Budget 2024 expectations: Can taxpayers expect any reprieve in tax rates, business friendly tax climate?

With the union government all set to present the interim Budget for the fiscal year 2024-25 on February 1, 2024, tax payers are expecting announcements like concessional corporate tax rate for new manufacturing companies, incentivising exports through the tax holiday regime, promoting R&D through weighted deductions, among other things.

India's current direct tax policy is constantly evolving, driven by the government's efforts to reform existing systems and processes, with a focus on improving efficiency and transparency. Significant measures, such as reduction in corporate tax rates, introduction of concessional tax regimes, and elimination of the minimum alternate tax regime, have been undertaken to attract investment and foster a favourable business friendly tax climate. While policymakers continue to focus on harmonising tax rates, incentives to attract investment, the tax policy landscape remains complex and challenging due to the impact of various judicial decisions and legislative amendments. The current tax environment in India presents significant opportunities for a more taxpayer friendly and investment-attractive system.

With the union government all set to present the interim Budget for the fiscal year 2024-25 on February 1, 2024, tax payers are expecting announcements like concessional corporate tax rate for new manufacturing companies, incentivising exports through the tax holiday regime, promoting R&D through weighted deductions, among other things.

However, this Budget will have no major announcements with the 2024 Lok Sabha elections scheduled for this year. The full budget for the fiscal year 2024-25 will be presented after the formation of the new government following the general elections.

Here are key policy recommendations

The first recommendation is facilitating corporate restructuring through enhanced tax provisions. Companies, per a Deloitte report, encounter complexities during corporate restructuring such as migration of tax credits, losses, benefits, and registrations due to the absence of a comprehensive mechanism/procedure/guideline under the income tax provisions in relation to corporate restructuring. In order to enhance the corporate restructuring and to minimise litigation faced by taxpayers during restructuring, comprehensive guidelines may be established covering various administrative aspects in relation to corporate restructuring, while also avoiding revenue leakage, it said. These guidelines, Deloitte said, may be benchmarked against international best practices in corporate restructuring, ensuring alignment with global standards and promoting India as a favourable destination for corporate restructuring activities

The government, said the Deloitte report, should also reduce tax litigation through policy framework. In the past, various government initiatives, including amnesty schemes and higher threshold limits for filing appeals, effectively reduced case pendency at tax tribunals, high courts, and the Supreme Court. However, it said that even as a number of schemes and policies were introduced to reduce the bottleneck and clear small disputes, there has been less impact on the majority of the pending appeals. Rohinton Sidhwa, Partner, Deloitte India, said, "The tax administration may introduce timelines for appeals' disposal at the first appellate authority stage, akin to timelines established for the dispute resolution panel in managing objections filed by taxpayers." He further added, "To expedite the litigation process and provide certainty, the tax administration may establish a comprehensive policy framework for appeals at higher fora

(Tribunal, High Court, and Supreme Court). This framework should include designated authorities responsible for timely filing and diligent prosecution of appeals."

Further, the government needs to also address uncertainties on buyback taxation and provide clarity to foreign investors. Buyback has been a commonly adopted exit/repatriation strategy for foreign investors. However, the taxation of cross-border buyback taxation has been a contentious issue in India. Also, given the current emphasis on attracting foreign investment, bringing clarity to the taxation of buybacks, is crucial. This would help "alleviate uncertainties, minimise unnecessary litigation, and provide investors transparency on treatment of repatriation". "The government may consider implementing specific regulations to address the taxation of different buyback scenarios. Taking cues from jurisdictions such as the US and the Netherlands (which have clear guidelines on the treatment of buybacks and applicability of dividend tax in such situations) would provide much-needed clarity for investors," said Rohinton Sidhwa.

Another recommendation by Deloitte is rationalising litigation relating to charitable trusts. Despite their complete income tax exemption, charitable trusts often generate incidental income from activities aligned with their charitable purposes. This has been a subject of past litigation, from registration procedures to fund application. The tax policy administration, Deloitte report stated, may consider introducing a concessional tax approach for charitable trusts as an alternative to full tax exemption. "This new regime should aim to simplify compliance requirements for charitable trusts, reducing the administrative burden associated with tax filings and documentation. This streamlining can enhance revenue collection without incurring litigation costs. The guidelines may also cover specific aspects for income treatment, accommodating both accrual and receipt bases," said Rohinton Sidhwa.

(Source: Financial Express)