

Budget

2020

2021

2022

2023

2024



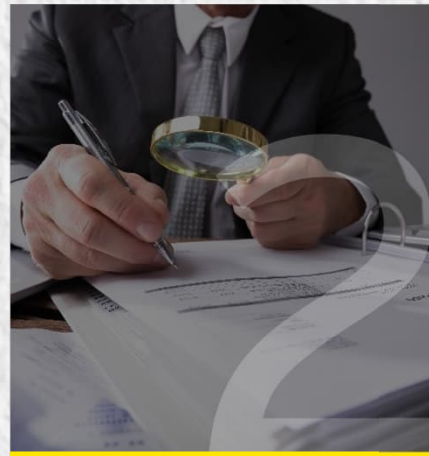
#EYonBudget2023



Contents



Pre-budget
survey



Economic Survey



Key direct tax
proposals



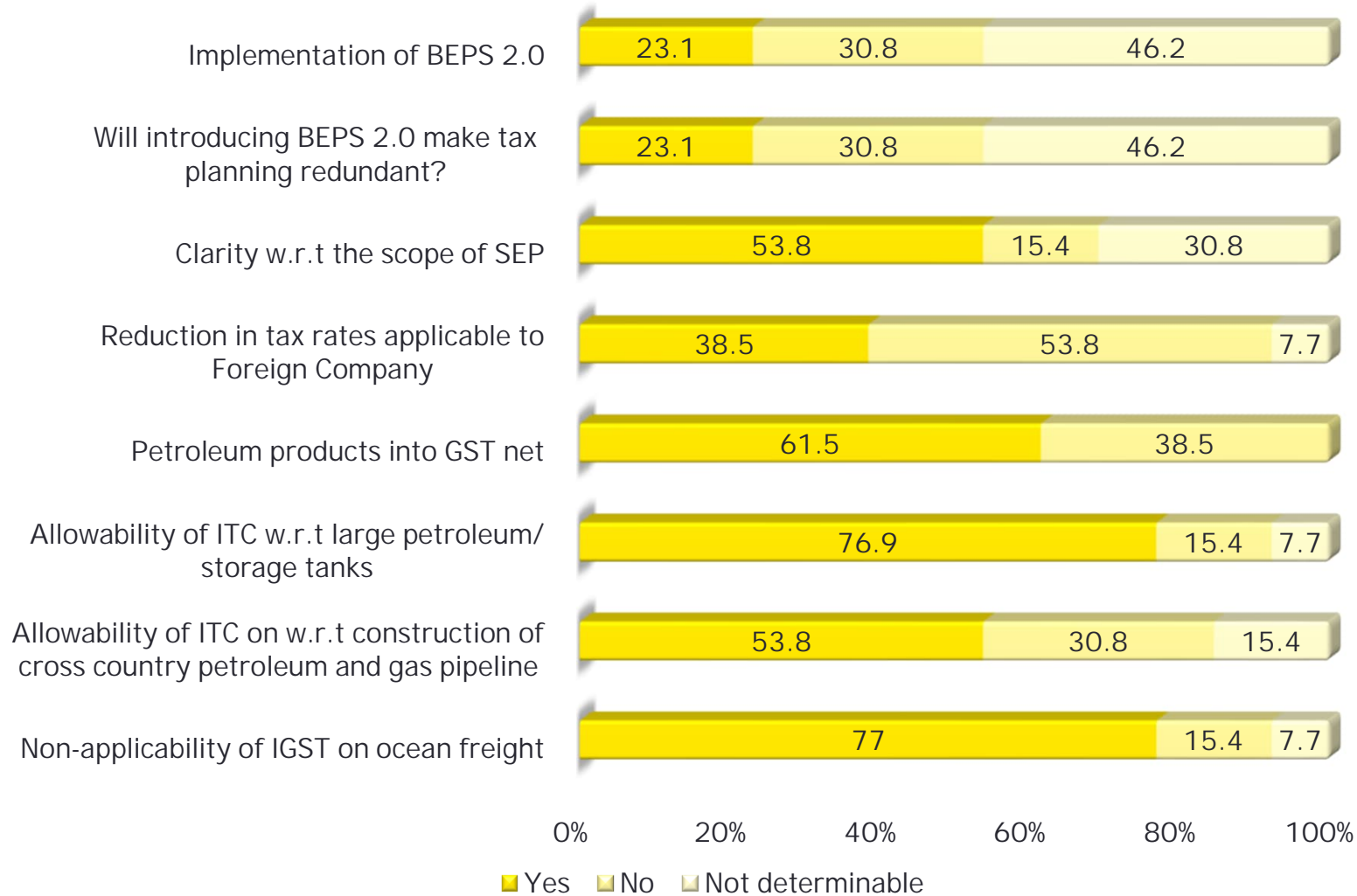
Key indirect tax
proposals



1

Pre-budget survey

Analysis of Pre Budget survey 2023



Other Budget expectations

- ▶ Incentives and tax exemptions exemptions on setting up of Green Hydrogen plants/ Electrolyser Plants and heavy feedstock
- ▶ Exemption u/s 10(48) for income received in India in INR from residents of Venezuela, Russia etc
- ▶ Non inclusion of petroleum products especially Natural Gas in GST ambit [while excise duty on CNG blended with GST paid biogas/CBG exempted]
- ▶ Windfall tax and export taxes on crude/ petroleum products



