



New Tax Regime

For Prelims: Union Budget 2023-24

For Mains: Main Points Associated with the Budget 2023-24, Changes in the Tax Regime, Finance Bill, 2023.

Why in News?

Recently, during the [Union Budget 2023-24 speech](#), Union Finance Minister announced a **change in income tax slabs and rebate limits** under the new income tax regime.

- According to the proposed 2023 Finance Bill, **startups that offer their shares to foreign investors may be subject to paying the "angel tax,"** which was previously only applicable to investments raised by Indian residents.

What are the Proposed Changes?

- **Tax Rebate Limit Raised:**
 - The enhancement of this limit to ₹7 lakhs from ₹5 lakhs indicates that the **person whose income is less than ₹7 lakhs need not invest anything to claim exemptions** and the entire income would be tax-free irrespective of the quantum of investment made by such an individual.
 - This **will result in giving more consumption power to the middle-class income group** as they could spend the entire amount of income without bothering too much about investment schemes to take the benefit of exemptions.
- **Changes in Income Tax slabs:** [//](#)

BENEFITS UNDER THE NEW TAX REGIME				
FY'23	Tax rate	FY'24	Tax rate	Cumulative benefit
Rs 2.5 lakh	Nil	Up to 3 lakh	Nil	■ ₹ 2,500
Rs 2.5-5 lakh	5%	₹ 3-6 lakh	5%	■ ₹ 7,500
Rs 5-7.5 lakh	10%	₹ 6-9 lakh	10%	■ ₹ 15,000
Rs 7.5 to 10 lakh	15%	₹ 9-12 lakh	15%	■ ₹ 25,000
Rs 10-12.5 lakh	20%	₹ 12-15 lakh	20%	■ ₹ 37,500
Rs 12.5-15 lakh	25%	NA	NA	N.A
Above Rs 15 lakh	30%	Above ₹ 15 lakh	30%	■ ₹ 37,500

Standard deduction benefit has also been extended to new tax regime

- It was proposed to change the tax structure in the new regime **by reducing the number of slabs to five from six income categories and increasing the tax exemption limit to ₹3 lakh.**
- Tax assessors will still be **able to choose from the prior regime.**
 - **Salaried and Pensioners:** The new system's standard deduction for taxable

income exceeding Rs15.5 lakhs is ₹52,500.

- **For Pensioners:**
 - The Finance Minister **announced extending the benefit of the standard deduction to the new tax regime.**
 - Each salaried person with an income of ₹15.5 lakh or more will benefit by ₹52,500.
- **Maximum Tax Along with Surcharge:**
 - It was **proposed to reduce the highest surcharge rate** from 37% to 25% in the new tax regime. This **would result in the reduction of the maximum tax rate to 39%.**
 - The highest tax rate in India is 42.74%. **This is among the highest in the world.**
 - Tax rates have been reduced under the new tax regime and the **maximum marginal rate drops from 42.74% to 39%.**
- **Finance Bill, 2023:**
 - The Finance Bill, 2023 was also unveiled which has **proposed to amend Section 56(2) VII B of the [Income Tax Act.](#)**
 - The provision states that when an unlisted company, such as **start-ups** receive equity investment for the issue of shares exceeding their face value, it will be **considered income for the start-up and be subject to income tax under the heading "Income from other Sources".**
 - **Section 56(2) VII B of the Income Tax Act**, colloquially known as the 'angel tax' **was first introduced in 2012** to deter the generation and use of unaccounted money through the subscription of shares of a closely held company at a value that is higher than the fair market value of the firm's shares.
- It was also proposed to **include foreign investors also**, meaning that when a start-up raises funding from a foreign investor, that too will now be **counted as income and be taxable.**

Why are Startups Concerned?

- Foreign investors are a **significant source of funding for startups** and have contributed to their increased valuations and the proposed amendments can affect the amount of investment.
 - **According to a report by PwC India**, the funding for India's startups **decreased by 33% to \$24 billion in 2022.**
- The reintroduction of the tax on angel investors in India may **cause startups to shift abroad**, as foreign investors may **not want to pay additional taxes associated with their investment in the startup.**

What is Face Value?

- According to the face value definition, it is the dollar value of any stock (or any financial instrument) at the time of issuing. It is also **termed as the nominal value or the dollar value.**
 - **Face Value= Equity share capital/ number of outstanding shares.**

[Source: Mint](#)