

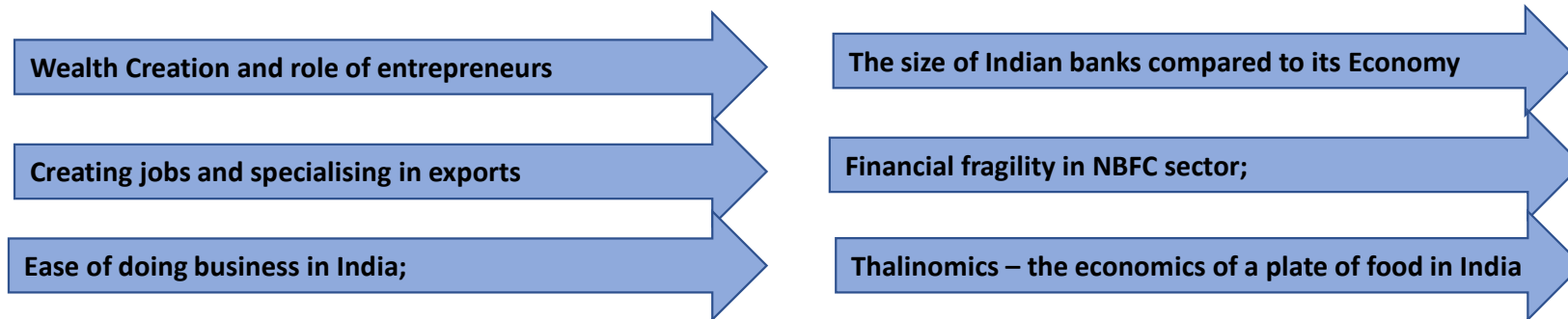
Budget 2020: Key Takeaways



HIGHLIGHTS OF ECONOMIC SURVEY



Indian is the 5th largest Economy in the world. “Wealth” was the theme of this years Economic survey. The survey focussed majorly on :



GDP growth rate 5% in FY 2019-20;
Projected at 6-6.5% in FY 2020-21

Fiscal deficit – 3.8% (FY 2019-20)
Estimated at 3.5% (FY 2020-21)

Inflation: CPI – 4.1% (FY 2019-20) increased from 3.7% in FY 2018-19
WPI – 1.5% (FY 2019-20) down from 4.7% in FY 2018-19

BUDGET THEME 2020



Aspirational India

- Agriculture, Irrigation and Rural Development
- Health, Water and Sanitation
- Education and Skills

Economic Development

- Economic Development
- Industry Commerce and Investment
- Infrastructure
- New Economy

Caring India

- Women and Child Social Welfare
- Culture & Tourism
- Environment & Climate Change

Few Highlights

Doubling Farmer income by 2022

Bharat Net Program, Fibre to Home

5 New smart cities with PPP

National Mission- Quantum Technologies

No more manual sewage handling

Solar power generation assistance on barren land

New Education policy to be announced. Top 100 institutes to have on-line courses

District hospitals to be utilised as medical colleges

5 emphasised Archaeological sites

TAX RATES



A new **optional taxation regime is proposed to be introduced for individuals and HUFs**. The assessee opting for this scheme will have to forgo many exemptions/ deductions in order to avail the new concessional tax rates.

The slab rates under old and new regime are as under:

Total Income (INR)	Tax Rates (current provisions)	Tax Rates (proposed New optional Regime)*
Upto 250,000	Nil	Nil
250,001 - 500,000	5%	5%
500,001 - 750,000	20%	10%
750,001 - 1,000,000		15%
1,000,001 - 12,50,000	30%	20%
1,250,001 – 1,500,000		25%
Above 1,500,000		30%

No Change in Corporate tax rates which were already reduced by Taxation Law Amendment Act, 2019

* There is no change in surcharge and cess

NEW PERSONAL TAX REGIME



Individuals having no business income can opt for the schemes (old regime vs new regime) every year. However, for those having business income, the option once exercised shall be valid for that financial year and all subsequent years. The businessman can withdraw the option only once.

No business losses or depreciation carried forward from previous year (pertaining to deductions not allowed) and house property loss are allowed to be set off. Alternate Minimum tax will also not apply to such individuals.

No exemption / deductions allowed under new regime:

- HRA,
- LTA,
- some allowances u/s 10(14),
- deduction for income of minor u/s 10(32),
- exemption for SEZ unit u/s 10AA,
- deduction under section 16 (standard deduction / entertainment allowance/ professional tax),
- deduction for housing loan interest on self occupied house property,
- deduction for contribution to NPS ,
- additional depreciation as per section 32(1)(iia),
- section 35, deduction for certain scientific research, etc.

