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UNION BUDGET 2023 HIGHLIGHTS – Financial Sector

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Exclusion of income of a body or authority or Board or Trust or commission

- Finance bill 2023 proposed to insert a new clause (46A) which proposes to **exempt any income arising to a body or authority or Board or Trust or Commission**, not being a company, which has been established or constituted by or under a Central or State Act with one or more of the following purposes, namely: -

  - dealing with and satisfying the need for housing accommodation;
  - planning, development or improvement of cities, towns and villages;
  - regulating, or regulating and developing, any activity for the benefit of the general public; or
  - regulating any matter, for the benefit of the general public, arising out of the object for which it has been created.

  Accordingly any income by Authority will be exempted. As explained in memorandum explaining the provisions the clause is inserted after supreme court decision in the case of Ahmedabad Urban Development Authority.

Rationalization of exempt income under life insurance policies

- Finance act 2021 has provided the taxability of sum received under unit linked policy where premium paid exceeds Rs. 2,50,000 (single of multiple policies) But all other polices were still exempted.
- Budget 2023-24 proposed to tax income from insurance policies (excluding ULIP policies) **having premium or aggregate of premium above Rs. 5,00,000**.
- However, Income received on death of insured person will be exempted. (It does not include ULIP and Key man insurance policy which are governed by Existing provisions of the Act.
- **Purpose of this clause**

  Earlier the income from the insurance polices were exempted u/s 10(10D) of the Income tax act to provide benefit to small and genuine cases of life insurance coverage. However, over the past years, it has been observed that that several high net worth individuals are misusing the above exemption by investing in policies having large premium contributions (as it is acting as an investment policy) and claiming exemption on the sum received under such life insurance policies. To curb such misuse Finance Act 2021 and finance bill 2023 inserted above provisions.

Setting up of National Financial Information Registry

- A national financial information registry will be set up to serve as the central repository of financial and ancillary information.
- Facilitate efficient flow of credit, promote financial inclusion, and foster financial stability.
- A new legislative framework will govern this credit public infrastructure, and it will be designed in consultation with the RBI.
- One of the aims of such a registry is to make credit more easily available to those who are currently underserved by making it easier for lenders, including fintech companies, to assess creditworthiness.
- For lenders, it is expected to provide a better picture of the creditworthiness of a potential borrower.

Simplification of Know Your Customer (KYC) process

- The KYC process will be simplified **adopting a 'risk-based'** instead of 'one size fits all' approach.
- The financial sector regulators will also be encouraged to have a KYC system fully amenable to meet the needs of Digital India.
- Simplified Know Your Customer (KYC) process will help reduce the time and cost associated with the traditional KYC process, thus enhancing customer experience.
- This can be achieved by leveraging technology such as artificial intelligence and biometrics, to automate and streamline verification procedures.

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One stop solution for identity and address updating

- A one stop solution for reconciliation and updating of identity and address of individuals maintained by various government agencies, regulators and regulated entities will be established using DigiLocker service and Aadhaar as foundational identity.
- DigiLocker will now be a one-stop KYC maintenance system for individuals, allowing you to make changes to papers that will be reflected in all of your documents that are linked to digi locker.
- **Digi locker and Aadhar will be used as a one-stop solution addressing KYC needs**.
- The use of government-backed services such as Digi locker and Aadhaar can help to increase customer trust and security, as well as improve the accuracy and reliability of identity information, while increasing options for growth and success for fintech companies in the Indian market.

Common Business Identifier

- For the business establishments required to have a Permanent Account Number (PAN), the **PAN will be used as the common identifier for all digital systems of specified government agencies.**

Unified Filing Process

- For obviating the need for separate submission of same information to different government agencies, a system of ‘Unified Filing Process’ will be set-up.
- Such filing of information or return in simplified forms on a common portal, will be shared with other agencies as per filer’s choice.
- This will help in ease of doing business and reduce the compliance burden on the entities there by reducing the compliance cost.

Entity DigiLocker

- An Entity DigiLocker will be set up for use by MSMEs, large business and charitable trusts. This will be towards storing and sharing documents online securely, whenever needed, with various authorities, regulators, banks and other business entities
- This provision aims at reducing paper work and digitalizing the entity records.

Proposal to exempt levy of stamp duty on life insurance policies issued under PMJJBY

- It is proposed to amend the **division D of article 47** of Schedule I of the said Act so as to exempt policies of life insurance issued under the **Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) from the levy of stamp duty**.
- As the premium rate of this scheme is very low as compared to the other insurance policies. Stamp duty exemption is one additional benefit provided to the people at large.

Other Policy Proposals

- Revamping of the credit guarantee scheme for MSMEs through introduction of INR 9,000 crores in the corpus, enabling additional collateral-free guaranteed credit of INR 2 lakh crore.
- Amendments proposed in the **Banking Regulation Act, the Banking Companies Act and the RBI Act to improve bank governance and enhance investors' protection**
- **Disallowance of interest under the** capitalization rules now relaxed for Nonbanking financial companies (NBFC) to bring parity with banking and insurance companies

Proposals for IFSC

In order to further incentivize operations from the International Financial Services Centre (IFSC), the following incentive are proposed:

- Delegating powers under the SEZ Act to IFSCA and adopting a single window approach for registration and approvals from IFSCA
- Permitting acquisition financing by IFSC banking units of foreign banks
- Recognition of offshore derivative instruments as valid contracts in IFSC
- Sunset clause for tax neutral transfer in case of relocation of a fund to IFSC is extended from 31 March 2023 to 31 March 2025
- Exemption provided to non-residents on income received from Offshore
- Derivate Instruments issued by IFSC Banking Units
- Exemption provided to non-residents on income received from Offshore Derivate Instruments issued by IFSC Banking Units

Building of Digital Public Infrastructure for Agriculture

- Digital public infrastructure for agriculture will be built as an open source, open standard and inter operable public good. This will enable inclusive, farmer-centric solutions through relevant information services for crop planning and health, improved access to farm inputs, credit, and **insurance**, help for crop estimation, market intelligence, and support for growth of agri-tech industry and start-ups.
- There is lots of justified optimism about India's digital public infrastructure. The digital infrastructure can help the hitherto excluded sections get a fair shot at accessing national and international markets.

Personal Tax

Proposals in New Tax Regime:

- Tax rebate under new tax regime has increased from Rs. 5 Lakhs to 7 Lakhs
- Extension of benefit of standard deduction to salaried class and the pensioners including family pensioners. Each salaried person with an income of ₹ 15.5 lakh or more will thus stand to benefit by ₹ 52,500
- Reduce the highest surcharge rate from 37 per cent to 25 per cent in the new tax regime
- Making of the new income tax regime as the default tax regime. However, citizens will continue to have the option to avail the benefit of the old tax regime.

Personal Tax Cont.

- Proposed changes in tax Rates under new tax regime

Slab	Rate of Tax
₹ 0-3 lakh	Nil
₹ 3-6 lakh	5%
₹ 6-9 lakh	10 %
₹ 9-12 lakh	15%
₹ 12-15 lakh	20%
Above ₹ 15 lakh	30%

National Digital Library for Children and Adolescents

- Hon’ble Finance Minister has mentioned about **setting up of National Digital Library for Children and Adolescents**.
- To include financial literacy, financial sector regulators and organizations will be encouraged to provide age-appropriate reading material to these libraries.
- In order to build a culture of reading and to make up for the pandemic-time learning loss. The library will be availed with quality of books across geographies, languages, genres and levels.

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