100 DAY AGENDA POLICY RECOMMENDATIONS

I. WEALTH CREATION IN INDIA

Indiatech.org has worked closely with the Government, SEBI and NITI Aayog on policy changes since 2019 to enable listing of Indian registered and Indian domiciled startups in Indian Stock Exchanges as part of our efforts to create wealth within India. This move attracted close to $100 bn in investments over the three year time.

However, we still have a large number of Indian Startups who have created their holding companies abroad and attracted investments outside India, while continuing to run their businesses in India. These were done primarily to leverage advantages such as access to venture capital, beneficial tax structures, market expansion, and international branding. However, it is critical that India moves ahead in this direction of enabling the listing of such holding companies back to India.

Recommendation: Streamline the procedures for cross-border mergers and formulation of a financial incentive scheme to enable Reverse Flipping or “Ghar-wapsi” of unicorns with a view to attract holding companies of startups back to India. This will ensure further Wealth Creation in India. Indicatech.org is already working in this area and would be happy to present detailed recommendations in this regard similar to the exercise we undertook with the government and regulators between 2019-2021.

II. LIVELIHOODS, SOCIAL SECURITY AND GIG ECONOMY

Ek Shramik, Ek Pehchaan– Towards a Sustainable Gig and Platform Economy

The emergence of technology has not only facilitated but also accelerated the emergence of temporary workers engaging via online platforms, thereby highlighting the importance of gig work in today's dynamic economy. Projections indicate that the Indian gig workforce will rise to 23.5 million workers by FY30, up from 7.7 million in FY21, constituting 4.1% of the total workforce in India by FY30. While the gig economy offers flexibility and new avenues for workers, it also poses challenges concerning labour rights and social security. Navigating this multifaceted terrain calls for well-considered legislation to ensure that the benefits of the gig economy are inclusive, striking a harmonious balance between flexibility and comprehensive worker protections.

Recommendations:

- **Implement the Code on Social Security, 2020 and notify Rules for the Code on Social Security, 2020 and the associated guidelines required to operationalise the Code in India.**
    a) While the Code on Social Security got enacted in 2020, it is yet to be implemented. Owing to the lacuna in implementation, certain State Governments are developing their own decentralized frameworks. Such granular legislations will result in not only

duplication of structures, registrations, corpuses and compliances but also confusion on the ground.

b) It is requested that the Government implement the Code on Social Security at the earliest so that there is universal coverage of all platform based gig-workers with a single UAN (Universal Account Number), and a centralized corpus and implementation/claim disbursal mechanism.

- **Ek Shramik, Ek Pehchaan:** Recommendation to make E-Shram's UAN (Universal Account Number) as the single identity for 2.35 crore gig and platform workers across India.
    a) Initiate a campaign to get gig and platform workers registered through the eShram portal.
    b) Announce social protection schemes for platform workers registered with the eShram portal to incentivise and boost worker registration.
    c) Introduce suitable data sharing mechanisms between the eShram portal and State Governments to support their efforts to enumerate workers and provide social protection benefits to them.
    d) Make eShram registration mandatory for availing social protection benefits for the platform workers across states and union territories.
- Extend medical benefits under Employee State Insurance (ESI) to platform workers registered on the eShram portal and broaden the reach of social security.
- Improve the coverage of existing social security schemes by relaxing the eligibility criteria. For example, **the Ayushman Bharat scheme in its current eligibility criteria excludes households who own a motorized vehicle** (2/3/4 wheeler), effectively excluding many platform workers who need to have a vehicle for their gig work like delivery riders, cab drivers etc.

III. EASE OF DOING BUSINESS

A. <u>Issues related to the Goods and Services Tax Regime</u>

The promulgation of the Goods and Services Tax regime has been one of most significant reforms for laying the groundwork for ease of doing business in India and has led to positive growth in several sectors, including e-commerce. However, to support e-commerce operators who provide a platform to millions of small service providers to connect with the customers, concerted effort is required from the regulatory bodies to ease the compliance and procedural burden that these operators currently face.

Recommendation: Clarification on the applicability of GST on services provided by delivery service providers through e-commerce operators to be provided.