2

Economic Survey

Economic Survey 2023

Recovery complete; private consumption and capital expenditure fuelled 7% growth in FY23. Brisk growth in FY24 backed by capital investments, improved balance sheets and reforms

GDP growth

- ▶ Baseline real growth projected at 6.5% for FY24
- ▶ Agriculture sector to grow at 3.5% in FY23 (3% in FY22)
- ▶ Industry sector to grow at 4.1% in FY23 (10.3% in FY22)
- ▶ Services sector to grow at 9.1% in FY23 (8.4% in FY22)

On track fiscal management

- ▶ Gross tax revenue (Apr to Dec FY23) grew y-o-y at 12.5%
- ▶ Union GST collections (Apr-Dec FY23) increased at 19.8% YoY
- ▶ Government likely to achieve the budgeted fiscal deficit of 6.4% in FY23

Strong capex push

- ▶ Capex for Apr to Dec FY23 stood at INR 4.9 tn (25.1% growth)
- ▶ >1000 NIP projects worth INR 5.5 tn completed
- ▶ >89,000 NIP projects worth INR 141 tn being implemented
- ▶ Strategy of crowding-in private investment

External sector

- ▶ Negative contribution of net exports to real growth at -2.8% points in FY23
- ▶ During Apr - Sep FY23, total FDI equity inflows contracted by 14% to USD 26.9 bn
- ▶ Forex reserves stood at USD 563 bn (as of Dec 2022), making India the sixth largest forex reserves holder

Monetary management and financial intermediation

- ▶ RBI raised repo rate by 225 bp between May and December FY23
- ▶ Credit growth to MSME sector has been remarkably high (>30.5% during Jan - Nov FY23)
- ▶ Gross NPAs ratio of SCBs at a seven-year low of 5.0

PLI success + Services' strength

- ▶ INR 475 bn PLI investment in FY22 - 106% of the target
- ▶ Sales worth INR 3.9 tn and employment generation of 0.3 million recorded
- ▶ Strong uptick in the contact-intensive services sector reflects a strong growth opportunity in the next fiscal

Future growth drivers

- ▶ Synergy between physical and digital infrastructure
- ▶ Climate action: Need to focus on means of implementation - including finance, technology transfer and capacity-building support

Growth magnets for 2023-30

Stable and healthy financial system, digitalisation reforms and diversification of global supply chains.

Policy announcements

Infrastructure investment

- Capital investment outlay increase by 33% to INR 10L Cr. (3.3% of GDP)
- 100 critical transport infrastructure projects allocated INR 75,000 Cr. (INR 15,000 Cr. from private sources)

Ease of Doing Business

- Common business identifier – PAN to be used in all digital systems by specified government agencies
- Unified filing process on common portal for submission of same information to different government agencies
- KYC process to be simplified based on risk-based system and not 'one-size-fits-all'

Promotion of green growth

- INR 35,000 Cr for priority capital investments towards energy transition and net zero objectives
- National Green Hydrogen Mission – INR 19,700 Cr. to reduce fossil fuel imports
- 500 new waste-to-wealth (biogas) plants at an investment of INR 10,000 crore to be established
- 5% Compressed Bio Gas (CBG) mandate to be introduced for all organizations marketing natural and biogas

3

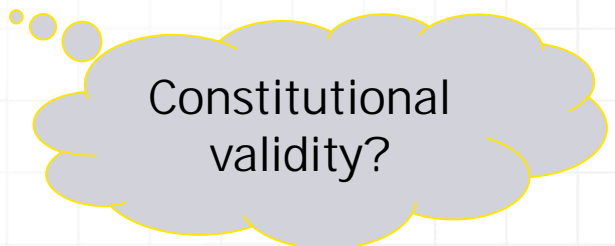
Key direct tax proposals

Curb on set off of unabsorbed depreciation and brought forward loss

Tax on presumptive basis for non-resident oil field service providers

- ▶ Non-resident oil field service providers have an option to offer income to tax on presumptive basis or offer income/claim losses under normal provisions
- ▶ Now, set-off of unabsorbed depreciation and brought forward losses will not be allowed where such taxpayers opt for presumptive regime
- ▶ Example:

Sr No	Particulars	Year 1 Net basis	Year 2 Gross basis	Year 3 Net basis
(a)	Gross revenue	1,000	1,000	1,000
(b)	Profit as per books	(400)	300	500
(c)	Taxable income	NIL	100	500
(d)	Loss to be carried forward	400	400	-
(e)	Brought forward loss available for set off	-	NIL	(400)
(f)	Net taxable income	NIL	100	100



Constitutional validity?

