

KEY AMENDMENTS OF BUDGET 2024

SECTOR: BANKING,
FINANCIAL SERVICES
AND INSURANCE





POLICY ANNOUNCEMENTS

- **Introduction of New Settlement Scheme**

To provide relief to the taxpayers, it is proposed to introduce a new scheme - the 'Vivad se Vishwas Scheme, 2024' for the settlement of pending appeals. The proposed date from which the scheme will be notified is yet to be specified.
- **Simplification of FDI and ODI Rules**

To facilitate foreign investments and promote the Indian currency, the Government contemplates to simplify the rules and regulations for Foreign Direct Investments (FDIs) and Overseas Direct Investments (ODIs).
- **Introduction of New Mechanism for Bank Credit to MSMEs**

The Government announces a new mechanism for facilitating the continuation of bank credit to Micro, Small and Medium Enterprises (MSMEs) during their stress period. While being in the 'Special Mention Account' (SMA) stage for reasons beyond their control, MSMEs need credit to continue their business and to avoid getting into the non-performing assets (NPA) stage. Credit availability will be supported through a guarantee from a government-promoted fund.
- **Government's Proposal to Set Up VCC for Space Economy**

It is proposed to set up a VCC structure of INR 10,000mn to boost the Indian space economy by five times in the next 10 years.
- **Next Generation Reforms**

The Government has made an announcement for Next Generation Reforms such as building a sectorial database for improving data governance and management; Jan Vishwas Bill 2.0 to improve the ease of doing business; and other technological build-ups to accelerate digitalisation of the economy.



TAX PROPOSALS

Highlighted below are some of the key tax proposals, relevant for the BFSI sector:

DIRECT TAX

- **Rationalisation of tax on capital gains**

It is proposed to rationalise capital gains by aligning the period of holding and the tax rates for various classes of assets. The period of holding has been standardised as long-term assets, short-term assets and deemed short-term assets, depending on the nature of the asset and period of holding. Similarly, the tax rates have been standardised at 12.5% and 20%. We have tabulated below the tax rates and periods of holding for financial instruments.





Particulars	Period of holding [Short-term / Long-term]		Tax Rates			
	Existing	Proposed	Existing - STCG	Proposed - STCG	Existing - LTCG	Proposed - LTCG
Listed Equity Shares / Units of Equity-oriented Mutual Funds*	Less than or equal to 12 Months / more than 12 months	No Change	15%	20%	10%	12.50%
Unlisted Shares	Less than or equal to 24 Months / more than 24 months	No Change	Applicable rates	Applicable rates	10%/20%**	12.50%
Listed Bonds / debentures	Less than or equal to 12 Months / more than 12 months	No Change	Applicable rates	20%	10%	12.50%
Unlisted Bonds / debentures	Less than or equal to 36 months / more than 36 months	Deemed Short Term***	Applicable rates	Applicable rates	20%	Applicable rates
REITs/InvITs (Listed)	Less than or equal to 36 months / more than 36 months	Less than or equal to 12 months / more than 12 months	15%	20%	10%	12.5%

*The exemption available under section 112A of the IT Act is proposed to increase to INR 0.125mn from its existing limit of INR 0.1mn.

**10% without indexation and 20% with indexation.

***Unlisted debentures/ bonds are proposed to be brought under the purview of section 50AA of the IT Act, and accordingly deemed to be short-term capital assets.

Further, benefit of indexation as provided for computation of any long-term capital gain has been removed.

The above tabulated proposals are proposed to be given effect immediately, i.e., with effect from the 23 July 2024.

Revision of STT

With the increase in derivative (future and option) trading on the Indian capital market, the Finance (No. 2) Bill, 2024 has proposed to increase the Securities Transaction Tax (STT) applicable on futures and options. However, the applicable rates on certain transactions remain unchanged. The details of proposed as well as present rates are tabulated below.

Particulars	Existing rates	Proposed rates
Purchase and Sale of Equity shares	0.1% of value of Purchase / sale	No Change
Sale of options	0.0625% of the option premium	0.1% of the option premium
Sale of Option, where Option is exercised	0.125% of the intrinsic value*	No change
Sale of Futures	0.0125% of the price at which such futures are traded	0.02% of the price at which such futures are traded

*Intrinsic price is the difference between the settlement price and the strike price.





