What you can expect from the Union Budget 2023

As the year 2022 has come to a close, we approach the Union Budget for FY 2023-24. Focus for this fiscal for the government is likely to be economic growth and development as the vision laid out is to become a $5 trillion economy by 2025.

Further the forthcoming Union Budget is going to be the last full year budget from the present government ahead of the Lok Sabha elections due in early 2024. The key expectation from Finance Minister Nirmala Sitharaman is to maintain the growth path while keeping fiscal deficit and inflation in check. Here are the key expectations from this budget, let us see how many of these are taken care of on 1st February, 2023.

1. **Income tax exemption limit**

   Investors and taxpayers both want additional tax benefits and lower tax rates. As of now, the maximum slab of income which is not chargeable to income tax is Rs 2.5 lakh. Currently, taxpayers have the option to file taxes by opting between two tax regimes which sometimes becomes a confusing task.

   Under the old tax regime, your income is exempt from tax up to ₹2.5 lakhs, and you don't have to pay any taxes up to the income of ₹5 lakhs as you get an exemption of ₹12,500 under section 87A of the Income Tax Act. Taxpayers are anticipating that there is a need to raise the basic **tax exemption limit** from ₹2.5 lakhs to at least ₹5 lakhs or more.

   The move, if it fructifies, may leave more disposable income in the hands of consumers. It will also boost consumption, which may also lead to an economic recovery, sources said.

2. **ESOP criteria be eased**

   In the previous budget, significant tax reliefs were provided to start-up employees to resolve the dual taxation issue and alleviate the tax burden that Employee Stock Ownership (ESOPs) imposed on employees. There is a very stringent qualification criterion that is prescribed, so only a very limited number of young Indian companies could reap the benefits of this welcome move. As a result, industry suggests that the government broaden the eligibility criteria for this benefit to include a broader range of young companies.

3. **Increasing minimum tax exemption limit for home buyers**

   Salaried taxpayers anticipate that the government should provide additional incentives to increase affordable housing. Currently, homebuyers can claim a deduction of up to ₹2 lakh on the annual interest paid on housing loan EMI u/s 24b. Moreover, they can also claim a deduction of up to ₹1.5 lakhs under Section 80C for the principal amount paid on housing loan. In the upcoming union budget home buyers expect the 24b limit to be increased up to ₹5 lakhs along with an increment in the limit of Section 80C up to the extent of ₹3 lakhs.

4. **Taxation of Capital Gains**

   With different asset classes available to invest in India, every asset class has a different capital gain structure, which often makes it difficult for taxpayers to assess their tax liability on the capital gains incurred. Thus, a need for a uniform tax structure for capital gains is expected to be brought up in the upcoming union budget.
   Having said that, the expected incentives and exemptions which may be provided to taxpayers in the upcoming union budget 2023-24 will help Indian taxpayers to have more disposable income in hand, which can be mobilized into more investments and savings and contributing to building wealth for taxpayers.

   Currently, capital gains from listed stocks are taxed at 10 per cent, while capital gains from unlisted shares are taxed at 20 per cent. This may be removed to create a level-playing field for both listed and unlisted stocks.

5. **Interest on electric car loan**

   Presently, the interest on loans sanctioned to purchase electric vehicles up to March 31, 2023, is eligible for maximum deduction of up to Rs 1.5 lakh per year. This deduction can be claimed till the loan to buy the electric vehicle has been fully repaid by the buyer. Taxpayers can expect an extension of this tax benefit by two more years, i.e., for loans sanctioned up to March 31, 2025.

6. **Exemption on Personal Loans**

   Personal loans and education loans comprise 35% of the Indian lending market. Although there is an exemption limit on interest on education loans under Section 80E of the Income Tax Act, currently, there is no such incentive or exemption provided to personal loan borrowers. Hence, it is expected that in the upcoming union budget, some relaxations may be provided to personal loan borrowers too.

7. **Enhancement in the standard deduction limit**

   According to experts, the government may also consider providing flat deductions (similar to those provided under Sections 80-IA/80-IC of the Act) to all small and medium enterprises (SMEs) and small businesses (depending on turnover)

   Salaried employees are the biggest contributors to tax, in India, yet they receive very few tax exemptions. It is expected that the standard deduction of Rs. 50,000 could be enhanced to around Rs 80,000. This would render some tax relief, especially to the country’s large middle-class population.

