts to or is likely to amount to fifty lakh rupees or more.	b) if three years, but not more than ten years, have elapsed from the end of the relevant assessment year, amounts to or is likely to amount to fifty lakh rupees or more.
	(2) No notice to show cause under section 148A shall be issued for the relevant assessment year	
	(a) if three years have elapsed from the end of the relevant assessment year, unless the case falls under clause (b);	(a) if three years have elapsed from the end of the relevant assessment year, unless the case falls under clause (b);
	(b) if three years, but not more than five years , have elapsed from the end of the relevant assessment year unless the income chargeable to tax which has escaped assessment, as per the information with the Assessing Officer, amounts to or is likely to amount to fifty lakh rupees or more.	b) if three years, but not more than ten years, have elapsed from the end of the relevant assessment year, amounts to or is likely to amount to fifty lakh rupees or more.
151 - sanction for issue of notice	Specified authority for the purposes of section 148 and section 148A shall be	
	Additional Commissioner or the Additional Director or the Joint Commissioner or the Joint Director, as the case may be.	i) Principal Commissioner or Principal Director or Commissioner or Director, if three years or less than three years have elapsed from the end of the relevant assessment year;
		ii) Principal Chief Commissioner or Principal Director General or where there is no Principal Chief Commissioner or Principal Director General, Chief Commissioner or Director General, if more than three years have elapsed from the end of the relevant assessment year.



It is proposed that in section 152, after sub-section (2), the following sub-sections shall be inserted with effect from the 1st day of September, 2024, namely:–

(3) Where a search has been initiated under section 132 or requisition is made under section 132A, or a survey is conducted under section 133A [other than under sub-section (2A) of the said section], on or after the 1st day of April, 2021 but before the 1st day of September, 2024, the provisions of sections 147 to 151 shall apply as they stood immediately before the commencement of the Finance (No. 2) Act, 2024.

(4) Where a notice under section 148 has been issued or an order under clause (d) of section 148A has been passed, prior to the 1st day of September, 2024, the assessment, reassessment or re-computation in such case shall be governed as per the provisions of sections 147 to 151, as they stood immediately before the commencement of the Finance (No. 2) Act, 2024.

Proposed changes In section 153 of the Income-tax Act, with effect from the 1st day of October, 2024–

(I) after sub-section (1A), the following sub-section shall be inserted, namely:–

(1B) Notwithstanding anything in sub-section (1), where a return is furnished in consequence of an order under clause (b) of sub-section (2) of section 119, an order of assessment under section 143 or section 144 may be made at any time before the expiry of twelve months from the end of the financial year in which such return was furnished.

(II) in Exp.1, after the fifth proviso, the following proviso shall be inserted, namely:–
Provided also that where after exclusion of the period referred to in clause (xii), the period of limitation for making an order of assessment, reassessment or re-computation, as the case may be, ends before the end of the month, such period shall be extended to the end of such month.

https://www.indiabudget.gov.in/doc/Finance_Bill.pdf

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