- Currently, delivery services provided by gig workers through e-commerce operators are not included in Section 9(5) of CGST Act, owing to which varying positions are being undertaken by authorities. It must be noted that gig workers earn predominantly below the INR 20 Lakh threshold.
- It is recommended that the government issue clarification on GST liability on these delivery services. This much needed clarity will help ensure that the earnings of delivery partners are

protected, that there is ease of doing business for e-commerce operators, and that there is parity between offline and online mode for delivery partners.

Recommendations: Following are recommendations with respect to the various issues faced by online travel agents and suppliers in terms of provisions of GST law.

- Restoration of GST exemption on passenger transportation services by non-air-conditioned stage carriage and contract carriage other than radio taxi, when supplied through an e-commerce operator.
    a. This will remove the distortion in the offline versus online channel making way for a level playing field, as well as encouraging small service providers to continue getting market visibility and provide services through e-commerce operators.
- Exclude e-commerce operations from payment of GST on hotel accommodation services provided by persons not liable for registration under Section 22(1) of the CGST Act.
    a. GST law prescribes an annual turnover threshold of INR 20 Lakh for obtaining registration under the GST laws.
    b. However, in case of accommodation service– while hotel service providers with turnover below the threshold limit are exempted from payment of GST, the same accommodation services provided by them become taxable for the customers when such services are supplied through an e-commerce operator.
- Relaxation to comply with Section 9(5) and 52 of the CGST Act from a centralized registration.
    a. E-commerce operators required to discharge GST on notified services or deduct Tax Collected at Source (TCS) have to obtain GST registration in all the states in which they operate.
    b. This leads to undue hardships for e-commerce operators and also results in extra-territorial jurisdiction of State authorities and multiple investigations on the same transaction. Hence, e-commerce operators end up receiving multiple notices/summons from various authorities on the same issue in each state.
    c. E-commerce operators should thus be allowed to comply with Section 9(5) and 52 of the CGST from a centralised GST registration wherein they should not be required to obtain registration in each State for complying with requirements under the aforementioned sections.
- Provision to undertake Section 9(5) compliance using the address of the head office under State GST registrations.
    a. Due to the online nature of services offered by e-commerce operators, their geographical spread is limited. However, e-commerce operators are required to provide a local address in the States where registrations are sought for complying with requirements under Section 9(5) of the CGST Act, which leads to them mandatorily being required to occupy an office space in each state, incurring additional administration costs.
    b. Thus, E-commerce operators should ideally be allowed to use their head office address under all State GST registrations obtained only for Section 9(5) purposes, registrations where e-commerce operators do not have outward supplies on their own account.

B. Appeal to Relook the Definition of Foreign Owned & Controlled Entities

The concept of FOCC is explained in the Foreign Exchange Management (Non-Debt Instruments) Rules, 2019 (NDI Rules). An entity is considered to be FOCC if *any* of the following conditions are fulfilled:

a. Company is more than 50% 'owned' by persons resident outside India; and/or
b. Company is 'controlled' by persons resident outside India.

In addition, since i) foreign investment is calculated as the sum total of direct and indirect foreign investment and ii) indirect foreign investment is the *downstream investment* by an Indian entity which is a FOCC for the investee company, the downstream investment by the FOCC Indian entity in the investee is considered foreign capital.

As a result of the aforementioned provisions, multiple new-age startups of India are bracketed as FOCC owing to either their overall foreign investment equaling or exceeding 51% or their downstream investment from a FOCC Indian entity. It is pertinent to note that the foreign capital is leveraged by these startups with the intention/ effort to expand the business given limited domestic capital. Consequently, these Indian startups face added regulatory limitations that circumscribe their growth and further expansion, thereby hindering their ability to compete at the global level.

***Recommendations*:** We request your kind consideration to exempt new-age homegrown companies from the ambit of FOCC, subject to fulfillment of certain additional conditions. We submit that having additional conditions (that go beyond the level of foreign ownership) is perhaps needed to cater to new-age companies where the shareholding is diversified and fragmented. Following are suggestions on conditions that, if met, could result in a company being treated as an Indian owned company (and not a FOCC) - particularly under the Foreign Direct Investment laws - irrespective of the foreign ownership levels.