8. Simplified Mechanism To Enforce New Labour Laws

The four labour codes—the Code on Wages, Industrial Relations Code, Social Security Code and the Occupational Safety, Health and Working Conditions Code are set to replace the existing 29 labour laws. Over 90 per cent of India's 50 crore workers are in the unorganised sector. And through these codes, the government will be able to ensure that all of them enjoy the benefits of labour laws related to minimum wages and social security.

Unfortunately, despite the approval of these codes by the Parliament in 2020, many of the State Governments are yet to adopt the New Labour Codes. The Union Government needs to push the State Governments to implement these codes as soon as possible. Therefore, some simplified mechanism could be included in the Budget for FY 2023–24 for the adoption of these codes.

9. Tax Benefits To Promote Solar Energy

India is the world's third-largest producer of renewable energy. Yet, the country has a long way to go. Despite a significant push from the Government, solar installation in India has not attained the desired momentum.

Globally, several countries have tried innovative tax exemptions to encourage investment in solar energy. To meet the 2030 solar mission target, the Government needs to provide tax benefits and subsidies for companies installing solar panel plants and for taxpayers installing solar rooftop power systems.

10. Expectations Of The Salaried Class

The Budget should provide some changes in the income tax structure. The tax rates have not been considered for revision since FY 2017-18. Although a new tax regime was introduced, it has not been adopted by majority of the tax payers due to its unviability as compared to the old tax regime. Thus, in order to leverage more purchasing power and to provide some tax relief the highest tax rate of 30 per cent needs to be reduced to 25 per cent and the threshold limit for the highest tax rate needs to be increased from Rs 10 lakh to Rs 20 lakh.

The ‘middle class’ and the ‘lower middle class’ have been impacted to a large extent due to the impact of Covid-19 for two consecutive years and pursuant to the global inflation and constant revisions in the repo rates. The budget also needs to look at increasing the limit under Section 80C.

The limit under Section 80C may be increased to somewhere between Rs 2 lakh to Rs 2.5 lakh, thereby shifting the paradigm towards savings and an investment-oriented economy. Further, considering the increased rates of medical treatments and medical insurances, the existing limit of Rs 25,000-50,000 under Section 80D needs to be reviewed and increased keeping at par with the inflationary growth.

11. Expectations Of The Indian Corporate

In present scenario, the tax rates are different for different sectors. In order for India to stand as a manufacturing as well as a services industry hub, the corporate expect that a similarity should be introduced in the tax rates. If the corporate tax rate of 15 per cent is introduced, then India will have one of the most globally competitive corporate tax rates. This will not only strengthen the industrial/manufacturing sector, but will also pave the way for the services sector to grow and outperform.

1. Corporate Income Tax rate reduced to @ 22%
2. For New Manufacturing companies @ 15%
3. MAT Reduced To 18.5% to 15%
4. Surcharge Not applicable on Capital Markets
5. Buy Back Tax not applicable before 01.07.19
6. CSR Scope expanded to include PSU and Govt sector agencies

12. Amendments In National Pension System (NPS)

Section 36 (1) (iva) provides that deduction shall be allowed to the employer with respect to the contribution made by the employer towards NPS to the extent it does not exceed 10 per cent of the salary of the employee.

Since the contribution of the Central Government towards NPS has increased from 10 per cent to 14 per cent, the consequent changes should be made in Section 36 to bring uniformity between both the sections.

13. Concessional Tax Regimes For Firms / LLPs

Partnership firms and Limited Liability Partnership (LLPs) are taxable at a flat rate of 30 per cent. The Government had provided concessional/alternate tax system for domestic companies, individuals, hindu undivided families (HUF) and cooperative societies. It is recommended that Government introduce corresponding concessional tax regimes for partnership firms and LLPs.

14. Interest on EPF

Interest on EPF contribution above ₹2.5 lakh is taxable. However, it is not clarified that it should be taxed on accrual basis on withdrawal. There could be a clarity on this aspect and interest income may be taxed at the time of withdrawal.

Conclusion

As we usher into the new year 2023, tax payers will be eagerly waiting to see what the government may have planned to announce for them in terms of some tax relief in the upcoming Union Budget 2023. We have covered the major points that this year Union Budget may address on February 1, 2023 when Union Finance Minister Nirmala Sitharaman delivers the Union Budget for the current year to Parliament. Are you prepared and expecting for something more ? Please do comment below.

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