Union Budget 23-24 – Expectations from Small and Medium Tech Companies

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The pandemic has led to rapid digitization all over the world, in-turn, leading to a very healthy growth of Information Technology ('IT') sector in India during the years 2020 to 2022. But with the world now returning to normal and global inflation showing its effects, the boom is slowly normalizing. Towards the end of 2022 restructuring and layoffs in the IT sector are in plain sight for everyone to see.

While FY 2023-24 is likely to be more challenging for the IT sector, more pressure would be felt on small and medium sized companies. Therefore, they would need a little push from the Government to continue flourishing. Here are a few suggestions with which the small and medium sized companies could be helped:

Incentivization:

There are certain employment generation incentives launched by the Government, but unfortunately because of their scale, the small and medium sized companies cannot take the benefit of the scheme. Similar to the Production Linked Incentive ('PLI') scheme, a scheme could be launched for the IT sector, where a small incentive could be given based upon the aggregate or incremental revenue of the companies or perhaps link it with the foreign exchange earned by them.

Tax Slab Parity:

A large number of smaller IT units still operate as either proprietorship or a partnership firm to avoid the compliances that come with a corporate structure. Uniformity in the tax slab @ 25% for proprietorship and partnership firms can give a little extra savings where needed the most.

Lower Tax Slabs for Salaried Individuals:

There is always a talent war in the Tech industry and attrition rates are very high. Most of the times, it boils down to what we call the "takeaway" amount, or the amount received in hand by a professional after all the taxes and other deductions are made. A lowering of the tax slab for the salaried individual will automatically increase their takeaway salary enabling better job satisfaction and retention rate.

Subsidies and grants:

The Government can provide subsidies and grants to IT companies for research and development in new technologies, such as artificial intelligence, machine learning, and blockchain, irrespective of whether the company is a startup or not. Similarly, training and deploying of freshers could be incentivized.

Equalization Levy:

Equalization Levy ('EL') is a tax that is supposed to be withheld on payments made to a non-resident service provider against online advertisements or any provisions for digital advertising space. The Indian Government introduced this tax in 2016 as a measure to tax digital transactions that were not captured by traditional tax systems. Further, the ambit of EL has been expanded and it is now levied on electronic commerce supply and services from 1 April 2020.

However, removing EL should be reconsidered by the Government as it is a complex tax, with several rules and exemptions that can be difficult for companies to navigate. Besides in real-world transactions, often the non-resident service providers do not agree to the withholding of the EL and most of the times, it is borne by the service recipients themselves increasing their digital marketing costs drastically.

Corporate Social Responsibility:

Corporate Social Responsibility ('CSR') is a great initiative by the Government, allowing corporates to participate mandatorily in social causes. However, for smaller and medium sized companies, the Government should allow either a higher ceiling of profit to trigger CSR by increasing it from INR 50 million to 100 or 150 million, or the Government should allow CSR expenses as a deduction for computing the taxable income of a company. Such relief could be given to companies with a turnover threshold if the Government warrants so.

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