Union Budget 2024-25: Key Tax Reforms and Relief Measures

Reforms Include Revised Income Tax Slabs and Improved Capital Gains Tax Structure

(Ministry of Finance)

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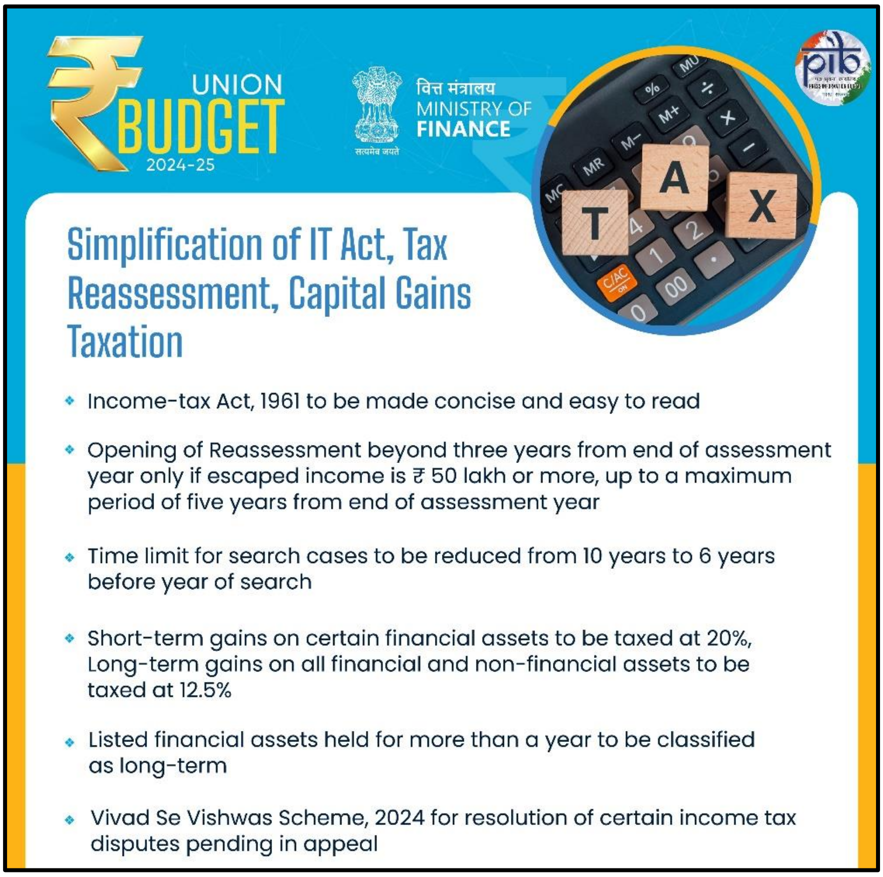
Introduction

While presenting the Union Budget 2024-2025 in Parliament today, the Union Minister for Finance & Corporate Affairs, Smt. Nirmala Sitharaman emphasized the Budget's focus on the nine identified priorities that expedite the journey towards the goal of Viksit Bharat.

Highlighting the government's consistent endeavour to simplify taxation, improve taxpayer services, and reduce litigation, the Finance Minister noted that taxpayers have well-received these efforts.



