DECODING UNION BUDGET 2020

FOREWORD

On **February 01, 2020**, **Hon'ble Finance Minister Smt. Nirmala Sitharaman** presented second budget for **Financial Year ("FY") 2020-21** ("Budget") of Narendra Modi 2.0 Government.

The Indian economy has witnessed a slowdown in growth in the Fiscal Year 2019-20 as GDP grew at **5%** and is expected to stabilize at **6-6.5%%** for the year 2020-21. The fiscal deficit is estimated at **3.5%** of GDP for 2020-21. The inflation rate is at **7.4%**.

In September 2019, the government had slashed tax rates to 15 per cent for new manufacturers and 22 per cent for existing companies from about 30 per cent to energize the Indian corporate sector. Continuing with the same momentum, the government has considered a cut in personal income-tax rates especially for lower income group leading to annual potential tax saving of INR 78,000/- . This is expected to spur consumption and demand. The Government has also announced scheme to unlocking tax dues stuck in litigation.

The Budget mainly focuses on the Government's vision to drive India to higher economic growth and become a five trillion-dollar economy in the next few years. The Budget lists down the Government's macro-economic plans for boosting sustained economic growth. The focus of the government has been on increasing the ease of living through three themes — Aspirational India, Economic Development and Caring Society.

We are pleased to provide you with the synopsis of the Union Budget of 2020 and hope the same shall be useful at your end.

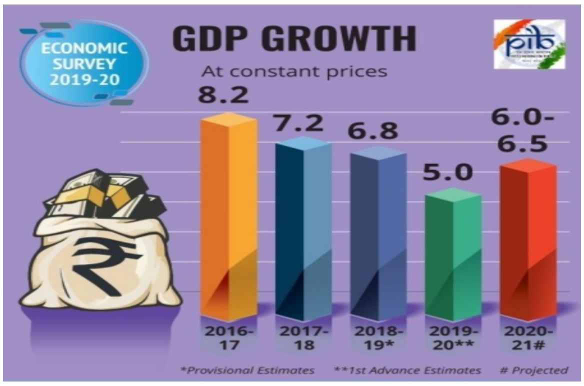
Thanking You,
To your success,

MBG Corporate Services
01st February 2020

1. MACRO-ECONOMIC OVERVIEW

GDP Growth

The India GDP is expected to rebound from 5% estimated in current financial year to 6-6.5% in 2020-21. This positive growth is expected due to tentative signs of bottoming out of slowdown in manufacturing sector and global trade.

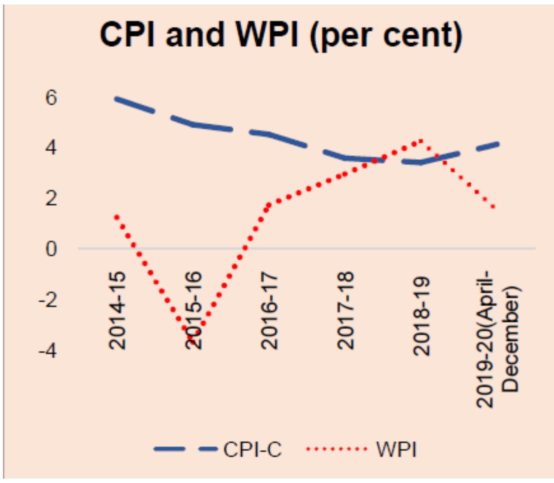


Inflation

According to Economic Survey 19-20, CPI-C headline inflation stood at 7.4% in December 2019, CPI- food inflation at 14.1% and CPI-core at 3.8%.

