



## 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](#)

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**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)**

