Key Economic Reforms in the Budget 2024-25

For Prelims: Angel tax, Start-ups, Prevention of Money Laundering Act, Indian Tech Startup Funding Report 2023, Equalisation levy, E-commerce, Non-resident digital companies**, OECD/G20 Inclusive Framework, Union Budget 2024-25, Long-term capital gains, MSMEs, Mudra loans**

For Mains: Capital Market, **Government Budgeting**, Effect of Fiscal policy

Source: IE

Why in News?

In the **Union Budget 2024-25**, there have been several changes related to the **angel tax**, **equalisation levy** on **e-commerce**, application of capital gains and **Securities Transaction Tax (STT)** and several **new initiatives related MSMEs sector.**

What are the Key Changes in the Budget Regarding Industry?

- **Angel Tax:** The government in the Union budget 2024-25 has announced the **abolition of the angel tax.**
    - Angel tax is the tax that must be paid on the funds raised by **unlisted companies** through the issuance of shares in off-market transactions if they **exceed the fair market value** of the company.
    - The angel tax was **introduced in 2012 through the Income Tax Act 1961** with the intent to keep a **check on money laundering practices** through investments in startups.
- **Equalisation Levy:** The government has **decided to withdraw the 2% equalisation levy** on the e-commerce supply of goods and services.
    - However, the **6% equalisation levy under the Finance Act 2016** for specified digital services, such as online advertising, will remain in effect.
    - In **April 2020, India imposed a 2% equalisation levy** on the revenue generated by **non-resident e-commerce operators** from e-commerce supply or services.
        - The equalization levy is aimed at **taxing foreign companies that have a significant local client base in India** but are billing them through their offshore units, effectively escaping the country's tax system.
    - The **levy affected major US digital companies**, leading Washington to propose **retaliatory import tariffs of up to 25%** on several Indian products to offset approximately USD 55 million in taxes.
    - In November 2021, India and the US agreed under the **OECD/G20 Inclusive Framework's two-pillar solution** to address the tax challenges arising from the digitalisation of the economy, leading to the suspension of retaliatory tariffs.
- **Increased Taxation on Capital Gains and Securities Transaction Tax (STT):**
    - The Budget 2024 has revised the rules for determining **long-term capital gains**, **changing the holding periods for various types of capital assets** that qualify for **short-term** or **long-term capital gains.**

- There will **now be only two holding periods: 12 months for the Short-term and 24 months for the long-term** to determine whether capital gains from assets are short-term or long-term.
  - However, the proposed holding period **for all listed assets is 12 months** to **qualify for long-term capital gains**.
  - For all other assets, the holding period will be 24 months to **qualify the gains as long-term capital gains.**
- The **exemption limit for capital gains on listed equity** and equity-oriented mutual funds has been increased to Rs 1.25 lakh per annum from Rs 1 lakh.
- Short-term capital gains from all assets, **except listed equity shares and equity mutual funds**, will be taxed according to the investor's tax slab rates.
  - The **short-term capital gains tax rate for equity shares and equity mutual funds has been increased to 20%**, regardless of the tax slab.

- The **STT on the Future and Option (F&O) of securities has been doubled**. For futures, the STT is increased to 0.02%, and for options, it is increased to 0.1%.
  - **Options and futures are two types of derivatives contracts** that derive their value from market movements for the underlying index, security, or commodity.
  - An **option gives the buyer** the **right**, but not the obligation, to buy (or sell) an asset at a specific price at any time during the life of the contract.
  - A **futures contract obligates the buyer to purchase** a specific asset, and the seller to sell and deliver that asset, at a specific future date.
- **New Assessment Model and Credit Schemes for MSMEs:**
  - **New Credit Assessment Model for MSME**:
    - **Public Sector Banks (PSBs)** are **required to assess MSME credit eligibility** based on **digital footprints** rather than traditional criteria like assets or turnover.
    - It will also **cover MSMEs that do not have a formal accounting system.**
  - **Increase in Mudra Loan Limit**:
    - The **Mudra loan** limit has been raised from Rs 10 lakh to Rs 20 lakh, and entrepreneurs who have successfully repaid previous 'Tarun' category loans are eligible for the increased limit.
  - **Mandatory Onboarding on the TReDS Platform**:
    - The turnover threshold for mandatory onboarding on the **Trade Receivables Discounting System (TReDS)** platform has been **reduced from Rs 500 crore to Rs 250 crore.**
    - This move will bring 22 more Central Public Sector Enterprises (CPSEs) and 7,000 additional companies onto the platform, enhancing liquidity and working capital access for MSMEs.
  - **Expansion of SIDBI Branches**:
    - The **Small Industries Development Bank of India (SIDBI)** will open new branches in major MSME clusters, with **24 branches to be added this year** and a target of covering 168 out of 242 clusters within three years.