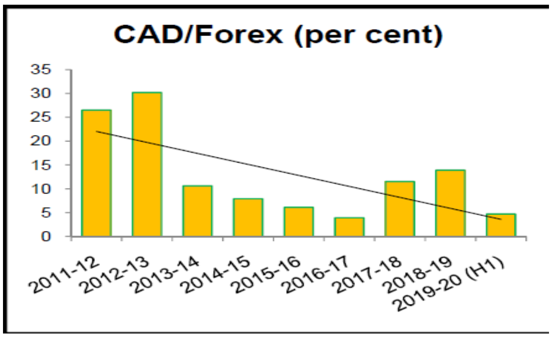
- WPI based inflation was on continuous decline in 2019-20 until December 2019, where it increased marginally to 2.6%.
- The mineral oils group in WPI showed an inflation of 5.8% in April 2019 and thereafter showed continuous decline till December 2019 to reach at 3.2%. Similar trends were shown by fuel components of CPI in the same direction.

Food inflation has been the major driver of inflation during 2019-20 as prices of onions, tomato and pulses showed high Inflation rate.



Deficit position

Current Account Deficit (CAD) narrowed from 2.1 per cent in 2018-19 to 1.5 per cent of GDP in 1st half of 2019-20 contributing to BoP improvement. CAD contraction has originated from easing of crude prices.

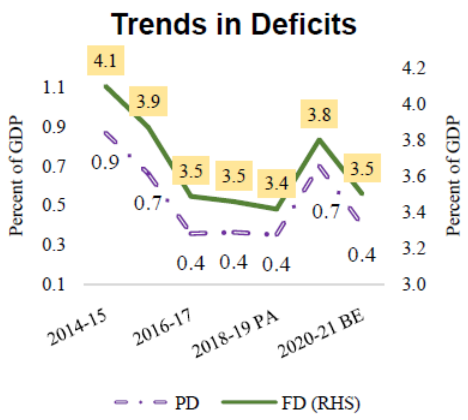


Current account deficit (CAD) as per cent of GDP

2009-14	2014-19	2018-19	2019-20 H1
-3.3	-1.4	-2.1	-1.5

Source: Reserve Bank of India

Trade Deficit as a per cent of GDP has slightly improved from -6.8 in 2018-19 to -6.3 in 1st half 2019-20.



Gross Fiscal Deficit (Centre) as a per cent of GDP slightly improved from -3.4 in 2018-19 (RE) to -3.3 (BE) in 1st half 2019-20.

Fiscal Indicators (Centre) - % of GDP

Data Categories	2016-17	2017-18	2018-19	2019-20
Gross fiscal deficit	3.5	3.5	3.4	3.3
Revenue Deficit	2.1	2.6	2.2	2.3
Primary Deficit	0.4	0.4	0.2	0.2

Source: Economic Survey of India, 2020

The fiscal deficit is estimated at **3.5%** of GDP for 2020-21.

Forex Reserves

As per Economic Survey, Foreign exchange reserves have increased from US$ 302 billion in end March, 2019 to US$ 461.2 billion as on 10th January 2020.

Foreign Direct Investment

- Net **FDI** in Apr to Nov 2019-20 stood at US$ 24.4 billion. Net FDI inflows have improved in 2019-20 attracting in the first half itself a considerably higher amount compared to previous year level.

Net FDI (US$ billion)

2009-14	2014-19	2018-19	2019-20 H1
92.51	163.87	30.7	21.3

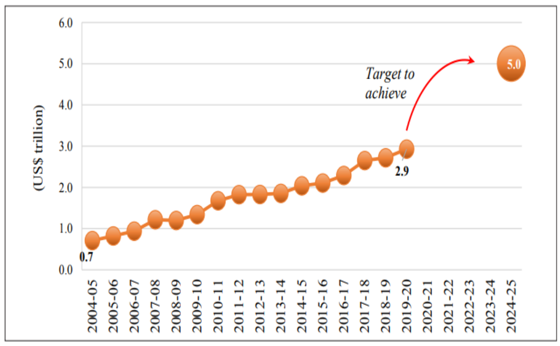
Source: Reserve Bank of India

MOVE TOWARDS 5 TRILLION DOLLAR ECONOMY

The Economic Survey focuses on wealth creation for Indians and outlines a multi-faceted strategy to achieve a USD 5 trillion economy through enterprise, exports and the ease of doing business.