- **Mandatory Categorisation of Unlisted Bonds and Debentures as Short-term Capital Assets**
 Until now, only Market Linked Debentures and Units of Specified Mutual Funds acquired on or after 1 April 2023 were categorised as ‘short-term capital asset’ irrespective of the holding period; however with effect from 23 July 2024, the Finance Bill has proposed to include unlisted bonds and debentures in the list of mandatory categorisation as ‘short-term capital asset’, which implies that unlisted bonds and debentures will now be categorised as ‘short-term capital asset’ irrespective of its holding period and taxable at the rates applicable to the taxpayer.
- **Amendment in the Definition of ‘Specified Mutual Fund’**
 It is proposed to amend the definition of “Specified Mutual Fund” under section 50AA of the Act, to provide clarity regarding the proportion of investment being made in terms of debt and money market instruments, and investment requirements in case of a Fund of Fund (FOF).
 A Specified Mutual Fund shall mean:

 - a Mutual Fund by whatever name called, which invests more than 65% of its total proceeds in debt and money market instruments; or
 - a fund which invests 65% or more of its total proceeds in units of a fund referred to in sub-clause (a).
 The proposed amendment will be effective from 1 April 2026 and shall be applicable from AY 2026-27 onwards
- **Abolishment of EL of 2% Applied by Finance Act, 2016**
 The imposition of Equalisation Levy (EL) by the Finance Act, 2016 amended by Finance Act, 2020 of 2% on the consideration received or receivable by an e-commerce operator from the supply of goods or services is being withdrawn, and thus, the same will not be applicable from 1 August 2024.
- **Abolishment of Angel Tax**
 Angel Tax as imposed by the Finance Act, 2012 is proposed to be abolished, and thus, the same will not be applicable from 1 April 2024.
- **Tax on Buy-Back of Shares**
 It is proposed to tax the sum paid by a domestic company for the purchase of its shares as dividends in the hands of shareholders and shall be charged to tax under the head as ‘income from other sources’ at applicable rates. Further, no expenses can be claimed against the said dividends. However, it has been proposed to grant relief to the extent of the cost of acquisition of such shares bought back at the time of the subsequent sale of balance shares held by the shareholder. Since the income is proposed to be taxed as dividend, a corresponding amendment has been made in section 194 of the IT Act whereby the said income will be subject to the withholding of tax at source @ 10%. This amendment will be effective from 1 October 2024.
- **Reduction in Tax Rates for Foreign Corporates**
 It is proposed that the tax rate applicable to foreign companies, foreign banks, foreign reinsurance branches, etc. will be reduced from 40% to 35% (excluding applicable surcharge and cess).
- **Reduction of Withholding Tax Rates**
 It is proposed to reduce the rates of withholding taxes in respect of the following payments.

 - **Section 194D of the IT Act**
 The Finance Bill proposes to reduce the withholding tax rate under section 194D of the IT Act from 5% to 2% in case of payments made in respect of insurance commission (in case of a person other than a company) with effect from 1 April 2025.
 - **Section 194DA of the IT Act**
 The Finance Bill proposes to reduce the withholding tax rate under section 194DA of the IT Act from 5% to 2% in case of payments made in respect of life insurance policy with effect from 1 October 2024.
 - **Section 194F of the IT Act**
 It is proposed to withdraw withholding tax (20%) provisions applicable under section 194F of the Act on payments relating to the repurchase of units of Mutual Fund or UTI with effect from 1 October 2024.
 - **Section 194O of the IT Act**
 The Finance Bill proposes to reduce the withholding tax rate under section 194O of the IT Act from 1% to 0.1% in case of payments made in respect of certain sums by the e-commerce operator to the e-commerce participant with effect from 1 October 2024.





- **No allowability of Non-business Expenditure by Life Insurance Companies**

It is proposed to provide that any expenditure which is not admissible under the provisions of section 37 of the IT Act in computing the profits and gains of a business shall be included to the profits and gains of the life insurance business.

- **Enhancement of New Pension Scheme Deduction to Non-government Employer**

The Finance Bill proposes to increase the amount of deduction allowed to an employer in respect of his contribution to a pension scheme referred to in section 80CCD of the IT Act, from 10% to 14% of the salary of the employee. Further, a non-government employee in the new tax regime shall be allowed a deduction of an amount not exceeding 14% of their salary instead of 10%.

- **Taxation on Income Earned by the Alternative Investment Fund**

Largely, the taxation of the Alternative Investment Funds (AIFs) remains the same. However, changes in the capital gains tax rates would have a large impact on the non-discretionary AIFs, which offer income for tax other than business income due to changes in the tax rate on capital gain. Further, Category I and Category II AIFs would continue to hold the pass-through status. Category III AIFs would be taxed at the fund level as per the rates specified in the Finance Bill 2024.

- **Expansion of the Ambit of Specified Fund for Claiming Exemption under Section 10(4D)**

Specified Funds shall now include funds established or incorporated in India in the form of trust or a company or a limited liability partnership or a body corporate, which have been granted a certificate as a retail scheme or an Exchange Traded Fund and are regulated under the International Financial Service Centre Authority (Fund Management) Regulations, 2022 made under the International Financial Services Centre Authority (IFSCA) Act, 2019 and satisfy conditions as prescribed.

- **Enhancement of the Scope of Definition of 10(23EE):**

Specified Income of Core Settlement Guarantee fund set up by recognised clearing corporations in the International Financial Services Centre (IFSC) to be exempted by amending the definition of “recognised clearing corporations” and “regulations” under section 10(23EE) of the IT Act. Recognised clearing corporations shall include recognised clearing corporations as defined in clause (n) of sub-regulation (1) of regulation 2 of the IFSCA (Market Infrastructure Institutions) Regulations, 2021 made under the International Financial Services Centres Authority (IFSCA) Act, 2019.