A COMPARISON



A comparison of tax liability at different incomes

Total Income (INR)	Extant provisions (without deductions)	Extant provisions (with deductions)*	Tax Liability (proposed New optional Regime)
500,000	0	0	12,500
750,000	65,000	0	37,500
1,000,000	117,000	28,600	75,000
1,500,000	273,000	140,400	195,000
2,000,000	429,000	296,400	337,500

**Following deductions are considered*

Standard deduction- Rs. 50,000; Deduction u/s 80C- Rs. 150,000; Deduction u/s 80D- Rs. 25,000; Deduction u/s 24(b)- Rs. 200,000;

The definition of '**Residency**' under the tax provisions has been modified. As per the extant provisions, an Indian citizen or PIO, who being outside India, comes on a visit to India is considered to be Indian resident if he / she is in India for 182 days or more instead of 60 days. It has been proposed to reduce the number of days of stay from 182 days to 120 days in case of such individuals.

A new provision has been inserted in which an Indian citizen would be deemed to be a resident in India, irrespective of the number of days of stay in India, if he is not liable to tax in any other country or territory.

Also, an individual shall be considered as 'Not Ordinarily Resident' if he / she has been non resident in India in 7 out of past 10 years.

The twin conditions of being Not ordinarily Resident under the extant law, that is being non resident for 9 out of 10 years or stay in India for 729 days or less days during past 7 financial years have been substituted.

All **Dividend income** received from Domestic Companies and Mutual Funds is liable to tax in the hands of the shareholders with effect from FY 2020-21.

Employers contribution to certain funds to be taxed: Under the existing provisions, there is no threshold in respect of the aggregate amount of contribution made by employer in the Employees provident fund, NPS and approved superannuation fund. The Finance bill has amended the provision to include that the aggregate of the amount of contributions made by the employer towards EPF, NPS and approved superannuation scheme exceeding Rs. 7.5 lakhs in a financial year would be taxed as perquisites.

The annual increment on such contribution exceeding Rs. 7.5 lakhs would also be taxed as perquisites.

Additional deduction on housing loan interest : The existing provisions of section 80EEA of the Act provide for a deduction in respect of interest on loan taken from any financial institution for acquisition of an affordable residential house property. The deduction allowed is up to Rs. 1.5 lakhs subject to certain conditions. The earlier condition of the loan being sanctioned by the financial institution during the period from 1st April, 2019 to 31st March, 2020 has now been extended to 31st March, 2021.

Profits Exemption:

In the existing regime, start-ups with turnover upto 25Cr are eligible for a deduction of 100% profits exemption for three consecutive years out of the 7 years incorporated between 2016- 2021.

Sec 80IAC -proposed to be amended-

- 100% of the profits of the start-up for 3 consecutive years allowed exemption out of 10 years instead of 7 years beginning from the year of incorporation.
- The turnover limit is enhanced from **25Cr to 100Cr**

ESOPs:

For the employees of the **Eligible start-ups**, the taxability provisions for the ESOPs are proposed to be amended. From the current regime of perquisite taxation at the time of exercise of ESOPs, taxes are now required to be deducted or paid within 14 days of one of the following three dates:

- (i) after the expiry of 48 months from the end of the RAY; or
 - (ii) from the date of the sale of such specified security or sweat equity share by the assessee; or
 - (iii) from the date of which the assessee ceases to be the employee of the person;
- whichever is the earliest on the basis of rates in force of the financial year in which the said specified security or sweat equity share is allotted or transferred.

Attribution of profits to the PE: attribution of profits to the PE of a non-resident under Sec 9(1)(i) in accordance with rule 10 of the Rules results in disputes in a number of cases.

It is proposed to amend **section 92CB and section 92CC** of the Act to cover determination of attribution to PE within the scope of Safe Harbour Rules (SHR) and Advance Pricing Agreement (APA).

Dividend distribution tax abolished: Amendments made such that the domestic company or specified company or mutual funds are not required to pay any DDT anymore. Further amendments made in other corresponding provisions so that dividend or income from units are taxable in the hands of shareholders or unit holders at the applicable rate.

Amendment in Dispute Resolution Panel (DRP) Sec 144C: Under the current provisions, certain eligible assessee, viz., foreign companies and any person in whose case transfer pricing adjustments have been made under sub-section (3) of section 92CA of the Act, the AO is required to forward a draft assessment order to the eligible assessee, if he proposes to make any variation in the income or loss returned which is prejudicial to the interest of such assessee. Such eligible assessee with respect to such variation may file his objection to the DRP.