Pradhan Mantri Mudra Yojana

- The **PMMY (launched in 2015)** provides **collateral-free institutional loans** up to Rs. 10 lakhs for small business enterprises.
- Funding is provided by Member Lending Institutions (MLIs) i.e. **Scheduled Commercial Banks (SCBs), Regional Rural Banks (RRBs),** Non-Banking Financial Companies (NBFCs) and **Micro Finance Institutions (MFIs).**
- There are **three loan products** under PMMY:
  - Shishu (loans up to Rs. 50,000)
  - Kishore (loans between Rs. 50,000 and Rs. 5 lakh)
  - Tarun (loans between Rs. 5 lakh and Rs. 10 lakh)

Trade Receivables Discounting System (TReDS)

- Trade Receivables Discounting System (TReDS) is the **institutional mechanism for facilitating the financing of trade receivables of MSMEs** from corporate and other buyers, including

Government Departments and Public Sector Undertakings (PSUs), through multiple financiers.

What are the Implications of the Recent Changes?

- **Angel tax:**
  - The scrapping of angel tax would help **bolster the Indian start-up ecosystem**, boost the entrepreneurial spirit, and support innovation.
  - The abolition of the angel tax is expected to attract more foreign investors and provide essential capital for start-ups, **especially amid the significant decline in start-up funding.**
    - According to the **Indian Tech Startup Funding Report 2023** by Inc42, start-up **funding fell by 60% in 2023 to USD 10 billion.**
- **Equalisation levy:**
  - The withdrawal of the 2% levy is **expected to reduce compliance burdens** and **create a mutually conducive environment** for non-resident digital companies operating in other jurisdiction.
  - This move is **likely to ease trade tensions between India and the US**, fostering a more collaborative international trade environment.
  - The decision underscores India's commitment to **aligning with global taxation norms and practices**, facilitating a smoother transition to the OECD/G20's Pillar 1 solution.
    - **Pillar One ensures a fairer distribution of profits** and taxing rights among countries with respect to the largest multinational enterprises(MNEs), including digital companies.
- **Increase in STT:**
  - It could lead to **reduced speculative trading**, thereby cooling down market activity.
    - The increase in STT **aims to curb the exponential rise in volumes in the F&O segment**, which the **Securities and Exchange Board of India (SEBI) and the Reserve Bank of India (RBI)** have flagged as a potential risk to macroeconomic stability.
    - High volumes in derivatives can **pose systemic risks and affect capital formation**, investment, and economic growth.
  - The new tax rates are likely to increase compliance costs for traders and investors while generating additional revenue for the government.
- **MSMEs:**
  - The shift to a **digital footprint-based assessment model will facilitate easier credit access for MSMEs**, especially those without formal accounting systems.
  - The increased Mudra loan limit and the introduction of a collateral-free credit guarantee scheme will enhance financial support for MSMEs, enabling them to upgrade technology, invest in new machinery, and improve competitiveness.
  - Lowering the threshold for mandatory onboarding on the TReDS platform will **improve liquidity for smaller enterprises** by allowing them to convert trade receivables into cash more efficiently.
  - Expanding **SIDBI** branches will ensure that **MSMEs in major clusters have better access to financial services**, facilitating their growth and development.

Conclusion

- The recent economic reforms outlined in the Union Budget 2024-25 are poised to **significantly enhance India's financial landscape**. These measures demonstrate a commitment to **fostering a more dynamic and inclusive economy** by streamlining credit access for MSMEs, aligning tax policies with global standards, and mitigating risks in the financial markets.
- By addressing both domestic and international challenges, these reforms **aim to create a more resilient economic environment** conducive to sustainable growth and innovation.

Read More: Economic Survey, Union Budget 2024-25

Drishti Mains Question:

Discuss the recent economic reforms introduced in the Union Budget 2024-25 and evaluate their potential impact on India's financial landscape.

UPSC Civil Services Examination, Previous Year Question (PYQ)

Prelims:

Q. What is/are the recent policy initiative(s)of Government of India to promote the growth of manufacturing sector? (2012)

1. Setting up of National Investment and Manufacturing Zones
2. Providing the benefit of 'single window clearance'
3. Establishing the Technology Acquisition and Development Fund

Select the correct answer using the codes given below:

(a) 1 only

(b) 2 and 3 only

(c) 1 and 3 only

(d) 1, 2 and 3

Ans: (d)

Q. Which of the following can aid in furthering the Government's objective of inclusive growth? (2011)

1. Promoting Self-Help Groups
2. Promoting Micro, Small and Medium Enterprises
3. Implementing the Right to Education Act

Select the correct answer using the codes given below:

(a) 1 only.

(b) 1 and 2 only

(c) 2 and 3 only

(d) 1, 2 and 3

Ans: (d)

Mains:

Q. Can the strategy of regional-resource-based manufacturing help in promoting employment in India? **(2019)**