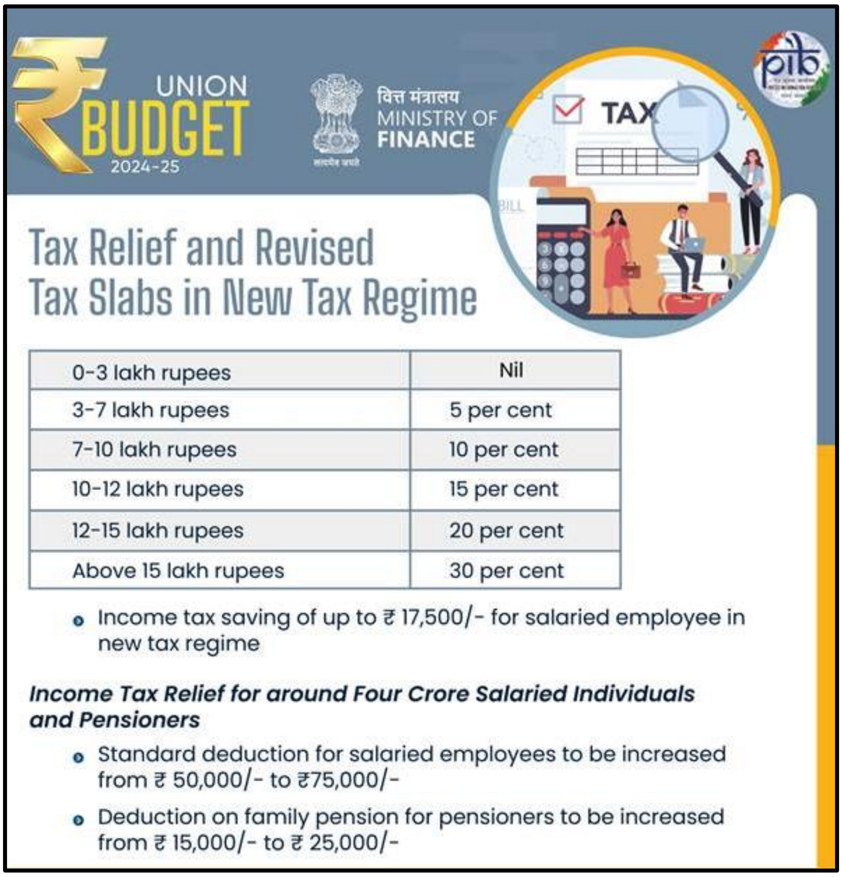
Smt. Sitharaman pointed out that 58 percent of corporate tax in FY 2022-23 came from the simplified tax regime, and more than two-thirds of taxpayers opted for the new personal income tax regime in the last fiscal year, as per the available data.

In her budget presentation, the Finance Minister also announced several attractive benefits aimed at providing tax relief to salaried individuals and pensioners who choose the new tax regime. Underscoring the government's commitment to a simplified and efficient tax system, a slew of provisions and amendments have been introduced in the Union Budget 2024-2025.

Personal Income Tax

The Union Budget 2024-25 introduces several pivotal changes aimed at enhancing the financial landscape of India. Among the key highlights are the revised tax slabs, increased deductions and exemptions for salaried employees and pensioners, and the abolition of the angel tax, each designed to foster economic growth, simplify the tax system, and support innovation.

New Tax Slab



The new tax regime rate structure has been revised to provide salaried employees with significant benefits, offering up to ₹ 17,500/- in income tax savings. This revision aims to make the tax system more favorable for middle-income earners, thus encouraging higher compliance and easing the financial burden on taxpayers.

This revised structure not only aims to simplify the tax regime but also to offer considerable relief to salaried individuals and pensioners, enhancing their disposable income and contributing to the overall economic well-being of the country.

In another measure to reduce tax uncertainty and disputes, a thorough simplification of reassessment has been proposed. Assessments can now be reopened beyond three years, up to five years from the end of the year of assessment, only if the escaped income is more than ₹50 lakh or more, up to a maximum period of five years from the end of the assessment year. The Finance Minister announced that in search cases, a time limit of six years before the year of search, as against the existing time limit of ten years.

Deductions and Exemptions

The Budget for 2024-25 introduces several changes to the income tax regime to benefit salaried employees and pensioners. The standard deduction for salaried employees is increased from ₹50,000 to ₹75,000 for those opting for the new tax regime. Similarly, the deduction on family pension for pensioners was enhanced from ₹15,000 to ₹25,000.

Income (in Rs)	10,00,000		15,00,000		20,00,000		25,00,000	
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Existing	Proposed
Standard Deduction	50,000	75,000	50,000	75,000	50,000	75,000	50,000	75,000
Taxable Income	9,50,000	9,25,000	14,50,000	14,25,000	19,50,000	19,25,000	24,50,000	24,25,000
Tax	54,600	44,200	1,45,600	1,30,000	2,96,400	2,78,200	4,52,400	4,34,200
Benefit/ Savings	**10,400**		**15,600**		**18,200**		**18,200**	

Abolition of Angel Tax

The Income Tax Act of 1961's Section 56(2) (viib) discusses the concept of angel tax. According to the Finance Act, 2012, in the IT Act, every startup (i.e., unlisted companies whose shares are not available for buying on the stock market) that receives funding from an angel investor must pay certain angel tax to the government.

The Union Minister for Finance and Corporate Affairs, Smt. Nirmala Sitharaman, proposed to abolish the ‘angel tax’ for all classes of investors while presenting the Union Budget 2024-25 in Parliament. She added that this move is aimed at bolstering the Indian start-up ecosystem, boosting the entrepreneurial spirit, and supporting innovation.

