Interim Budget 2024–25

Surging ahead

February 2024

Economic outlook

Global economy

As per latest World Economic Outlook released by the International Monetary Fund (IMF), the global economic growth is expected to print slightly better in 2024 at 3.1%, i.e. 0.2 percentage points higher than the previous release. While the IMF report estimates a softer landing in the advanced economies, lagged impacts of the quantitative tightening and inflation remaining above targets in most of the economies will continue to create headwinds for growth. As per the World Bank report, global trade growth in 2023 was among the slowest in the past 50 years, with contraction in merchandise trade and slow recovery in services trade. Global commodity prices weakened in 2023 but remained above pre-pandemic levels.

Indian economy

India remained resilient throughout the 2023 despite the challenging global environment. As per first advance estimate of national income, gross domestic product (GDP) growth is projected to be at 7.3% in financial year (FY)24 on year-over-year (YoY) basis, with 7% growth expected during the second half (H2) of the FY. This strong growth of GDP was mainly propelled by large government expenditure on demand side. There was approximately 31% YoY increase in Central Government capital expenditure (CapEx) and 43% increase in State Government CapEx during April–November 2023.

On the supply side, mining, manufacturing, construction and certain services printed stronger. Mining sector benefitted from policy reforms, increased domestic and global demand and rising prices which led to robust production of several minerals including coal, natural gas and iron ore. The strong growth in manufacturing was driven mainly by easing of global commodity prices across energy, metal and food categories, which boosted profitability of manufacturing firms. Construction sector gained from higher government CapEx and an increase in demand for office spaces and housing, especially in urban areas. Additionally, financial, real estate and professional services are expected to witness robust growth, likely due to buoyant bank credit growth, strong demand for real estate especially in urban areas and growth in professional services, especially global capability centres in India.

However, growth in private consumption is continuing to show weakness with the first advanced estimate pegging it at 4.3%. This has been due to rural stress from uneven rains, inflation and income stress in low to middle income households. High frequency indicators also suggest that consumption demand is not yet broad based and largely driven by urban consumption and high-income households. In addition, private investment also did not pick up strongly during the year and exports remained muted due to global economic slowdown and geopolitical volatility.

Economic outlook

Global economic growth is expected to further decelerate in 2024, mainly due to lagged impact of monetary tightening, fiscal consolidation, reduced savings buffers and waning pent-up demand for services. However, the latest World Economic Outlook released by IMF states that the economy may perform better than what was earlier estimated. The global growth is likely to pick up in 2025 based on declining inflation and more supportive monetary policy in the long run. Global crude oil prices are expected to ease in 2024 based on subdued global growth and improvement in oil supply from non-OPEC+ countries subject to geopolitical risks not escalating. Global trade can gain some strength in 2024 compared to 2023 based on slow recovery of demand for goods especially in advanced economies in the H2 of 2024.

For India, the economic growth in FY25 will continue to be driven by government CapEx and revenue expenditure in the first half. Private investment can pick up in H2 of FY25 if the agricultural output is stronger with fading El Niño, thus leading to broad based consumption revival. The bond markets will get support and cost of borrowing is likely to go down with fiscal deficit target set at 5.1% and gross borrowings in FY25 estimated lower than FY24 will help bond markets with cost of borrowing going down. Private sector can then commence its investment cycle with their deleveraged balance sheets and the support of banks with historically low non-performing assets.

