

India

# Union Budget 2023: India Proposes Changes to Individual Income Tax Regime, Tax on Winnings from Online Games

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The Finance Minister of India presented the Union Budget 2023-24 to the parliament on 1 February 2023 (see [India to Further Simplify Individual Income Tax Regime, Increase Tax Exempt Limit in Union Budget 2023 \(1 February 2023\)](#)). Key direct tax proposals to amend the Income Tax Act, 1961 (ITA) include changes to the new individual income tax regime, new provisions for the taxation of net winnings from online games and an extension of incentives for start-ups. These measures are discussed below.

## Corporate taxation

### Taxation of winnings from online games

- New sections 194BA and 115BBJ will be introduced to provide for the imposition of tax at 30% and the application of tax deducted at source (TDS) on net winnings from online games effective from 1 July 2023. The mechanism is yet to be prescribed.
- Net winnings from online games will be considered on an aggregate basis (cash or kind) for the purpose of the application of TDS.

### Start-ups

- The deduction for eligible start-ups will be extended to entities incorporated from 31 March 2023 to 31 March 2024.
- the benefit of the carry forward of losses on the change of shareholding of start-ups will be extended from 7 years of incorporation to 10 years.

### Micro, small and medium enterprises (MSMEs) expenditure

Payments to MSMEs will be allowed as a deduction only in the year in which payment is made.

### Presumptive taxation scheme

- The threshold limit for the applicability of presumptive taxation for businesses and professionals will be increased to INR 30 million and INR 7.5 million, respectively.
- Losses that are brought forward and unabsorbed depreciation will be rationalized where a non-resident is involved in exploration of mineral gas and the operation of aircraft.

## Other measures

- Income from units of business trusts will be brought within the ambit of section 197 of the ITA, making it eligible for lower a withholding tax rate application.
- The tax collected at source (TCS) on foreign remittance through the Liberalized Remittance Scheme (other than for education and medical purposes) and on the sale of overseas tour packages will be increased from 5% to 20% effective from 1 July 2023.
- The rollover benefit claimed on long-term capital gains from the transfer of capital assets where gains are re-invested in a residential house will be limited to INR 100 million.
- Withholding tax will be introduced on payments for interest on listed debentures (in dematerialized form) effective from 1 April 2023.
- Interest on a loan already claimed as exemption will be excluded from the cost of acquisition of a property.
- The definition of "cost of acquisition" and "cost of improvement" for the purposes of computing capital gains under section 55 of the ITA will be amended to include intangible assets or any sort of right.
- The receipt of consideration for the issue of shares from any person irrespective of his tax residence will be taxed under section 56(2)(viib) of the ITA.
- Special economic zone units will be allowed an exemption in relation to the profit attributable to export turnover only if the Return of Income (ROI) is filed before the due date and the export receivable is realized within 6 months.
- A TDS at 10% will apply on a benefit or perquisite received in cash or partly in cash and in kind arising from a business or profession effective from 1 April 2024.
- The TDS on income from mutual fund units will be the lower of 20% or the rates in the relevant tax treaty effective from 1 April 2023.
- For charitable trusts and institutions, numerous amendments relating to deposits of corpus, treatment of a donation to other trusts, omission of redundant provisions, registration of the said trusts, and the time limit for the submission of ROI and Tax Audit Report are proposed.
- Certain funds will be removed from the ambit of deduction under section 80G of the ITA.
- A limit will be imposed on interest deduction on borrowings from a foreign associated enterprise with a carve-out for banks. The relaxation will be extended to non-bank financial companies.

## Individual taxation

- The revised tax rates and slab limits in connection to the new tax regime are:

Total income (INR)			Tax rate (%)
Up to 300,000			Nil
300,001	-	600,000	5
6,00,001	-	900,000	10
900,001	-	1,200,000	15
1,200,001	-	1,500,000	20
Above 1,500,000			30

- The new tax regime will be the default scheme unless the assessee specifically opts for the old tax regime.
- The highest surcharge rate will be reduced from 37% to 25% in the new tax regime for income above INR 20 million. The marginal tax rate will be reduced from 42.74% to 39%.
- The rebate limit in the new tax regime will be increased to INR 700,000.
- Gifts exceeding INR 50,000 received without consideration by a non-resident will be deemed to accrue/arise in India.
- The TDS rate in non-PAN cases on withdrawals of the taxable component from the Employees' Provident Fund will be reduced from 30% to 20% effective from 1 April 2023.
- An income tax exemption is proposed for proceeds from insurance policies if the aggregate annual premium is limited to INR 500,000 in any of the tax year during the term of a policy.
- The method of computation of the value of rent-free accommodation provided by an employer at a concessional rate may be prescribed.

For other measures in the Budget, see [Union Budget 2023: India to Introduce Amendments to Assessment, Appeal Proceedings \(3 February 2023\)](#).

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