- Company is listed in India: Consideration should be given to Indian FOCC entities and/or their holding companies which are listed on Indian stock exchanges. Listed entities are under much higher supervision and control with strict corporate governance norms in place and higher public disclosure requirements. Additionally, listed entities have diversified shareholders.
- Diversified shareholding: No single/ individual foreign shareholder owns more than a certain prescribed percentage of shareholding in the company (and perhaps create a mechanism to put a ceiling to individual foreign ownership). This will ensure that no single foreign shareholder is in a position to control the company's decision making.
- Diversified Board Structure: Board structure in which:
    a. Majority of Board members are resident Indian citizens;
    b. Majority of Board members are independent;
    c. Nominee directors of foreign shareholders are not in a position to control the Board;
    d. Majority decision making on the Board vests with resident Indian citizens;
    e. The Chairman of the Board is a resident Indian citizen.
- CEO and MD: The CEO and MD of the company are Indian citizens so that control is retained domestically.

- Indian-focused revenue: >90% of the company's revenue is from India (essentially generating employment and work opportunities in the country).
- No preferential rights to foreign shareholders: No voting or economic rights to foreign investors, and no royalty/ brand fees to be paid by the listed company to such foreign investors.

C. Development of Enterprise and Services Hubs (DESH)

The Finance Minister in her budget speech in February 2022 had announced that the Special Economic Zones Act will be replaced with a new legislation that will enable the States to become partners in Development of Enterprise and Service Hubs. This proposed bill was later renamed "DESH". This policy shift promised the removal of several operational restrictions and allowed for domestic market sales under a proportional duty payment structure. Unfortunately, this promising initiative has yet to materialize into actionable legislation.

Recommendation**:** Immediate drafting and enactment of the DESH (Development of Enterprise and Services Hubs) Bill to foster the broader growth of Indian manufacturing sectors, helping to replace imports with high-quality and domestically produced goods.

IV. EASE OF MOBILITY

A. Energy-Efficient Mobility in Bharat

Electric Mobility is expected to revolutionize economic development and enhance livelihoods, bridging the urban-rural divide. Accessible, affordable, and safe transportation solutions are integral to uplifting lives and advancing climate objectives. Projections indicate that India's electric vehicle market will surge with a staggering 45.5% CAGR from 2022 to 2030, with annual sales anticipated to surpass 16 million units by the end of the decade.

Recommendation**:** Extend Electric Mobility Promotion Scheme (EMPS) for the rest of the year; come out with a third round of the Faster Adoption and Manufacturing of Hybrid and Electric Vehicles Scheme.

- New, comprehensive scheme will be needed to replace the outgoing Electric Mobility Promotion Scheme (EMPS) for increasing penetration of electric two- and three-wheelers. This will have to follow the financial year, since the scheme's duration ends in July 2024.
- Globally it has been noticed that countries managed to touch significant EV Penetration rates (China, Norway, Germany) only when incentive support was available for a period of twenty years. Therefore, the government should seriously consider bringing out a comprehensive third round of the existing Faster Adoption and Manufacturing of (Hybrid &) Electric Vehicles in India (FAME-India) Scheme that at least continues providing support across various vehicle categories. Considering that designing and fund allocation for a revamped round of the previous FAME scheme or equivalent will need time; in the immediate term, EMPS can be continued to sustain the momentum of electric vehicle adoption in the two- and three-wheeler segments.

- Inclusion of different electric vehicle (EV) types like personal cars and trucks under incentive schemes has varied. The FAME-I scheme included incentives for personal and commercial electric cars and trucks, while FAME-II did not. The current Electric Mobility Promotion Scheme (EMPS) excludes electric four-wheelers (E4Ws) and electric buses, although their manufacturers can benefit from the Auto PLI and PM e-bus Seva schemes. However, incentives for individuals purchasing electric cars for personal use have been lacking in both past (FAME-II) and current policies.

Recommendation**:** Charging Infrastructure Needs to be Expanded and Diversified beyond Existing Concentrations ; dedicated fund to support the same needed. Charging infrastructure support will have to be provided to decentralize their concentration.