It is proposed that the provisions of section 144C of the Act may be suitably amended to:-

- (A) include cases, where the AO proposes to make any variation which is prejudicial to the interest of the assessee, within the ambit of section 144C;
- (B) expand the scope of the said section by defining eligible assessee as a non-resident not being a company, or a foreign company.

Deduction for profits and gains from Housing projects: Sec 80 IBA: to incentivise building affordable housing to boost the supply of such houses, the period of approval of the project by the competent authority is proposed to be extended to 31st March, 2021.

Sec 115BAB : Generation of electricity to be considered as manufacturing.

The newly inserted section provides that new manufacturing domestic companies set up on or after 1st October, 2019, which commence manufacturing or production by 31st March, 2023 and do not avail of any specified incentives or deductions, may opt to pay tax at a concessional rate of 15 per cent.

Commodity Transaction Tax (CTT) scope expanded: proposed to charge CTT on new commodity derivative products at the prescribed rates.

A new sub-section (2AG) in section 49 of the Act to provide that the cost of acquisition of a unit or units in the segregated portfolio shall be the amount which bears to the cost of acquisition of a unit or units held by the assessee in the total portfolio, the same proportion as the net asset value of the asset transferred to the segregated portfolio bears to the net asset value of the total portfolio immediately before the segregation of portfolios.

Another sub-section (2AH) in the said section will be inserted to provide the cost of the acquisition of the original units held by the unit holder in the main portfolio shall be deemed to have been reduced by the amount as so arrived at under the proposed sub-section (2AG).

Allowing deduction under section 43B for amount disallowed to insurance companies on payment basis – In case of insurance companies, any sum payable by the assessee which is added back under section 43B shall be now allowed as a deduction in the year of payment.

Section 50 C- limit increased from 5% to 10% in respect of transfer of immovable property - The current provisions of section 43CA, section 50C and section 56 relating to transfer of immovable property, being land or building or both, provides for variation of 5% between transfer value and stamp duty value. The said limit is increased to 10%

Business Connection: Section 9A of the Act provides exemption to offshore funds from creating a “business connection” on fulfillment of certain conditions. One of the conditions was that aggregate participation or investment in the fund by person resident in India should not exceed 5% of the corpus of the fund. This condition has been relaxed by excluding the contribution of the eligible fund manager during first 3 years upto Rs. 25 crores while computing aggregate participation or investment. Further the condition of monthly average of the corpus of the fund to be at Rs. 100 crore is also to be fulfilled within 12 months from the last day of the month of its establishment / incorporation as against 6 months which was provided earlier.

An option has been given to assesseees to not claim deduction under section 35AD. With this, a domestic company which opts for concessional tax rates under section 115BAA or section 115BAB, but does not claim deduction u/s 35AD, can be allowed normal depreciation under Section 32 of the Act.

The requirements of getting the **tax audit has been relaxed** in case of a person whose aggregate of all amount received for sales, turnover or gross receipts in cash does not exceed 5% of such receipts and also aggregate of all payments made in cash does not exceed 5% of such payments from turnover of Rs. 1 crore to Rs. 5 crores.

The Finance Act 2018 introduced the provisions of Significant Economic Presence (SEP) whereby in case of non residents having SEP constituted “business connection” in India and therefore, income was deemed to accrue / arise in India.

- These provisions have now been amended and its applicability has been deferred till AY 2022-23. In case of SEP, the income attributable to the operations carried out in India would be deemed to accrue/ arise in India.
- It has also been clarified that for this purpose, income from advertisement that targets Indian customers or income from sale of data collected from India or income from sale of goods and services using such data collected from India is to be accounted for in India.

The meaning of the term **‘Royalty’, as per Section 9(1)(vi)** of the Act has been amended to include the consideration for the sale, distribution or exhibition of cinematographic films which was earlier specifically excluded.

Ecommerce operator: A new Sec 194 O: TDS @ 1% by e-commerce operator for sale of goods or provision of service facilitated by it through its digital or electronic facility or platform.

- at the time of credit of amount of sale or service or both to the account of e-commerce participant or at the time of payment thereof to such participant by any mode, whichever is earlier.
- The above shall not apply to Payment to individual or HUF if the gross amount of sales or services or both of such individual or HUF, through e-commerce operator, during the previous year does not exceed INR 5 lakh and
- such e-commerce participant has furnished his PAN or Aadhaar number

Sec 194LC amended : extend the period of concessional rate of TDS of 5% 1st July, 2023 from 1st July, 2020.