Tax Incentive for start-ups and MSMEs

- ▶ Tax Incentive for start-ups
 - ▶ Sunset date for incorporating start-ups extended from 31 March 2023 to 31 March 2024 to claim tax holiday
 - ▶ Period of carry forward and set-off of losses on change of shareholding of eligible start-ups increased from 7 to 10 years from the date of incorporation. This amendment is effective from 1 April 2023
- ▶ Tax Incentive for MSMEs
 - ▶ MSMEs can further take benefit of the revamped credit guarantee scheme which will enable additional collateral-free guarantee of INR 2 lakh crore and cost of credit will be reduced by about 1%
 - ▶ Deduction for payments to MSME made after time limit prescribed under section 15 of MSMED Act shall be allowed only on payment basis under section 43B
 - ▶ Under presumptive taxation for eligible business (section 44AD and section 44ADA), threshold of 2 crore for micro enterprises and 50 lakhs for professionals is proposed to be increased to 3 crore and 75 lakhs respectively, to the tax payers whose cash receipts are no more than 5 per cent
 - ▶ Vivad se Vishwas I scheme proposes relief for MSMEs by returning 95% of the forfeited amount relating to bid or performance security in cases of failure by MSMEs to execute contracts during the Covid period

Other proposals

- ▶ Section 28(iv) and section 194R
 - ▶ Benefits or perquisites arising from business or exercise of profession in cash or in kind or partly in cash and partly in kind will be taxable. This amendment is applicable from 1 April 2023
 - ▶ It has also been clarified that TDS on benefits or perquisites arising from business or exercise of profession shall apply to benefit or perquisite whether in cash or in kind or partly in cash and partly in kind
 - ▶ Penalty and prosecution provisions amended to include default under section 194R
- ▶ Cost of acquisition of intangibles assets/ rights
 - ▶ Currently, for computing capital gains, there is ambiguity on the cost of acquisition to be considered where no amount is paid for acquisition of intangible assets/ rights (other than certain specified intangible assets)
 - ▶ Now, cost of acquisition and improvement of capital assets, being any intangible asset (other than those specified), shall be considered as nil
- ▶ Facilitating TDS credit for income reported in the past
 - ▶ Difficulty arises in claiming credit for tax deducted subsequent to the year in which income is offered to tax
 - ▶ Taxpayers can now apply for a rectification within two years from end of financial year in which tax is deducted
 - ▶ Interest on refund arising from the rectification will be allowed from the date of the application to the date of grant of the refund



4

Indirect tax proposals

GST proposals

- ▶ Input Tax Credit denied in relation to Corporate Social Responsibility expenses
- ▶ Supply of warehoused goods prior to clearance for home consumption, to be included in exempt supply for Input Tax Credit reversal
- ▶ Time limit prescribed for filing returns beyond due date – maximum three years from due date
- ▶ Decriminalization under GST
 - ▶ Threshold for prosecution raised from INR 1 to 2 crores, except for issuance of invoices without supply
 - ▶ Prosecution provisions not to be initiated for (i) Obstruction or preventing any officer in discharge of his duties (ii) Tampering of material evidence (iii) Failure to supply information or furnishing incorrect information
- ▶ Change in place of supply for goods transportation services between Indian parties
 - ▶ Destination of goods outside India, no longer relevant

GST proposals

- ▶ Retroactive amendment introduced – not a supply from July 2017
 - ▶ Supply of goods from a location outside India to another location outside India and high-sea sales
 - ▶ Supply of warehoused goods before clearance for home consumption
 - ▶ No refund of tax, if already deposited
- ▶ Goods and Services Tax Network portal authorized to share consent-based information to other notified systems

Customs and Central Excise

- ▶ Customs duty
 - ▶ Rationalisation of Basic Customs Duty rate structure with exemption from levy of Social Welfare Surcharge and Agriculture Infrastructure and Development Cess on specified goods to maintain total effective import duty.
 - ▶ Basic Customs Duty on coal is increased from 1% to 2.5% but being exempted from AIDC* (effective 2 February 2023)
 - ▶ Basic Customs Duty on naphtha increased from 1% to 2.5% (effective 2 February 2023)
 - ▶ Custom duty is exempted on denatured ethyl alcohol which will facilitate Ethanol Blending Programme (effective 2 February 2023)
- ▶ Central Excise
 - ▶ In order to avoid cascading of taxes on CNG (with a view to promote green fuel), exemption given from central excise duty on blended CNG equivalent to GST paid on biogas /compressed biogas contained in such blended CNG. (effective 2nd Feb 2023)

*Agriculture Infrastructure & Development Cess



Questions

?

Ernst & Young LLP

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EYG member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP is one of the Indian client serving member firms of EYGM Limited. For more information about our organization, please visit www.ey.com/en_in.

Ernst & Young LLP is a Limited Liability Partnership, registered under the Limited Liability Partnership Act, 2008 in India, having its registered office at 22 Camac Street, 3rd Floor, Block C, Kolkata - 700016

© 2023 Ernst & Young LLP. Published in India.
All Rights Reserved.

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.



Building a better
working world

ey.com/en_in

[@EY_India](https://twitter.com/EY_India) [in](https://www.linkedin.com/company/ey) EY [YouTube](https://www.youtube.com/channel/UCv31111111111111111111) EY India [f](https://www.facebook.com/EYCareersIndia) EY Careers India [@ey_indiacareers](https://www.instagram.com/ey_indiacareers)