- Currently, there are scenarios where charging infrastructure development is mostly concentrated in one or two districts in a state. For instance, the EV-Ready India dashboard shows that in the case of Karnataka and Maharashtra, more than half of all the charging stations installed are concentrated in just Bengaluru and Pune. This contrasts the adoption of EVs, which is rapidly increasing in the rural and smaller urban centers.
- Tiered financial incentives to municipal corporations install charging infrastructure under a financial support scheme that helps the development of charging infrastructure in smaller centers (for example an Amreli in Gujarat versus an Ahmedabad) can be integrated into the EMPS in the first full budget. This can also be extended to the replacement scheme that sets in.
- Dedicated funds in the form of subsidies should be installed and private players should also be invited to set up charging infrastructure.

Recommendation**: Empowering Marginalized Communities through Electric Vehicles.**

- Implement a targeted program providing electric vehicles (two, three, and four-wheelers) to marginalized communities, offering subsidies, training, and incentives to set up charging infrastructure to empower livelihoods and promote sustainable transportation.
- Foster a culture of sustainable mobility through awareness campaigns.

Recommendation**: Skilling 10 Lakh young Indians in Electric Mobility.**

- Implement a comprehensive skill development program aiming to train 10 lakh young Indians in the EV sector.
- Enhance the involvement of women and persons with disabilities (PwDs) in the burgeoning electric vehicle (EV) sector by allocating a budget for placement-driven skill development programs.
- Focus on technical skills such as EV assembly, maintenance, and repair, alongside soft skills like customer service and entrepreneurship to foster a skilled workforce and drive innovation in sustainable transportation.

B. Alternative Fuels

By 2030, India is forecasted to be the globe's third-largest automobile market by volume. A shift in consumer inclinations towards alternative fuels reflects a collective effort to mitigate environmental risks. As India aligns itself with pivotal climate agreements like the Paris Agreement, prioritizing environmental protection, the momentum behind alternative fuels and eco-friendly vehicles is expected to accelerate, bolstering both production and sales. Moreover, evolving consumer preferences, coupled with regulatory impetus, is driving widespread adoption of alternative fuel sources.

Recommendation: Facilitate Easy Access to Finance for Projects that Produce Alternative Fuels Using Biomass.

- Lack of access to finance from the banking sector has been a big barrier to the penetration of bio-CNG, sustainable aviation fuel (SAF), and ethanol plants, even preventing many tendered plants from coming up within stipulated timelines. Ensuring this can help the government meet their mandated blending targets (5% for bio-CNG, 1% for SAF and 20% for ethanol) within the stipulated deadlines.
- Ensuring diversification for feedstock material for ethanol production away from sugarcane and broken rice towards innovative crops like bamboo, napier grass, and even energy cane can help address the food vs fuel debate effectively. This will in turn create avenues for farmers to increase their earnings while reducing the burden in places with significant water stress like Punjab, Telangana, Maharashtra among others.

C. One Bharat One Road Tax

With the introduction of the Goods & Services Tax (GST) regime, a major price anomaly that existed in the previous Value Added Tax (VAT) regime and that applied to the purchase of a vehicle has already been fixed. However, the anomaly of the road tax persists. At present, each state follows its own formula for arriving at the road tax, leading to differentiated pricing of the same model in different states.

On-road prices turn out to be strikingly different from state to state for the same model, so it is fairly common to have buyers purchasing cars in another state, rather than their state of domicile or residence, due to lower road tax in those states.

Different tax structures pose a burden of compliance on people with transferable jobs. The owner also needs to cancel the old registration in the previous state and apply in the new state, which leads to the duplication of road tax payments as refunds are rare or calculated on depreciated value while the new state may use discretion and apply on invoice value again. Lack of awareness amongst applicants as well as authorities along with the high cost in terms of time, effort, and the uncertainty in receiving the refund, discourages one further from applying for a refund. Moreover, the mechanism of getting a refund can vary from state to state adding to the burden of compliance.

Road tax also comes into the picture in case of inter-state sale of vehicles. The owner is required to pay separate registration charges to the destination state and the amount is independent of the amount already paid and not utilized by the owner in the source state. While the process for recovery of unutilized duty from source state exists, no owner is able to actually benefit from it, resulting in duplication of duty. The used vehicle industry facilitates cross-state sales, and to capitalize on the potential this industry has, ease of compliance for the users is a must.

