Expectations from the Union Budget 2024–25 from a FinTech and payments perspective

July 2024

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Foreword

Dear readers,

It is my pleasure to bring to you the latest edition of our Payments newsletter. In this edition, we present our point of view and expectations from the Union Budget 2024–25 from a FinTech and payments perspective.

I hope you find this newsletter to be insightful and informative.

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01 Introduction

The Union Budget plays a pivotal role in shaping the regulatory and economic environment for various sectors. In the Indian context, the Union Budget serves as a comprehensive policy document that not only addresses fiscal management but also shapes the regulatory and economic landscape for FinTech and payments.

Considering the significant contribution of the policies and incentives declared in the Union Budget, this newsletter focuses on our expectations from the Union Budget 2024–25.

This year's Union Budget should primarily focus on the four key areas highlighted below:

Focus areas			
Access to markets/ ease of doing business	Access to capital	Technology enablement	Talent and capability development

Some of the expected interventions in each of these areas have been discussed in detail in the next section.

The expectations for the Union Budget 2024–25 are primarily focused on:

I. Access to markets/ease of doing business

The first area where the Union Budget might announce policies is in the realm of providing access to markets/ease of doing business. Within this area, some of the key expectations are:

a) Incentivising setting up of FinTech hubs: The Government should incentivise setting up of central FinTech hubs by providing land at subsidised rates, lower taxes and favourable policies (e.g. instant licencing, seamless compliance reporting) to promote the FinTech sector.

b) Regulatory regime for financial services platform: The Government should bring the digital financial services platforms under regulatory ambit in order to regulate them. These platforms offer strong frontend platforms with superior user interface (UI)/ user experience (UX) and provide multiple financial services products choice to the customers. NBFCs too are launching their financial services apps which consolidates and provides multiple group company products which can be brought into the regulatory ambit. This is expected to open business avenues to non-bank entities and streamline their business offerings.

c) Tax collection at source (TCS) rationalisation for overseas remittances: Currently, standard TCS rates are levied for overseas remittance which is at 20% for all remittances (except for education and health – which are taxed at 5% for transactions over INR 7 lakhs).[1] This standard rate impacts both small businesses and individuals. Therefore, potential rationalisation of the TCS rates for overseas remittance is expected through a tiered structure with lower rates for smaller transactions and higher rates for larger transfers. This is aimed to help address the concerns about the standard rates especially for small business and individuals.

d) Tax treatment for trading crypto-assets: The Government may evaluate permitting setting off of losses for crypto-trading similar to treatment of futures and options.

1. https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1936105

II. Access to capital

The second focal area where the people are expecting announcements in the Union Budget is around access to capital. Some of the key areas within this are highlighted below:

a) Credit guarantee schemes: The current corpus of the credit guarantee scheme is INR 5 lakh crores, whereas the credit gap of MSMEs is estimated to be approximately INR 33 lakh crores.[2] A further expansion of the scheme, by possibly increasing the corpus, can help make credit more accessible and affordable for MSMEs.

b) Interchange pricing for UPI transactions: The Government should bring back interchange pricing for UPI transactions only for P2M for high ticket transactions (above INR 2,000) and only for larger merchants with annual revenues of INR 25 lakhs and above. This will assist players like banks and FinTechs/BigTechs to make some money and invest more in product development and technology upgrade to ensure better performance and experience for the various stakeholders.

c) Incentivising lending to FinTechs: Government should incentivise lending to the FinTechs and their customers akin to the priority sector lending by way of lower interest rates and higher fund flows. This incentive can be provided after checking the credit assessment, collection mechanisms, business models and target customers of the FinTech. Additionally, the Government can put limits to cap such disbursements.

d) National Financial Information Registry (NFIR): NFIR may be integrated with real-time FS and non-FS data sources, including open banking APIs, allowing secure access of bank account information, utility and bill payments allowing tracking for user's financial discipline. Anonymised data from e-commerce platforms can also be used to showcase spending habits and repayment behaviour on online purchases. This can help in enhancing credit assessment for customers.

e) Angel tax revisions: Currently, in India, the angel tax rate is 30.9%.[3] This tax rate is applied to part of the investment that exceeds the fair market value of the start-up's share. A potential re-evaluation of the angel tax on foreign investments in FinTechs could involve raising the investment threshold above which the tax applies. This would encourage smaller investments and stimulate early-stage FinTech growth. The revision could also include exemptions or tax credits for investment into specific sub-sectors like payments or lending which may be deemed important for national growth.

f) Extension of section 54F to start-up investment: Currently section 54F provides for tax exemptions on capital gains reinvested in residential properties. Extension of the same benefits to include investments into start-ups could help impel sectoral growth.

