Finance Bill 2023

Why in news?

Recently, the Lok sabha has passed the Finance bill 2023 with 64 amendments.

What are the key highlights of the Finance Bill 2023?

- **Capital gains** - Capital gains from debt funds, international funds, fund of funds and gold funds, irrespective of their holding period, will be taxed at an individual's relevant tax slab.
- **Mutual funds** – Mutual funds having less than 35% Assets Under Management (AUM) in domestic equity to lose indexation benefit, to be taxed as short-term capital gains.
- **Securities transaction tax (STT) -** There has been hike in STT taxes.
- **Real estate investment trusts (REITs) and infrastructure investment trusts (InvITs)** - Only the sum received in excess of the initial investment will be taxed as income from other sources.
- **GST appellate tribunal -** The amendments intends to set up of a GST appellate tribunal (GSTAT) with one principal bench and several State benches.
- **Foreign tours** - RBI is being requested to bring payments for foreign tours through credit cards within the ambit of Liberalized Remittance Scheme (LRS).
- **GIFT city** - Offshore banking units operating in GIFT city to get 100% deduction on income for 10 years.
- **Foreign (non-resident) companies** -Tax on royalty or technical fee earned by non-resident companies hiked from 10% to 20%.

How will the amendment in the finance bill 2023 affect debt mutual funds?

- **Differentiation in debt fund –** Following the latest change, the differentiation in debt fund taxation, for a holding period of under 3 years, and of 3 years or longer years, will no longer hold.
- **Capital gain –** Any capital gain on redemption of debt funds bought on or after April 1, 2023, will be *taxed at the income tax slab rate*.
- **Taxation perspective –** With the tax arbitrage between debt funds (capital gains), bonds and FDs (interest income), the 3 are now at par from a taxation perspective.
- In addition to the taxation of interest, listed bonds also attract capital gains tax.
- **Short-term capital gains –** The holding period of up to 1 year, from listed bonds are taxed at your income tax slab rate.
- **Long-term capital gains –** They are taxed at 10% without indexation.
- It is the interest rather than the capital gain that is a more important source of

income.

- **Accrual-based taxation –** It helps avoid the possibility of inquiry from the income tax department for a mismatch of data reported to the income tax department and income offered to tax.
- **Debt fund investments –** It can help long-term investors postpone their liability.
- **Indexation benefit –** It was used to bring down the tax liability substantially for such investors.
- **Better than FDs –** From the perspective of ease of any time of withdrawal, debt mutual funds continue to score over FDs, because premature withdrawals from FDs attract a penal rate of interest.
- **Exit loads –** Some debt funds have an exit load, but for very short periods.

Quick Facts

- **Capital gains –** A capital gain is the increase in a capital asset's value and is realized when the asset is sold.
- **Mutual funds –** A mutual fund is a pool of money managed by a professional Fund Manager.
- **Assets Under Management (AUM) –** Assets under management (AUM) refers to the total market value of the investments or assets managed by a mutual fund, hedge fund, wealth management firm, portfolio manager, or other financial services firm.
- **Securities transaction tax (STT) –** Securities Transaction Tax (STT) is a direct tax charged on the purchase and sale of securities listed on the exchanges in India.
- **Real estate investment trusts (REITs) –** A real estate investment trust (REIT) is a company that owns, operates, or finances income-generating real estate.
- **Infrastructure investment trusts (InvITs) –** I is Collective Investment Scheme similar to a mutual fund, which enables direct investment of money from individual and institutional investors in infrastructure projects to earn a small portion of the income as return.
- **GST appellate tribunal (GSTAT) –** The GST Appellate Tribunal (GSTAT) is the second appeal forum under GST and the first common forum of dispute resolution between Centre and States.
- **Liberalized Remittance Scheme (LRS) –** It is a part of the Foreign Exchange Management Act (FEMA) 1999 which lays down the guidelines for outward remittance from India.

References

1. The Hindu Business Line | Finance Bill 2023