By removing this tax, the government aims to reduce the financial burden on startups, allowing them to focus more on growth and development. This abolition is expected to attract more domestic and international investments, thereby fostering a more vibrant and dynamic startup landscape in India. The initiative underscores the government's commitment to nurturing the startup ecosystem and encouraging innovation-driven enterprises.

Taxation of Capital Gains

The Union Budget 2024-25 brings significant changes to the taxation of capital gains, aimed at simplifying the tax structure and providing relief to taxpayers. The budget introduces new tax rates for both short-term and long-term capital gains, impacting a wide range of financial and non-financial assets. These revisions reflect the government's commitment to making the tax system more equitable and less burdensome for taxpayers, particularly benefiting the lower and middle-income classes.

Short Term Capital Gains

Short-term capital gains on specified financial assets shall be taxed at a rate of 20% instead of the previous rate of 15%. All other financial assets and non-financial assets will continue to be taxed at their applicable tax rates, maintaining consistency in the broader tax framework.

Long-Term Capital Gains

Long-term gains on all financial and non-financial assets will attract a tax rate of 12.5%. To benefit the lower and middle-income classes, increasing the limit of exemption of capital gains on certain financial assets from ₹1 lakh to ₹1.25 lakh per year has been proposed. This increased exemption limit will apply for FY 2024-25 and subsequent years.

The rate for other long-term capital gains on all assets has been rationalized to 12.5% without indexation (Section 112). Previously, this rate was 20% with indexation. This change aims to simplify the taxation of capital gains and facilitate their easy computation.

Impact of Change in LTCG Rate and Removal of Indexation

A. Test period = 10 years

B. Cost of Acquisition = Rs 100 (say)

C. CII for FY 2024-25 = 363; CII for FY 2014-15 = 240

D. Indexation factor = 363/240 = 1.51

E. Indexed cost of acquisition = 100 x 1.51 = 151

	Sale Consideration	Capital Gains with Indexation of CoA (Old)	Taxation (Old @ 20%)	Capital Gains without Indexation of CoA (New)	Taxation (New @ 12.5%)	Tax Difference (New - Old)	Tax Difference as % of Tax (Old savings as %)
Case 1	400	249	49.8	300	37.5	**(-) 12.3**	**+24.7 %**
Case 2	300	149	29.8	200	25	**(-) 4.8**	**+16.1 %**
Case 3	200	49	9.8	100	12.5	**(+) 2.7**	**(-)27.6 %**

The reduction in the rate will benefit all categories of assets, substantially benefiting taxpayers in most cases. However, where the gain is limited relative to inflation, the benefit may be limited or absent in a few cases. Nonetheless, the new structure is expected to make the taxation process more straightforward and less burdensome for taxpayers.

Simplification for Charities and of TDS

The Finance Bill introduces several measures to streamline the TDS landscape and provide relief to taxpayers. Notably, the two distinct tax exemption regimes for charities are proposed to be consolidated into a single framework.

To further simplify the TDS process, the 5% TDS rate applicable to various payments is being reduced to 2%. Additionally, the 20% TDS on repurchase of mutual fund or UTI units has been eliminated. The TDS rate levied on e-commerce operators has also been significantly reduced from 1% to 0.1%.

In a move to enhance taxpayer convenience, the government has proposed allowing a credit of Tax Collected at Source (TCS) against the TDS deducted on salaries. Furthermore, to alleviate compliance burdens, the delay in TDS payment up to the due date of filing the TDS statement is proposed to be decriminalized.

Litigation and Appeals

The government has reiterated its commitment to minimizing litigation and appeals. To this end, the Budget introduces the Vivad se Vishwas Scheme, 2024, as a mechanism to resolve pending income tax disputes. Additionally, the monetary thresholds for filing appeals related to direct taxes, excise, and service tax have been increased to ₹60 lakh, ₹2 crore, and ₹5 crore respectively for Tax Tribunals, High Courts, and the Supreme Court.

To reduce litigation in international taxation and enhance certainty, the government proposes to expand the scope of safe harbour rules and streamline the transfer pricing assessment process.

Conclusion

The Union Budget 2024-25 marks a significant step towards a more streamlined and taxpayer-friendly tax system in India. The revised income tax slabs, enhanced deductions, and the abolition of angel tax represent a concerted effort to provide relief to individuals and support the startup ecosystem. Changes to capital gains taxation are set to simplify calculations and offer substantial benefits to a wide range of asset holders. Additionally, the new measures for TDS and litigation reflect a commitment to reducing compliance burdens and fostering a more efficient tax administration. Collectively, these reforms aim to bolster economic growth, encourage investment, and ensure a more equitable tax environment for all taxpayers.

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