- **Enhancement of the Scope of Definition of 10(23FB):**

The exemption under section 10(23FB) of the IT Act is proposed to be extended to the venture capital funds regulated under the International Financial Services Centres Authority (Fund Management) Regulations, 2022 made under the IFSCA Act, 2019.

Accordingly, under section 68 of the IT Act, first proviso in relation to the explanation to be provided of the source of income in the hands of the creditor who has imparted such loans or borrowings shall not to be applicable to venture capital funds which are regulated by the IFSCA.

- **Allowability to Claim the Complete Interest Expense**

It is proposed that the restriction of 30% on the deduction of interest expense exceeding INR 10mn on debt issued by a Non-resident Associated Entity under section 94B of the IT Act will not be applicable to Finance companies located in the IFSC which satisfies the prescribed conditions, thus allowing the complete claim of interest expense in the current year itself. This amendment will take effect from 1 April 2025.

- **Non-applicability of Surcharge on Income of Specified Fund**

It is proposed that surcharge shall not apply on advance tax/ tax computed on income of specified fund that is chargeable under section 115AD of the IT Act.

- **Mechanism for Computation of Cost of Acquisition for the Transfer of Shares Acquired Through OFS Route**

To eradicate the ambiguity for computation of the Fair Market Value (FMV) where the transfer is in respect of the sale of unlisted equity shares under an offer for sale to the public included in an initial public offer, FMV would mean an amount which bears to the cost of acquisition the same proportion as Cost Inflation Index for the financial year 2017-18 bears to the Cost Inflation Index for the first year in which the asset was held by the Taxpayer or for the year beginning on 1 April 2001, whichever is later. The amendment is proposed to be applicable retrospectively from Assessment Year 2018-19 onwards.





INDIRECT TAX

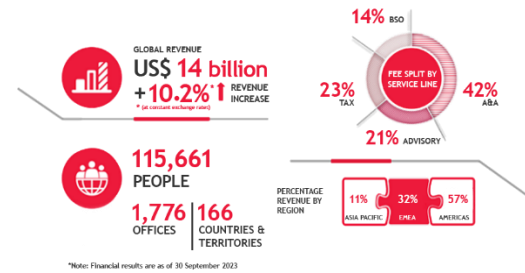
- In line with the recommendation made by the GST Council, schedule III of the CGST Act i.e. Activities or transactions which are to be treated as neither supply of goods nor services, is proposed to be amended to include the following:
 - Co-insurance premium apportioned by the lead insurer to co-insurer in co-insurance agreements wherein the lead insurer pays GST on the entire premium amount;
 - Services by the insurer to the reinsurer for which ceding commission/ re-insurance commission is deducted by the insurer from re-insurance premium where the reinsurer pays GST on the gross reinsurance premium including ceding commission/ reinsurance commission.
- Exemption from GST compensation cess has been proposed on imports in SEZ units/ Developers for authorised operations with retrospective effect from 1 July 2017.
- Time limit for availment of Input Tax Credit (ITC) for FY2017-18 to FY2020-21 has been extended up to 30 November 2021, provided the same is availed in GSTR 3B filed up to 30 November 2021.
- The timeline for issuing Show Cause Notice (SCN) has been unified at 42 months from the due date of filing annual return from FY2024-25 onwards, instead of the present time limit of 33/54 months, depending on whether fraud is involved or not, under new section 74A.
- Provisions relating to the claim of ITC have been amended to allow the ITC where the tax is paid irrespective of whether the liability arose due to fraud, etc. for periods starting from FY2024-25 and onwards.
- Section 128A is inserted in the CGST Act to provide for waiver of interest and penalty for demands for the period 1 July 2017 to 31 March 2020, subject to payment of tax liability by a date to be notified. No refund will be available where interest and penalty have already been paid.
- In cases where the tax is payable under reverse charge by the recipient, to determine the time of supply, date of issue of self-invoice by the recipient is also included in the list of dates, the earlier of which would be the time of supply.





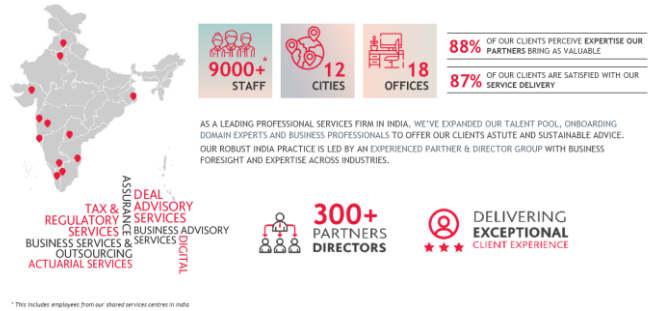
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