

Union budget FY25: Focus on real economy issues and maintain fiscal prudence

Key Budget announcements on the macroeconomy:

- Real GDP is projected to grow at 7.2% as per RBI projections while nominal GDP to grow at 10.2%.
- The resultant fiscal deficit is expected to consolidate further at 4.9% of GDP for FY25 (v/s 5.1% expected in interim budget & 5.8% in FY24RE). Glide path of achieving fiscal deficit of 4.5% of GDP in FY26 has been laid out indicating continued fiscal consolidation (positive for bonds).
- Moderate thrust on capex: Capital expenditure is budgeted at INR 11.1 lakh cr which is 3.4% of GDP (increase of 16.9% v/s FY24RE). While infra focus continues, its pace has slowed vis-à-vis last few years given GOI's aim to adhere to fiscal consolidation path
- Revenue receipts projected at INR 31.29 lakh crore for FY25 (+14.7% over FY24PA). Revenue deficit in FY25 is expected to fall to 1.8% of GDP v/s 2.6% of GDP FY24PA
- Expectations of Gross market borrowings at INR 14.01 lakh crore and Net market borrowings at INR 11.63 lakh crore for FY25 (both lower than FY24RE).
- Disinvestment target for FY25 is pegged at INR 50000.
- Tax revenue (gross) is expected to grow at 11.7% in FY25 over FY24RE (Direct and Indirect taxes are estimated to contribute 57.5% and 42.5%, respectively).
- Income tax growth to come in at 16.1% YoY as per FY25BE, while corporate tax collections to grow at 10.5% YoY

Budget outlaid roadmap for "Viksit Bharat":

- Budget focused on areas such as Productivity in agriculture, Employment, Skilling & Education, Inclusive Development and Measures for manufacturing in MSME
 1. Productivity in agriculture:
 - 1 crore farmers across the country will be initiated into natural farming, supported by certification and branding in next 2 years.
 - Issuance of Jan Samarth based Kisan Credit Cards.
 2. Employment: 4 schemes announced for Employment linked Incentives
 - For First time employments, 1 month wage in all formal sectors in 3 instalments up to ₹15,000. 2.1 crore youths expected to benefit.
 - 30 lakh youths in manufacturing jobs to benefit from incentives towards EPFO contributions for the first 4 years.
 - Employers to benefit from government reimbursement towards EPFO contributions upto INR 3,000 per month for 2 years. (expected to generate 50 lakh jobs)
 - Scheme for providing internship opportunities in 500 top companies to 1 crore youth in 5 years, accounting for annual INR 66,000 crores spend by the government by way of allowances through CSR funds.
 3. Skilling & Education:
 - 20 lakh youth will be skilled over a 5-year period.
 - 1,000 Industrial Training Institutes will be upgraded in hub and spoke arrangements with outcome orientation.
 - Loans up to ₹7.5 lakh with a guarantee from a government promoted Fund, expected to help 25,000 students every year.

- Financial support for loans upto INR10 lakh for higher education in domestic institutions. Direct E-vouchers to 1 lakh students every year. Annual interest subvention of 3%

4. Inclusive Development:

- Allocation of INR 3 lakh crore for women development.
- Funds allocated to Eastern parts (Bihar, Jharkhand, West Bengal, Odisha and Andhra Pradesh) to generate economic opportunities.
- Financial support of Rs 15,000 crs to Andhra Pradesh for essential infrastructure.

5. Measures for manufacturing in MSME:

- Credit Guarantee Scheme for MSMEs
 - Mudra Loans: Limit enhanced to ₹ 20 lakh from the current ₹ 10 lakh under the 'Tarun' category.
 - Credit Support to MSMEs during Stress Period Critical Minerals Mission for domestic production, recycling and overseas acquisition.
- PM Awas Yojana outlay has been increased to cater to 1 crore urban poor (INR 10 lakh crore investment) and to have central assistance of INR 2.2 lakh crore over next 5 years
 - Allocation to major schemes:
 1. MGNREGA: from INR 60k cr in FY24 to INR 86k crore in FY25 (43% growth YoY)
 2. DBT Transfer for LPG up from INR 180cr to INR 1500cr

Key Tax Proposals:

1. Budget made notable changes to the capital gains tax to reduce the compliance burden and rationalize gains
 - a. There will be only 2 holding periods, viz. 12m and 24m for determining whether capital gains are Short Term or Long Term in nature
 - b. For all listed securities, STCG holding period is proposed to be 12m and for all other assets it would be 24m (includes unlisted REITs, InVITs)
 - c. Holding period for bonds, debentures, gold will reduce from 36m to 24m. As for listed business trusts, the holding period will reduce from 36m to 12m.
 - d. Short Term gains of equity shares, units of equity oriented MFs, and Business trusts to attract 20% tax rate (instead of current 15%)
 - e. Unlisted debentures, unlisted bonds, MLDs would continue to be taxed as per applicable rate whether short term or long term
 - f. Long Term Capital gains on all financial and non-financial assets to attract a tax rate of 12.5% - this is marginally negative for listed equities, while mostly neutral for unlisted equity holders. Those who have been holding on to real estate investments over longer periods, discontinuation of indexation benefit might be a dampener.
 - g. For Mutual Funds such as FoFs investing in over 35% towards equities, gold funds, international FoFs, LTCG tax will be at 12.5% for a holding period of over 24 months (down from 36 months) – this will be applicable from 1st April 2025.
2. Angel tax provisions have been abolished. Section 56(2)(viib) of the ITA requires that the Company has to issue shares at or below the FMV. Thus, issue of shares above FMV, attracted tax in the hands of the company on the difference between the issue price and FMV. Such provision is proposed to be abolished via the Finance Bill, 2024 w.e.f 1 April 2024.