2. https://msme.gov.in/sites/default/files/MSMEANNUALREPORT2022-23ENGLISH.pdf

3. https://www.startupindia.gov.in/content/sih/en/startupgov/startup_recognition_page.html

III. Technology enhancement

The third area where the Union Budget is expected to announce reforms and policies is technology enhancement. Some of the key areas within this are highlighted below:

a) Digital public infrastructure (DPI) expansion: DPI can support AgriTech startups in secure sharing of data on weather patterns, soil health and crop yields, to help facilitate data-driven decisioning.

b) Expanding 'Bhashini': Bhashini is the Government initiative launched to bridge the digital divide in India by providing language translation services to 22 Indian languages. The Government can promote the use of Bhashini for providing user interfaces and content in vernacular languages can empower non-English speakers to access Government services, online education, e-commerce platforms and other digital resources. This can also help MSMEs to expand their reach and customer base.

IV. Talent and capability development

Last but not the least, the Union Budget is expected to promote talent and capability development. The Government may consider expanding the Skill India Digital Platform to include more specialised financial services courses and training programmes integrated into school and college curriculums to enhance the employability of graduates and increase the talent pool available to FinTechs.

03 Conclusion

As the FinTech and payments sectors continue to evolve, the role of the Union Budget in nurturing a conducive environment for the sector remains critical for driving economic growth and digital financial inclusion. The Government has been taking several initiatives continually to promote digital payments and the FinTech sector in the country and the Union Budget 2024–25 is expected to further accelerate the adoption of digital payments and encourage growth in terms of innovations in the FinTech sector in the country.

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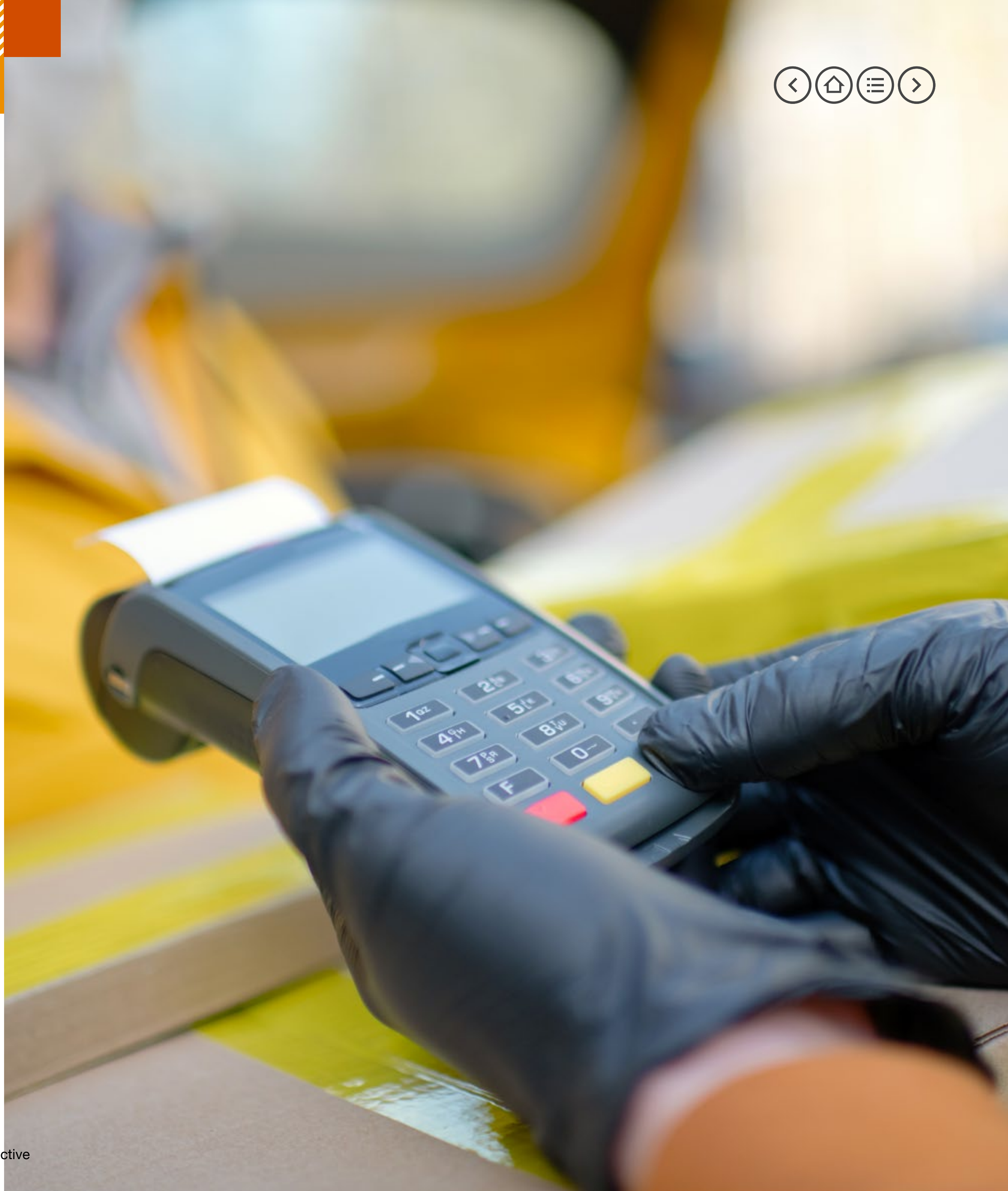

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