Recommendation**: One Bharat One Road Tax.**

A uniform road tax regime will bring about *"Ease of Owning and Disposing of Vehicles"*. It has the potential to alleviate citizens of cumbersome compliances, open avenues for businesses to efficiently trade vehicles, and ensure that the government's efforts to digitally transform the nation bear fruit.

While the policy change of uniform road tax system, needs consensus from the states and the union government, the immediate pain points of the used car industry can be addressed through the government setting up a fully online interstate vehicle transfer and re-registration process with following salient features –

- Fully online application and approval process of a No-Objection Certificate (NOC) issuance from the source state.
- Fully online application and re-registration process of the vehicle at the destination state.
- Eliminate the need of physical presence of either the buyer or seller or vehicle
- Allow registered used car dealers (recognized players as per Ministry of Road Transport and Highways policy) to file and manage the Registration Certificate's (RC) interstate transfer process on behalf of the seller and buyer.
- Registration charges and duty to be paid at the destination state to be netted of the unutilized duty paid at the source state.
- Eliminate the need for the original invoice as well.

D. <u>Interstate and Intercity Public Transport</u>

Ground transport serves as the engine driving India's dynamic ascent in the online travel sector, notably led by the intercity bus category boasting an impressive 21 percent compound annual growth rate (CAGR). In FY23, the combined valuation of rail and intercity bus categories reached ₹1,156 billion ($14.5 billion), representing a significant 30 percent share of the total travel market. The evolving landscape of ground transport not only heralds a transformative era for India's online travel market but also lays the groundwork for realizing its full potential.

Recommendations:

- To leverage the new highways and expressways and promote public transport for interstate and intercity travel, the government can upgrade Inter State Bus Terminals in the main cities to world class standards and generate revenue by opening them up for private bus operators and charging for usage.

- Similarly, the government can encourage states to monetise assets of STUs like depots to allow parking of private bus operator vehicles and also use them to create charging infrastructure for promoting EVs.

E. Scrapping of Old Vehicles

According to a 2020 report by the Centre for Science and Environment (CSE), India boasts the world's largest fleet of old vehicles, estimated at 37 million units aged over 15 years. The introduction of India's vehicle scrapping policy, the "Voluntary Vehicle-Fleet Modernisation Programme," marked a pivotal shift in the nation's automotive landscape. The Union Budget for 2023-2024 also made a significant allocation to support this policy, aiming to replace vehicles aged over 15 years. It is a prime opportunity for fleet modernization, a substantial reduction in fossil fuel consumption, bolster the growth of the automotive sector and generate employment opportunities.

Recommendation**:** Mandate Scrapping of Old Vehicles Across India and Create scrapyards, provide incentives

- Scrapping old vehicles will help achieve multiple goals - it will help reduce air pollution from old vehicles; scrap yards will create jobs; and manufacturing of cars will increase due to increased demand, which will boost economic growth.
- The scrapping time can be the same as Delhi’s, which is currently 10 years for diesel and 15 years for petrol. CNG vehicles get another five years.
- Incentives can be given to all those who voluntarily give their vehicles before the stipulated deadline in addition to the scrap value to ensure that newer vehicles can be adopted quicker.
- Fleet modernisation program is voluntary at the moment, and applies mainly to trucks. The above proposed points can be included and mandated for all vehicle form factors.
- Scrap Yards should be increased to fast track the process.

F. Homogenous Vehicle Ownership Transfer Process

Vehicle ownership transfer (Registration Certificate/RC transfer) in India is marred with issues of complex documentation requirements, varying process flow and uncertainty in processing TAT. Additionally, the requirement of the physical presence of the seller / buyer / vehicle, in select Regional Transport Offices (RTOs) makes the RC transfer process extremely lengthy.

As a result, the actual transfer of vehicle ownership in the government record happens months after the transaction completion, leaving car sellers prone to risk and buyers prone to challenges during the interim period. In many cases, ownership transfer does not happen years after the transaction. All of these issues also create major headwinds directly for the Indian used car market and indirectly for the new car market due to the absence of a thriving used car ecosystem.

