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# A domino peer at India's Interim Budget 2024: Lynchpins, headwinds and prospects for the future

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Buoyed by a transcendental approach to propel India towards "all-round, all-pervasive, and all-inclusive development"[1], India's Finance Minister, Ms Sitharaman heralded the interim budget, reinvigorating the twin-peaks of *good governance* and *maximum results*. The outlook of the government is ubiquitous, with 2024 being an election year as India readies itself to go to the polls. The vigour of the government to extend a principle-and-promise-driven budget to its populace is a harbinger for considerations post the mandate.

Geopolitically, India's size, the demographic dividend expected from its young population, and an enormous desire to catch up in terms of industrialisation and export-led growth point in its favour for diplomatic ascendancy. With a share of 10.9 per cent, the EU is India's third-largest trading partner, (as of 2022) and could benefit enormously from the country's economic growth. The EU's share (in FDI inflows) more than doubled from 8% to 18% in the last decade making the EU India's largest FDI partner. Similarly, bilateral trade relationship between India and the United States has experienced a remarkable expansion trade having risen by 72 per cent between 2017-18 and 2022-23.[2] During 2022-23, the US stood on the top with regards to exports. India has gone from strength to strength in envisaging, and solidifying its status as a prominent market player, and effectively, the catalyst for aspirations of the Global South.

**PRE-BUDGET RUMINATIONS**

The cynosure of an interim budget was the level of change the budget would usher for an investor-friendly regime. Having set up an ambitious target of GDP $5 trillion by the year 2025, potential to reach to $7 trillion by 2030 and 25 trillion by 2047 (century of Independence) remains high. To that end, the expectations around a revamp of the tax system and the need to revisit the idea of a Direct Tax Code gained momentum amongst various fiscal returns. Further, the tax ecosystem, in the eyes of industry experts and confederates,[3] must be channelised through an increased focus on sustainable development, and green initiatives as part of its transition towards *Amrit Kaal* by 2047.

**SNAPSHOTS FROM THE INTERIM BUDGET**

The Finance Minister made sterling announcements during her speech. For starters, a corpus of rupees one trillion will be established with fifty-year interest free loan. The corpus will provide long-term financing-refinancing with low or nil interest rates to encourage the private sector to scale up research and innovation in sunrise domains. A rechristening of FDI to "First Developed India" was followed by an annual extension to certain tax benefits to start-ups and investments by sovereign wealth or pension funds as also tax exemption on certain income of some IFSC units that are expiring on 31.03.2024. It is a timely validation of GIFT IFSC's burgeoning status as an investor-friendly destination.

The thrust on reforming the extant system of dispute resolution has found vigour. A proposal to withdraw outstanding direct tax demands up to twenty-five thousand rupees (INR 25,000) pertaining to the period up to FY 2009-10 and up to ten-thousand rupees (INR 10,000) for FYs 2010-11 to 2014-15 has been mooted. It is expected to benefit 10 million taxpayers and works in mellifluous unanimity with the need to ease dispute resolution processes for taxpayers, a concerted move to clear the books and rejuvenate the paradigms of off-court dispute resolution mechanisms.

**THE ROAD AHEAD: CRITICAL QUESTIONS AND QUEST FOR CERTAINTY**

The announcements notwithstanding, has certain imperatives to address in Finance Bill 2 of 2024. Stakeholders, MNEs, eagerly await insights crucial elements of BEPS 2.0, such as the introduction of Qualified Domestic Minimum Top-up Tax and Under-taxed Payment Rule. These elements directly impact tax outcomes for MNEs operating in India.

India's expected participation in the Multilateral Instrument (MLI) to implement this rule adds to the anticipation surrounding the full budget expected in July. India is active in OECD's inclusive framework and simultaneously spearheads the initiatives at UN Tax Committee while positioning itself as a key contributor to shaping the international tax landscape. The July budget should provide greater clarity on India's implementation framework for BEPS 2.0.

The realm of transfer pricing merits examination with speedier disposal of bilateral APAs by way of test back mechanism particularly with countries from where India receives high FDI. To enable an efficacious interplay of *Vivaad Se Vishwas* with the MAP guidance, fixed timelines should be prescribed for the closure of APAs for transactions where a significant number of APAs are already concluded.

Currently, both equalization levy and SEP coexist under domestic law leading to potential overlaps. A provision to clarify that if a transaction is subject to equalization levy (at taxpayer's choice), no further Indian tax liability would be imposed. The government should navigate the tethers of relaxing the SEP laws in the forthcoming budget to provide equanimity and balance.

For the IFSC-GIFT City to serve as a dedicated financial sector hub, a specific carve-out from applicability of deemed dividend provisions and withholding tax may be actively considered. Increasing the longevity of the income-tax deduction benefit, exemption from applicability of domestic transfer pricing requirements and GAAR to transactions with IFSC units and incentivising companies/individuals through fiscal incentives will enable movement of skilled personnel to IFSC-GIFT City.

From an international lens, the onset of the Carbon Border Adjustment Mechanism (CBAM) in Europe has sparked conversations for more jurisdictions to follow suit. India, riding high on the success of its recent schemes to bolster green bonds and carbon-negative measures in manufacturing, must initiate discourse around carbon-neutral taxes, adhering to a shared vision in the Paris Agreement.

The amphitheatre of development-induced change rests firmly on the pillar of sustainable taxation, and the quest for tax certainty and increased ease of access to taxpayers should be the top-drawer priority in the next major announcement.

[1] https://www.indiabudget.gov.in/doc/Budget_Speech.pdf

[2] https://www.investindia.gov.in/team-india-blogs/shaping-future-evolving-india-us-bilateral-relations

[3] https://ficci.in/UnionBudget2024-25/ficci_expectation.pdf

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