Direct Tax Amendments - Finance Act, 2024

(Applicable for CS Executive - June 2025 Attempt)

1. Applicable Finance Act

For the **June 2025 CS Executive exam**, the **Finance Act, 2024** governs **Assessment Year (AY) 2025-26** (Financial Year 2024-25).

2. Income Tax Slab Rates for Individuals

New Tax Regime (Default) – Section 115BAC

Income Slab (₹)	Tax Rate (%)
0 – 3,00,000	0% (No tax)
3,00,001 – 6,00,000	5%
6,00,001 – 9,00,000	10%
9,00,001 – 12,00,000	15%
12,00,001 – 15,00,000	20%
Above 15,00,000	30%

Key Features of the New Regime:

- The **new tax regime is the default**, but taxpayers can opt for the old regime.
- **Standard Deduction of ₹50,000** is now available in the new regime.
- **Rebate under Section 87A:** Individuals with **taxable income up to ₹7,00,000** in the new regime qualify for a **full rebate, leading to zero tax liability**.
- The **highest surcharge rate is capped at 25%** for income exceeding ₹5 crore.

Income	**Surcharge**
More than Rs 50 lakhs ≤ Rs 1 Crore	10%
More than Rs 1 Crore ≤ Rs 2 Crore	15%
More than Rs 2 Crore	25%

Old Tax Regime (Optional) – No Changes

Income Slab (₹)	Tax Rate (%)
0 – 2,50,000	0% (No tax)
2,50,001 – 5,00,000	5%
5,00,001 – 10,00,000	20%
Above 10,00,000	30%

- **Rebate under Section 87A** is available for incomes up to **₹5,00,000** under this regime.

Implication:

Taxpayers must evaluate which tax regime is more beneficial. The **new tax regime offers lower tax rates but disallows most deductions**, whereas the **old tax regime allows deductions but has higher tax rates**.

Reduction in Corporate Tax Rate for Foreign Companies

Meaning: Corporate tax is the tax imposed on a company's net income or profit. Foreign companies operating in India were earlier taxed at **40%** on their profits.

Amendment: The **Finance Act, 2024** has reduced the corporate tax rate for **foreign companies** from **40% to 35%**.

Implication: Lowering the tax rate makes India a more attractive destination for foreign companies and boosts foreign direct investment (FDI).

Example: A foreign company earning ₹100 crore earlier paid ₹40 crore in taxes; now, it pays ₹35 crore, saving ₹5 crore.

Corporate Tax Rate for Indian Companies

Meaning: Corporate tax is the tax paid by **Indian companies** on their business profits, with different rates based on turnover and business type.

Current Rates:

- **Domestic companies** with turnover up to ₹400 crore pay **25%**, while those with higher turnover pay **30%**.
- **New manufacturing companies** set up after **October 1, 2019**, benefit from a **15% tax rate** to promote industrial growth.

Implication: These tax rates support small businesses, encourage new manufacturing investments, and maintain higher tax revenue from large corporations.

3. Major Amendments in Each Head of Income

A. Income from Salary

1. Increased Leave Encashment Exemption:

- The **exemption limit for leave encashment on retirement for non-government employees** has increased from **₹3 lakh to ₹25 lakh**.
- **Implication:** This reduces tax liability for retiring employees.

2. Standard Deduction in New Regime:

- Salaried individuals and pensioners can now claim a **standard deduction of ₹50,000** under the **new tax regime**.

3. Taxation of Agniveer Corpus Fund Contributions:

- The **government's contribution to the Agniveer Corpus Fund is taxable** but **deductible under Section 80CCH**.

B. Income from House Property

1. No Change in Interest Deduction:

- **Home loan interest deduction under Section 24(b) remains ₹2 lakh** for self-occupied properties.

2. Restriction on Set-Off of House Property Loss:

- **House property loss can only be set off up to ₹2 lakh per year** against other income.

C. Profits and Gains from Business or Profession

1. Increased Limits for Presumptive Taxation:

Taxpayer Category	Old Turnover Limit (₹)	New Turnover Limit (₹)
Business (Section 44AD)	2 crore	3 crore
Professionals (Section 44ADA)	50 lakh	75 lakh

- **Condition: 95% of transactions must be digital** to avail the higher limit.
- Rs 3 Crore limit if 95% of the receipts are through online modes or Rs. 2 Crore (if 95% of receipts are not through online modes)
- Net income = 8% of your turnover (the minimum net income should be considered 6% in the case of digital receipts)

2. Mandatory Payment to MSMEs for Deduction (Section 43B(h))

- Businesses must **pay MSME suppliers within 45 days**, or they **cannot claim the expense as a deduction**.

3. Taxation of Business Perquisites (Section 28(iv))

- **Non-cash benefits** or **perquisites from business are now taxable**.