- Further, it is provided that the rate of TDS shall be 4% on the interest payable to a non-resident, in respect of monies borrowed in Forex from a source outside India, by way of issue of any long term bond or RDB on or after 1st April, 2020 but before 1st July, 2023 and which is listed only on a recognised stock exchange located in any IFSC.

Sec 194LD : extend the period of rate of TDS of 5% to 1st July, 2023 from the existing 1st July, 2020; concessional rate of TDS of 5% shall also apply on the interest payable, on or after 1st April, 2020 but before 1st July, 2023, to a FII or QFI in respect of the investment made in municipal debt security.

194J: TDS rate reduced to 2% from 10% in case of in case of fees for technical services.

TCS-Section 206C to levy TCS on overseas remittance and for sale of overseas tour package:

- TCS is required to be deducted by an authorised dealer at the rate of 5% (10 % for non PAN/Aadhar cases) receiving an amount INR 7 lakh or more in a financial year for remittance out of India under the LRS of RBI
- Further, TCS at the rate of 0.1% to be collected by seller on consideration received from a buyer on sale of goods in a previous year in excess of INR 50Lakh. In non-PAN/ Aadhaar cases the rate shall be one per cent.

Penalty for false invoices-New sec 271AAD: To levy penalty on a person-

- if it is found that in the books of accounts maintained by him there is a (i) false entry or (ii) any entry relevant for computation of total income of such person has been omitted to evade tax liability.
- The penalty payable by such person shall be equal to the aggregate amount of false entries or omitted entry. False entry to mean any forged or falsified documents such as a false invoice.

Amendment in furnishing of audit report: Audit report to be furnished one month prior to the due date of filing of return of income.

- The purpose is to enable pre- filling of returns through the tax audit report.
- Amendments proposed in all the sections of the Act requiring filing of audit report along with the return of income or by the due date of filing of return of income.

Return filing date: Section 139 amended to change the due date for returns from 30 September to 31 October.

Non Residents exempted from filing of ITR: Section 115A amended for Relief extended to non-residents whose total income consists only of the income by way of royalty or FTS from filing of ITR if required TDS on such income has been deducted.

E-Assessments: greater efficiency, transparency and accountability

- Widening of E-assessment scheme to include best judgement assessment under Sec 144
- Sec 250 and 274 amended to provide for e-penalty scheme and e-appeal proceedings respectively. Central Government to notify an e-appeal scheme for disposal of appeal.

Health Cess

To promote Indian health care manufacturing industry, health cess will be imposed at 5% on import of various medical devices. The levy to be effective from 2 Feb 2020

- For payment of cess, Exports promotion Scrips cannot be used
- Cess to be computed on value of goods that are imported

Electronic Duty Credit Ledger: Any export benefits or remission of taxes would be credited to taxpayers in an electronic ledger. Such credit can be utilised by the taxpayer to make payments of customs duties.

- Detailed rules including time limits, restrictions and conditions shall be prescribed to facilitate transfer of such credits from one person to another.

- Amendments are proposed to be made to rules relating to Countervailing Duty on subsidized articles to enable investigation in cases of circumvention of such duties.
- Further, Anti-Dumping Rules will be made more comprehensive and wider for strengthening the anti-circumvention measures.

Provisions introduced to administer Preferential Tax Treatment Regime under the Trade agreements: A new Chapter VAA has been proposed wherein onus has been put on the importer to ensure that the certificate of origin given by the exporter is accurate.

- Mere submission of certificate of origin would not absolve the importer from liability, in cases where country of origin criteria is not met.
- The officer shall have power to verify the certificate and seek information from the importer. Subject to such verification, the preferential tariff treatment may be disallowed.
- The officer can confiscate the goods which have been imported based on incorrect claim of preferential rate.

Section 132 –CGST Act, is proposed to be amended to make the offence of fraudulent availing of input tax credit without an invoice or bill a cognizable and non-bailable offence;

- to also make any person who commits, or causes the commission, or retains the benefit of transactions arising out of specified offences liable for punishment.

Section 140 is being amended to prescribe the manner and time limit for taking transitional credit (retrospective effect from 1.July 2017)

Amendment to Sec 172 to make provision for enabling issuance of removal of difficulties order for 2 more years.

A new sub-section proposed in Sec 122 –CGST Act, to make the beneficiary of the transactions of passing on or availing fraudulent ITC liable for penalty similar to the penalty leviable on the person who commits such specified offences.

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