Key Tax & Regulatory Proposals

Income tax

- No changes proposed in the tax rates.
- The sunset date of incorporation of new eligible start-ups to claim tax holiday under section 80-IAC of the Income-tax Act, 1961 to be extended by one year, i.e. from 1 April 2024 to 1 April 2025.
- Sunset period for investing in eligible infrastructure entities by notified Sovereign Wealth Fund and provident funds is proposed to be extended by one year to 31 March 2025. All other conditions remain unchanged.
- The sunset date of incorporation for new manufacturing company and cooperative societies to claim concessional tax rate has not been extended.
- GIFT and International Financial Services Centre (IFSC)
  - The Finance Minister highlighted that GIFT IFSC and the IFSC Authority are creating a robust gateway for global capital and financial services for the economy.
  - The sunset period is proposed to be extended from 31 March 2024 to 31 March 2025 for various businesses to commence their operations in GIFT IFSC:
    - Investment division of an IFSC Banking Unit as a specified fund.
    - Exemption for income on royalty or interest for a non-resident paid by an aircraft or ship leasing unit in IFSC, if such unit commences operations by 31 March 2025.
    - Deduction for income from the transfer of aircraft or ship leased by an IFSC unit if such unit commences operations by 31 March 2025.
  - Exemptions from certain safe harbour conditions applicable to eligible managers in GIFT IFSC where operations commenced prior to 31 March 2024 is not proposed to be extended.

- The tax collected at source provisions on the Liberalised Remittance Scheme and overseas tour packages through Press Information Bureau Press Release dated 28 June 2023 and Circular No. 10 of 2023 dated 30 June 2023 has now been proposed to be enacted.
- Timeline to introduce Faceless Scheme in electronic mode is proposed to be extended till 31 March 2025 (from current deadline of 31 March 2024) due to –
  - Reference to transfer pricing officer for determination of arm's length.
  - Issuance of directions by Dispute Resolution Panel.
  - Filing of appeal by Revenue and Income-tax Appellate Tribunal proceedings.
- Announcement made for waiver of petty, non-verified, non-reconciled or disputed direct tax demands for taxpayers as under.
  - Up to FY 2009–2010, outstanding direct tax demands up to INR25,000 will be withdrawn.
  - For FYs 2010–2011 to 2014–2015, outstanding direct tax demands up to INR10,000 will be withdrawn.

GST

- ISD provisions revamped
  - Definition of ISD (section 2) and substantive provisions (section 20) were amended to make the ISD mechanism mandatory. These amendments have been introduced to give effect to the 52nd GST Council meeting recommendations.
  - Amendments to be effective from a date to be notified post enactment of the Finance Bill, 2024. It may be noted that the press release for the 52nd GST Council meeting mentioned that the amendments would be made applicable prospectively.
  - The new provisions make it clear that common input services liable to reverse charge would also be subject to ISD mechanism.

  - Procedural aspects (manner of calculation and distribution etc.) eliminated from the substantive provision. Rules to be prescribed for the procedures to be followed.
- Penalty for non-compliance by manufacturers covered under special procedures
  - Recommendations were made at the 50th GST Council meeting regarding special procedure to be followed by manufacturers of tobacco, pan masala, etc. for registration of machines, filing special monthly returns and penal provisions for failure to register or comply.
  - While special procedure was earlier notified in January 2024, section 122A has now been proposed to be inserted in the Central Goods and Services Tax Act, 2017 which provides a penalty of INR100,000 for every machine not registered.
- No other substantive tax or rate related changes announced.

Regulatory

- Proposal to establish a corpus of INR1tn to provide long-term interest-free loans to the private sector in sunrise domains with a view to encourage research, innovation and development in technology.
- A new scheme will be launched to strengthen deep-tech defence and related technologies.
- To encourage sustained foreign investment, bilateral investment treaties with foreign countries are being negotiated in line with the spirit of ‘first develop India’.
- Technology platform U-WIN will be rolled out for immunisation efforts under Mission Indradhanush.
- To meet India’s commitment for ‘net zero’ by 2070, the government has proposed that viability gap funding will be provided to boost India’s offshore wind energy sector. This includes phased mandatory blending of compressed biogas (CBG) in compressed natural gas, financial assistance to CBG producers for procurement of biomass aggregation machinery along with implementation of new scheme of bio-manufacturing and bio-foundry.

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Data Classification: DC0 (Public)

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HS/ February 2024 - M&C 34407