Recommendations: To solve all these issues, government should set up a fully online, homogenous (i.e., same process and documentation requirements across RTOs) and consistent (i.e., limited variation in process over time) vehicle ownership process with the following salient features –

- An online application form with Aadhar OTP based buyer and seller KYC or validation.
- Eliminate the need of physical presence of either the buyer or seller or vehicle.
- Acceptance of all suitable government issued identity cards for address proof, in addition to Aadhar.
- Allow registered used car dealers (recognized players as per Ministry of Road Transport and Highways policy) to file and manage RC transfer process on behalf of the seller and buyer.
- Flow to have deemed approval of RC transfer application, after 5-7 working days (or any other similar number) to manage TAT.
- Linkage of Aadhar and RTO records for live validation of the vehicle owner of a given vehicle without relying on offline documents that can be manipulated.

G. Easier Challan Payment Process

Recommendation: OTP-less Challan Payment Process.

- Current online challan payment process involves an OTP verification leg in which the OTP is sent to the seller. This creates a major hindrance in the used car buying process since most used car transactions are enabled by dealers, who manage the car on behalf of the seller till a new buyer is finalized and the records are updated.
- Any challan payment during this period would require the dealer to connect with the seller and ask for the OTP which is a time consuming exercise and against the philosophy of data security. Since the challan payment process only involves transfer of funds from payer to government accounts, the need for an OTP can be eliminated.

V. DIGITAL INDIA

Towards a More Innovative & Inclusive Digital Bharat

The proposed Digital India Act addresses contemporary challenges and paves the way for a future-ready legal framework. This legislation not only prioritizes online safety and open internet principles but also regulates emerging technologies such as artificial intelligence and blockchain. With India's ambitious goal of achieving a $1 trillion digital economy by 2026 and increasing global digital interactions, these regulations are essential to align with international standards, best practices, and obligations. Furthermore, the introduction of the Digital Personal Data Protection Act 2023 and the draft Digital Competition Bill aims to further refine the regulatory environment, facilitating the growth of startups and other entrepreneurial ventures across the nation.

Recommendations:

- Conduct extensive public consultations on the Digital India Bill before introduction in the Parliament.

- Conduct extensive public consultations on the Digital Personal Data Protection Rules before their notification.

A. Antitrust Issues Impacting Technology Startups

Despite witnessing a positive evolution in India's startup scene, there are still notable shortcomings. One recent point of contention is the dominance of major tech corporations in the Indian market, which is seen as hindering the growth of both large and small startups. Concerns have been raised over instances involving tech giants, including disputes regarding in-app billing policies, trademark violations, and the removal of prominent startups from their app stores. Several matters concerning the monopolistic practices of these digital giants are already under the radar of top courts and regulatory bodies of the country. However, urgent intervention from the government and a thorough reevaluation of regulatory obstacles are the need of the hour.

***Recommendation*:** Expedite proceedings before the Competition Commission of India against the companies acting as "Digital Monopolies" & protect technology startups in the case of pendency of proceedings before the Commission.

B. Online Gaming

The online gaming industry in India is bound for exponential growth. With projections indicating a CAGR of 21% reaching INR 388 billion by 2026, it is increasingly necessary to support its growth. India is home to a substantial gaming community comprising 42.5Cr gamers and the sector directly and indirectly employs 1 Lakh individuals with the prospect of expanding to 2.5 Lakh job opportunities by 2025. The sector has also attracted investments amounting to around INR 22,931Cr between FY 2020 & FY 2024 from both domestic and international sources.

Recommendation: With respect to the Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules, 2021 and Gaming Rules 2023.

- Requesting timely implementation of the Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules, 2021 and its 2023 amendments relating to Online Gaming to ensure user safety and foster growth of this industry.

C. AVGC-XR Sector

India's Animation, Visual Effects, Gaming, Comics, and Extended Reality (AVGC-XR) will see an extraordinary leap forward in the coming five to six years. Currently employing 260,000 individuals nationwide, the industry is projected to generate a staggering 2.3 million direct jobs by 2032. Moreover, revenues are forecasted to skyrocket, surpassing $26 billion by 2030, a significant rise from the current $3 billion mark. This dynamic sector is experiencing rapid growth, with certain segments within AVGC-XR witnessing annual expansions of 30% to 35%.

