

FIN-0-SCOPE

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Pre-Budget Memorandum 2025: Key Expectations and Tax Highlights

The Pre-Budget Memorandum 2025 from the ICAI proposes several changes to simplify taxation, enhance fairness, and reduce compliance burdens. Here are some key recommendations to watch for in the upcoming Budget:

- **Standard Deduction for Salaried Employees (Section 16):** It suggests linking the standard deduction to the cost inflation index so it keeps pace with rising expenses. This would benefit salaried individuals under the default tax regime.
- **ESOP Taxation Relief (Section 17(2)):** Employees of all start-ups should be allowed to defer taxes on ESOPs (Employee Stock Options) until they sell the shares, making it easier for employees to manage their tax liabilities.

Top Trends

- The Pre-Budget consultations chaired by Union Minister for Finance & Corporate Affairs Smt. Nirmala Sitharaman for the forthcoming Union Budget 2025-26 concluded in New Delhi. The consultations were held over a month-long period and started on 6th December 2024.

Top Trends

- From 8th January 2025, citizens may share their valuable suggestions and ideas for the Union Budget 2025-26 on the MyGov platform. Citizens are encouraged to actively participate in this annual initiative, aimed at making the Budget-making process more inclusive with the spirit of 'Jan Bhagidari'.
- ICAI suggests a special tax regime for partnership firms, simplified tax laws, reduced litigation, and reforms to drive growth and sustainability.
- The Indian rupee plunged to a record low of 86.58, marking its sharpest drop in two years, driven by a strong dollar, equity outflows, limited RBI intervention, and declining forex reserves.
- FIIs sold nearly \$2 billion in Indian stocks in early 2025, driven by weak earnings, slow GDP growth, a record-low rupee, high US bond yields, tariff concerns, and US market competition.

- **National Pension System (Section 10(12B)):** Withdrawals Non-employee subscribers to the NPS should also enjoy tax-free partial withdrawals, similar to employees, to create a level playing field.
- **Voluntary Retirement Benefits (Section 10(13)):** Payments from superannuation funds received during voluntary retirement should be tax-exempt, ensuring fairness for employees who retire early.
- **CSR Expenditure as a Deduction (Section 37):** Corporate Social Responsibility (CSR) expenses, currently disallowed as business expenses, should be made tax-deductible to encourage companies to invest in social causes.
- **Simplified Speculative Transaction Rules (Section 43(5)):** Trading in shares and commodities on recognized exchanges should not be treated as speculative transactions, reducing confusion for taxpayers.
- **Presumptive Taxation for Professionals (Sections 44AD and 44ADA):** The deemed income rate for small professionals under presumptive taxation should be reduced from 50% to 33.33%, reflecting realistic profit margins.
- **Capital Gains Relief (Sections 50C/43CA/56):** The memorandum calls for addressing double taxation on stamp duty discrepancies and removing the Rs. 10 crore cap on reinvestments in residential properties for capital gains exemptions.
- **Audit Threshold Simplification (Section 44AB):** The audit requirement for professionals should be clarified and aligned with realistic turnover thresholds to ease compliance burdens.

These ICAI suggestions aim to simplify tax laws, promote fairness, and align with modern economic realities. If adopted in Budget 2025, they could reduce litigation, ensure equity, and enhance ease of doing business.

Pr. Commissioner of Income Tax v. Hespera Realty (P.) Ltd.

Case Law | Court: Delhi High Court | Case No.: IT Appeal 468 of 2024 | Date: December 24, 2024

The Delhi High Court addressed whether an assessee's failure to include Long-Term Capital Gains (LTCG) in its profit and loss account for the relevant period would disqualify it from claiming exemption under Section 10(38) of the Income-tax Act, 1961.

