

**INDIA**   
**BUDGET**  
**20₹3**  
**Amendments**

# Highlights of Amendments to the Finance Bill

The Hon'ble Finance Minister proposed various changes in the Income-tax Act, 1961 ('Act') in Budget 2023 announced on February 1, 2023.

While moving the Finance Bill 2023 ('Bill') for approval by Lok Sabha on March 24, 2023, Hon'ble Finance Minister introduced certain additional amendments to the Bill. This flash covers the summary of key direct tax related amendments. The Bill has been passed by both the houses of parliament and is now awaiting President's assent to become an Act.

## Amendments relating to International Financial Services Centre ('IFSC')

- Capital gain arising from transfer of equity shares of domestic company (being a Unit of IFSC primarily engaged in the business of leasing of an aircraft) held by non-resident or Unit of IFSC primarily engaged in the business of leasing of an aircraft, shall be exempt, provided domestic company commences its operations on or before March 31, 2026 and equity shares are transferred within 10 years of commencement of operations. However, if the domestic company commences its operations before April 1, 2024, the period of 10 years shall be counted from April 1, 2024.
- Shares issued by closely held companies to specified fund located in IFSC and governed by International Financial Services Centre Authority (Fund Management) Regulations, 2022 will not be subject to provisions contained in section 56(2)(viib) of the Act, which treats amount received in excess of fair market value of the close held company as income.
- A unit located in IFSC engaged in the business of operating ships shall now be allowed to opt for tonnage taxation scheme provided an application to opt for a tonnage tax scheme is filed within 3 months from expiry of prescribed tax holiday period.
- Dividend received by a Unit of IFSC (primarily engaged in the business leasing of an aircraft) from another Unit of IFSC (primarily engaged in the business of leasing of an aircraft) shall be exempt.
- Any income received by a non-resident from portfolio of securities which are managed and administered by a portfolio manager in an account maintained with an off-shore banking unit in an IFSC, shall also be exempt to the extent such income accrues or arises out of India and is not deemed to accrue or arise in India and subject to satisfaction of other conditions prescribed under section 10(4G) of the Act.
- Taxable income from securities earned by Category III Alternate Investment Fund and an investment division of an offshore banking unit (i.e. Specified Funds referred to in section 10(4D) of the Act) shall not be subject to surcharge and education cess.



- Income earned by Offshore Banking Units of Scheduled Bank or Banks incorporated under the laws outside India, shall now be eligible for 100% deduction for a total consecutive period of 10 years instead of previously prescribed threshold of 100% for first 5 years and 50% for subsequent 5 years.
- Dividend declared and paid by a Unit of IFSC to non-residents shall be taxed at 10% (plus applicable surcharge and cess) as against the earlier rate of 20%

### Amendments relating to TDS / TCS

- Tax payable by a non-resident on income from royalty and fees for technical services is increased from 10% to 20%. Accordingly, withholding tax on such payment under the Act has also been increased from 10% to 20%.
- Newly introduced TDS provisions in respect of winning from online games shall now be applicable with effect from April 1, 2023 instead of July 1, 2023, as was proposed earlier.
- TDS provisions relating to winnings from lottery, crossword puzzle, horse race etc. winning from online gaming shall now be subject to higher TDS rate in case of the payees are non-filers of income tax returns
- With effect from July 1, 2023, TDS shall be withheld at the rate of 9% in respect of interest paid on money borrowed from a source outside India by way of issuance of long-term bond or rupee denominated bond on or after April 1 2023, which is listed on a recognised stock exchange located in IFSC.
- In case of non-filers of income tax return or persons who do not furnish their permanent account number (PAN) for collection of tax at source, the maximum rate of TCS shall be 20%.

### Other Changes

- Capital gain arising on account of transfer, redemption or maturity of unit of a "Specified Mutual Fund" being a fund where not more than 35% of its total proceeds is invested in the equity shares of domestic companies, shall be deemed to be short term in nature. This amendment expands the scope of newly introduced provision i.e. section 50AA which previously covered only Market Linked Debentures.
- Resident individual opting to be taxed under the new personal tax regime prescribed under section 115BAC of the Act, shall be eligible to claim the marginal relief / rebate in case his / her income exceeds INR 7 Lakhs.
- A new clause (xx) is proposed to be inserted in section 47 of the Act,



to exempt the transaction of transfer of capital asset, being interest in a joint venture, held by a public sector company, in exchange of shares of a company incorporated outside India by the Government of a foreign state, in accordance with the laws of that foreign state. Consequentially, section 49 is proposed to be amended to provide that the cost of acquisition of the shares shall be the cost of acquisition of the interest in the joint venture.

- The scope of section 56(2) was expanded by Finance Bill 2023, by inserting clause (xii), wherein any sum received by a unit holder from a business trust (other than by way of interest, dividend or rental income) is to be taxed as Income from other sources in the hands of unit holder without benefit of reduction of cost of the unit. The said provision is now amended to provide the complete mechanism of computation of such income which also allows the reduction of cost of purchase of unit in the manner provided. Consequential amendment is also made in section 48 of the Act to provide that the cost of acquisition of units in such business trust shall be reduced by the amount which has been reduced while computing taxable income as per section 56(2)(xii).



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