3. Buy-back of shares to be treated at par with dividend and the entire amount received on buy-back of shares will now be taxable in the hands of the recipient in the same manner as dividend. Cost of acquisition of such shares can be claimed as capital loss and adjusted against capital gain as per the provisions of the ITA. The said changes are effective from 1 October 2024.
4. STT on Futures and Options has increased from 0.01% to 0.02% and 0.062% to 0.1% respectively. Applicable from 1st October 2024.
5. Custom Duty:
 - Medicine and medical equipment- Fully exempt three more medicines for cancer treatment.
 - Mobile phone- Propose to reduce Basic Custom Duty (BCD) in mobile phone and charges to 15%.
 - Fully exempt custom duty on 25 critical minerals.
 - Exempted more capital goods for manufacturing of solar cells & panels.
 - Propose to reduce BCD on certain brood stock, shrimp and fish feed to 5%.
 - Customs duty on gold and silver decreased to 6%
6. Direct Tax:
 - For taxpayers under the New Tax Regime, changes to the tax slabs and increase in standard deduction for salaried employees from INR 50,000 to INR 75,000 would lead to annual savings upto INR 17,500

Instrument wise capital gain tax rates

Sr No	Particulars	Before 23rd July 2024			On or After 23rd July 2024			Remarks
		Resident	Non Resident	Indexation benefit for resident	Resident	Non Resident	Indexation benefit for resident	
	Long Term Capital Gain							
1	Equity Shares (STT paid on both purchase and sale, subject to certain exceptions)	10%	10%	NA	12.5%	12.5%	NA	Exemption upto INR 1.25 lakhs (earlier INR 1 lakh)
2	Equity Shares (STT not paid)	20%	10%	Available	12.5%	12.5%	Not available	
3	Units of equity oriented MF (STT paid)	10%	10%	NA	12.5%	12.5%	NA	Exemption upto INR 1.25 lakhs (earlier INR 1 lakh)
4	Listed Debentures or Bonds	10%	10%	NA	12.5%	12.5%	NA	
5	Immovable Property	20%	20%	Available	12.5%	12.5%	Not available	
6	Units of mutual fund [other than equity oriented (STT paid) and Specified MF]	20%	10%	NA	12.5%	12.5%	NA	
7	Other listed securities (CCPS, OCRPS)	10% (without indexation) or 20% (with indexation), Whichever is lower	10%	Available	12.5%	12.5%	Not available	
8	Other unlisted securities (CCPS, OCRPS)	20%	10%	Available	12.5%	12.5%	Not available	
9	Units of REIT, InvIT (Listed)	10% (on market)/ 20%	10% (on market)/ 20%	NA	12.5%	12.5%	NA	
	Short Term Capital Gain							
10	Equity Shares (STT paid)	15%	15%		20%	20%		
11	Units of equity oriented MF (STT paid)	15%	15%		20%	20%		
12	Market Linked Debentures, Specified Mutual Fund*	Applicable Rate	Applicable Rate		Applicable Rate	Applicable Rate		
13	Unlisted Debentures or Bonds	20%	10%		Applicable Rate	Applicable Rate		
14	Others	Applicable Rate	Applicable Rate		Applicable Rate	Applicable Rate		

Notes:

*"Specified Mutual Fund" means

(a) a Mutual Fund by whatever name called, which invests more than 65% of its total proceeds in debt and money market instruments; or

(b) a fund which invests sixty five per cent or more of its total proceeds in units of a fund referred to in sub-clause (a).

Period of holding for all listed securities is proposed to be restricted to 12 months and for all other assets, proposed to be restricted to 24 months. This is subject to instruments *inter-alia* MLD, Specified mutual funds and unlisted bonds and debentures specifically covered under section 50AA.

Impact on markets and strategy ahead:

- Despite the changes to the capital gains taxation and STT rates, market seems to have taken the Budget announcements in its stride.
- Post the initial knee jerk reaction (Nifty 50 Index was down about 1.8% intraday), it bounced back sharply and closed only 0.13% lower for the day.
- Realty sector closed over 2% lower being the worst performer for the day. While FMCG / consumer durables index gained 2.7% for the day
- Market seems to have quickly discounted the impact of capital gains related changes as the effective long-term rate has seen a marginal increase (much lesser than what was expected by sections of the market)
- Tax related reforms aside, rest of the announcements from the Budget were in line with expectations as it clearly outlay the focus on reviving both rural & urban consumption, job creation, providing boost to small businesses – all which seem to have been the government's learning from the outcome of the recently concluded general elections. There was a lot of outlay towards the key BJP allies at the Centre.
- Market focus should clearly move back to the ongoing corporate earnings season, expensive valuations, upcoming US elections, global geopolitical developments and more importantly the guidance from global central banks on rates
- Thus, we continue to advocate caution for incremental money allocated towards equities – buy on dips strategy is preferred with a large cap bias
- Fixed income markets would definitely take respite from the fact that the government steadfastly continues to adhere to the fiscal consolidation path and hence we retain our focus on duration strategies (to benefit from lower interest rates) and also tactically allocate towards high yielding debt strategies.

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Registered Office and Corporate Office Address: Unit No 1203, 12th Floor, B Wing, The Capital, C-70, B Block, BKC, Bandra (E), Mumbai – 400051; Phone: +91-22-68446100;

website: www.incredwealth.com; CIN: U67190MH2020PTC350270