***Recommendations*:**

- Launch the "National Policy for Growth of the AVGC-XR sector in India" to empower "Brand India" and "Create in India" initiatives and ensure that India emerges as the world leader in game design and game development.
- Notification of guidelines for Digital News Publishers and OTT platforms to prevent publication of advertisements, including surrogate advertisements, of online betting and gambling platforms.

D. <u>Virtual Digital Assets</u>

India, as the world's fastest-growing economy, holds a pivotal position in shaping the future of the Virtual Digital Asset (VDA) industry. While the country leads efforts in global coordination, enhancing oversight of the domestic virtual digital assets ecosystem can offer essential reassurance to both users and regulators alike. Moving forward, the implementation of a forward-thinking regulatory framework will enhance India's innovation economy, solidifying its leadership in the realm of virtual digital assets.

***Recommendations*:**

- Basic Exemption Limit for Virtual Digital Assets (VDAs) under Section 115BBH.
  - Current Challenge: Taxation of income from VDAs under Section 115BBH does not consider the basic exemption limit, posing an undue burden on small investors and stifling sector growth.
  - Proposal: Align the taxation of income from VDAs with the basic exemption limits (INR 2,50,000/ 3,00,000/ 5,00,000) for total income computation. Apply the basic exemption limit for tax return filings under Section 139(1) to include VDA income, facilitating a simpler and fairer tax structure.
  - Rationale: Simplifying the tax regime for VDAs will support the burgeoning Web3 sector, vital for India's digital economy growth, expected to contribute over $1 trillion to GDP by 2032.
- Taxation Rate Adjustment for VDAs under Section 115BBH (1).
  - Current Challenge: A flat 30% tax rate on VDA transfers does not align with other income sources, potentially discouraging investment and engagement in the Web3 sector.
  - Proposal: Remove Section 115BBH (1), and the income from transfer of VDAs should be treated at par with existing income sources.
    1. For consumers, income from VDA transfers should be classified as 'income from other sources,' subject to the corresponding tax rate.
    2. For businesses, this income should be categorized as 'business income,' with the appropriate tax rate applied.
  - Rationale: A more equitable tax treatment of VDA income will encourage sector growth and innovation, aligning with the government's broader economic objectives.
- Deductions and Expenditures for Web3 Businesses under Section 115BBH (2).
  - Current Challenge: The prohibition of deductions beyond the cost of acquisition, limits operational growth and investment return potential for Web3 businesses.

- ○ Proposal: Allow standard business deductions for Web3 businesses, recognizing the comprehensive costs involved in VDA creation and utility. For e.g: For e.g., if a NFT gaming platform is spending Rs. 100 (in terms of manpower cost, technology etc and if such digital asset is core to the business) to create a virtual digital asset & the platform whose utility is in gameplay and thereafter, selling the same to its users at Rs. 120, then, such a business shall be allowed to claim deduction of Rs. 100 as its expense.
- ○ Rationale: Acknowledging the operational costs of Web3 businesses will foster sector competitiveness and prevent migration to more crypto-friendly jurisdictions.

- Loss setoff or carryforward for VDAs under Section 115BBH (2).
    - Current Challenge: Restrictions on setting off and carrying forward losses from VDAs limit risk mitigation and financial planning for businesses and consumers.
    - Proposal: Permit loss set-off and carryforward for VDAs, akin to other assets, under prevailing income tax law.
    - Rationale: Aligning VDA loss treatment with global practices will bolster the web3 ecosystem's resilience and contribution to India's future GDP. Additionally, enhancing loss mitigation measures for VDAs will position India as a competitive and attractive destination for crypto industry investments.

E. Satellite Spectrum

SatCom represents a significant evolution in telecommunications, serving as a frontline solution in areas where fiber connectivity may be impractical and ensuring essential services like banking remain operational during disaster scenarios. Additionally, it offers substantial potential to bolster resilience and redundancy in internet connectivity. By diversifying internet access, satellite-based networks provide an alternative, guaranteeing uninterrupted connectivity even amidst disruptions to conventional systems.

Recommendation: Request to the Department of Telecommunications to accelerate the allocation of satellite spectrum and permitting operations for satellite communications companies in India.