Key Facts:

- The assessee-company declared Long-Term Capital Gains (LTCG) from the sale of shares and claimed exemption under Section 10(38) of the Income-tax Act, 1961.
- The Assessing Officer (AO) included the LTCG in book profits for Minimum Alternate Tax (MAT) under Section 115JB and denied the exemption under Section 10(38).
- The Commissioner (Appeals) allowed the exemption under Section 10(38) but upheld the AO's computation of book profits for MAT.
- The Tribunal ruled in favor of the assessee, affirming that exemption under Section 10(38) was valid despite LTCG not being included in book profits.

Legal Question:

Does the assessee's failure to include LTCG in its profit and loss account and the subsequent exclusion from book profits under Section 115JB disentitle it from claiming exemption under Section 10(38)?

Judgment:

The Delhi High Court held:

- 1.The proviso to Section 10(38) mandates that LTCG exempt under Section 10(38) must be included in book profits for MAT purposes.
- 2.However, the exclusion of LTCG from book profits does not disqualify the assessee from claiming the exemption under normal tax provisions.
- 3.The proviso cannot be interpreted to reverse the exemption provided under Section 10(38).

Verdict:

The Court dismissed the revenue's appeal and upheld the Tribunal's decision, allowing the assessee to claim exemption under Section 10(38), even though the gains were excluded from book profits under Section 115JB.

Dr. Murugesh Shantveerya Hiremath v. DCIT, Central Circle-1(5)

Case Law | Court: ITAT Pune Bench 'A' | Case No.: IT Appeal No. 1558 (PUN) 2024 | Date: January 2, 2025

This case involves the imposition of a penalty under Section 271B for failing to get accounts audited on time, with the assessee claiming the delay was due to genuine and unavoidable circumstances.

Top Trends

- AIBOC plans a nationwide strike on Feb 24-25, demanding a 5-day work week, adequate recruitment, withdrawal of DFS directives, and resolution of issues with IBA.
- Only 1% of cases are selected for scrutiny based on credible third-party reports and flagged by data analytics, targeting high-probability tax additions.
- Manual entry of HSN to be replaced by choosing correct HSN from given dropdown in table 12 of GSTR-1
- CBIC clarified that vouchers are not taxable under GST unless linked to services like marketing or distribution; unredeemed vouchers remain non-taxable.
- The CBDT extended the income tax return deadline to Jan 15, 2025, aiding taxpayers facing Section 87A exemption complexities.

Top Trends

- Vivad Se Vishwas
Deadline: The Vivad Se Vishwas Scheme deadline to settle tax disputes with reduced payments has been extended to Jan 31, 2025
- The Union Government has released ₹1,73,030 crore to State Governments for boosting capital spending and funding development and welfare initiatives.
- The Indian government has maintained unchanged interest rates on key small savings schemes, including PPF, NSC, Sukanya Samriddhi Yojana, and Kisan Vikas Patra, for the fourth consecutive quarter
- In California, the economic impact has reached \$52 billion, potentially making it the most expensive wildfire event in U.S. history.

Key Facts:

- The assessee, a cardiologist, e-filed his income tax return for the assessment year 2018-19.
- During a survey under Section 133A, it was noted that his gross professional receipts were ₹6.84 crores. However, the audit report, required under Section 44AB, was not uploaded by the due date specified under Section 139(1).
- The Assessing Officer imposed a penalty under Section 271B, stating that the failure to obtain and file the audit report within the prescribed time constituted a default without reasonable cause.
- The Commissioner (Appeals) upheld the penalty.

Legal Question:

Was the assessee prevented by reasonable and genuine cause from filing the audit report within the time prescribed under Section 139(1), thereby warranting deletion of the penalty under Section 271B?

Judgment:

The Tribunal held:

- 1.The delay in getting accounts audited was due to impounded documents during the survey and the lapse of the chartered accountant, who had stopped practicing.
- 2.The audit of the financial year 2016-17 was completed only in March 2019, making it impossible to audit the subsequent year before that date.
- 3.These circumstances provided sufficient and reasonable cause for the delay.

Verdict:

The penalty under Section 271B was deleted, and the appeal filed by the assessee was allowed.

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