4. Capital Gains Taxation Changes

Capital Gains Indexation Amendment (Finance Act, 2024)

The **Finance Act, 2024** has introduced a significant change in the taxation of **long-term capital gains (LTCG)** by **removing the indexation benefit** for most assets while simultaneously **reducing the tax rate** **from 20% to 12.5%.**

Key Changes in Capital Gains Taxation

1. **Removal of Indexation Benefit** Previously, taxpayers could adjust the purchase price of assets using the **Cost Inflation Index (CII)** to reduce taxable capital gains. This adjustment helped account for inflation, thereby lowering the tax burden. However, for sales made on or after **23rd July 2024**, this indexation benefit has been removed for all financial and non-financial assets except for certain real estate transactions.

2. **Reduction in Tax Rate** Before the amendment, **long-term capital gains were taxed at 20%** with indexation. Under the new provision, **the tax rate has been reduced to 12.5%** but without the benefit of indexation.
3. **Special Provision for Real Estate** Resident individuals and **Hindu Undivided Families (HUFs)** selling land or buildings that were **acquired before 23rd July 2024** have been given the option to either:
    - Pay **20% tax with indexation**, or
    - Pay **12.5% tax without indexation**. SSThis provision allows real estate owners to choose the tax treatment that results in a lower tax liability.

Illustration

Mr. A purchased a **plot of land** in **2010 for ₹30 lakh** and sold it in **August 2024 for ₹80 lakh**.

Old Tax System (Before 23rd July 2024) – 20% Tax with Indexation

- Indexed Cost of Acquisition = ₹60 lakh
- LTCG = ₹80 lakh - ₹60 lakh = ₹20 lakh
- Tax @ 20% = **₹4 lakh**

New Tax System (After 23rd July 2024) – 12.5% Tax Without Indexation

- LTCG = ₹80 lakh - ₹30 lakh = ₹50 lakh
- Tax @ 12.5% = **₹6.25 lakh**

Implication

The removal of indexation **increases the tax burden** for assets held for a long period. However, the **lower tax rate of 12.5% benefits those with recent investments**. In the case of real estate, taxpayers **can choose between indexation or a lower tax rate**, allowing flexibility in tax planning.

The **Finance Act, 2024** has also introduced key changes in the taxation of **capital gains**, affecting holding periods and tax rates.

1. **New Holding Period Rules**
    - **Listed securities** will be classified as **long-term capital assets** if held for **more than 12 months**.
    - **All other assets** will be considered **long-term** if held for **more than 24 months**. The previous 36-month requirement has been removed.
2. **Changes in Capital Gains Tax Rates**
    - **Unlisted bonds and debentures** will now be **taxed at slab rates**, treating them as **short-term capital assets**, regardless of how long they are held.
    - **Short-Term Capital Gains (STCG)** on **listed shares, equity mutual funds, and business trust units** will now be **taxed at 20% instead of 15%**.
    - The **exemption limit** for **Long-Term Capital Gains (LTCG)** on **listed shares, equity-oriented funds, and business trust units** has **increased from ₹1 lakh to ₹1.25 lakh per year.**
    - The **LTCG tax rate** on **equity-oriented investments** has **increased from 10% to 12.5%.**

Illustration

If an individual makes a **long-term capital gain of ₹1.30 lakh** from the sale of listed shares:

- **First ₹1.25 lakh** will be **tax-free**.
- The remaining **₹5,000 will be taxed at 12.5%**, leading to a **tax liability of ₹625**.

Implication

Short-term investors face **higher tax rates**, but **long-term investors get relief** due to the higher exemption limit for LTCG.

5. TDS and TCS Changes (Effective from 1st Oct 2024 / 1st April 2025)

TDS Section	**Old Rate**	**New Rate**
Section 194D (Insurance commission)	5%	**2%**
Section 194DA (Life insurance maturity)	5%	**2%**
Section 194G (Lottery commission)	5%	**2%**
Section 194H (Brokerage/commission)	5%	**2%**
Section 194-IB (Rent by Individuals/HUF)	5%	**2%**
Section 194M (Payments by Individuals/HUFs)	5%	**2%**
Section 194-O (E-commerce payments)	1%	**0.1%**

Implication:

- **Reduces TDS burden for businesses, improving cash flow.**

6. Abolition of Angel Tax

Meaning: Angel Tax was a tax levied on startups when they raised funds by issuing shares at a price higher than their **Fair Market Value (FMV)**, with the excess amount taxed as income under **Section 56(2)(viib)**.

Amendment: The **Finance Act, 2024** has abolished Angel Tax, allowing startups to raise capital without taxation on the share premium received from investors.

Implication: This change makes fundraising easier, reduces compliance burdens, and encourages investment in startups.

Example: Earlier, if a startup issued shares at ₹200 while FMV was ₹150, the extra ₹50 per share was taxed; now, it is tax-free.

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