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Strategic Insights for Global Investors: Unpacking Tax Proposals in India's Union Budget 2024

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In this article, Khanna reviews India's Union Budget 2024 and explains the importance of some key proposals and the effect they could have on the Indian economy and international investors looking to invest in the Indian market.

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India's Union Budget is traditionally announced on February 1 every year. 2024, being an election year, resulted in an interim budget in February, followed by a full budget presentation by Finance Minister Nirmala Sitharaman on July 23. The Indian budget is typically a matter of significant curiosity, not just within the country but also on the global stage, where it is closely scrutinized by international observers for its broader economic implications.

For the financial year 2024-25, the budget underscores a balanced approach to fiscal federalism and economic stability, with a projected deficit of 4.9 percent of GDP and a goal to reduce it to below 4.5 percent by the next fiscal year. Capital expenditure growth has been moderated at 11.1 percent, reflecting the government's commitment to fiscal consolidation. In alignment with the vision of a "Developed India" (*Viksit Bharat*) by 2047, the budget places a strong emphasis on enhancing agricultural productivity, fostering employment and skill development, and driving regional growth, particularly in eastern India. Further, it introduces significant measures to boost renewable energy production, expand infrastructure, and streamline foreign direct investment (FDI) regulations, all aimed at attracting international investments.

These initiatives set the stage for important tax and regulatory changes that are crucial for understanding the budget's wider economic effect, both within India and globally. The following analysis explores these changes and what they mean for the international community.

Direct Taxation

Foreign Corporations Operating in India: Tax Reduction

The government has reduced the corporate tax rate for foreign companies operating in India from 40 percent to 35 percent. The reduction is designed to enhance India's appeal as an investment destination and is expected to attract more foreign investment. The reduced corporate tax rate lessens the overall tax burden on foreign companies, boosting profitability and encouraging additional investment. It is especially advantageous for sectors like manufacturing, technology, and start-ups, which often depend on substantial foreign capital.

Slight Change for Individual Taxation

The Income Tax Act (ITA) offers taxpayers two tax regime options: the old regime, which allows for certain deductions and exemptions; and the new regime, which features lower tax rates but restricts most deductions and exemptions. The new regime was previously established as the default tax regime.