Due to decline in world output and resultant less than expected growth of India's GDP so far, posed challenge to achieve this milestone. Yet, given India's record of growth with macroeconomic stability over the last five years, India's economic growth is expected to "strongly rebound" to 6-6.5 per cent in 2020-21 from 5 per cent estimated in the current fiscal.

Figure 7: Increasing size of the Indian economy (GDP at current US$)



Data Source: National Statistical Office, Reserve Bank of India (RBI) and IMF

'Enable Markets, Promote 'Pro-Business' Policy & Strengthen 'Trust' in Economy'

The survey has proposed 10 new Ideas to achieve its theme: **Enable Markets, Promote 'Pro-Business' Policy & Strengthen 'Trust' in Economy.**

Wealth creation benefits for all
Markets enable wealth creation
Trust: A Public good that increases with use
Grass-root Entrepreneurs create wealth in their districts
Pro-business policies providing equal opportunity
Removing government interventions
Job creation by'Assemble in India'
Changes to Ease of Doing Business to improve global ranking
Banking sector sub-scale compared to Economy
Thalinomics

- ***Creation of Job opportunities:*** As per Economic Survey 2020, the ongoing international trade environment presents India with an unprecedented chance to have a China-like job growth and can follow the export-led labour- intensive growth model to create unparalleled job opportunities for its youth. The Survey advocates combing "make in India" with "Assemble in India" to create as many as 4 crore well-paid jobs by 2025 and 8 crore by 2030.

- **Infrastructure Spending**: The country needs to spend $1.4 trillion on infrastructure to remove constraints in growth, as power shortages, inadequate transport and poor connectivity affects overall growth performance and to achieve a GDP of $5 trillion by 2024-25.

2. Direct Taxes Proposals

The major direct tax amendments as proposed by Finance Bill, 2020 are as under:

RATES OF INCOME TAX

Individual Income Tax Rates

Income tax rates are proposed to be reduced for the individual taxpayers who will forgo certain deductions and exemptions

The amendment shall be effective from Assessment Year 2021-2022 relevant to Financial Year 2020-2021.

Proposed effective tax rates for Individuals

Taxable income level (in INR)	Existing Tax Regime	New Tax Regime*	Decrease in tax rates
Up to 2.5 lakhs	NIL	NIL	No change
Above 2.5 lakhs up to 5 lakhs	5.20%	5.20%	No change
Above 5 lakhs up to 7.5 lakhs	20.80%	10.40%	10.40%
Above 7.5 lakhs up to 10 lakhs	20.80%	15.60%	5.20%
Above 10 lakhs up to 12.5 lakhs	31.20%	20.80%	10.40%
Above 12.5 lakhs up to 15 lakhs	31.20%	26.00%	5.20%
Above 15 lakhs up to 50 lakhs	31.20%	31.20%	No change
Above 50 lakhs up to 1 crore	34.32%	34.32%	No change
Above 1 crore up to 2 crore	35.88%	35.88%	No change
Above 2 crore up to 5 crore	39%	39%	No change
Above 5 crore	42.74%	42.74%	No change

**The person opting for new tax regime shall not be entitled to following prominent deductions such as Leave Travel Concession (LTC), House Rent Allowance (HRA), Standard Deduction u/s 16 and Interest u/s 24 etc.*

The new tax regime shall be optional for the taxpayers. An individual who is currently availing more deductions & exemption under the ITA may choose to avail them and continue to pay tax in the old regime.

Impact of proposed tax rates for Individuals

S. No.	Particulars	Existing Tax Regime	New Tax Regime
Case 1: Without impact of Chapter VI-A deduction			
1	Total Income	15,00,000	15,00,000
2	Income Tax	2,73,000	1,95,000
3	Tax Saved in new tax regime		78,000
Case 2: Considering impact of Chapter VI-A deduction			
1	Total Income	15,00,000	15,00,000

2	Deduction under Chapter VI-A	1,50,000	-
3	Taxable Income	13,50,000	15,00,000
4	Income Tax	2,26,200	1,95,000
5	Tax Saved in new tax regime		31,200

Reduction of Corporate Tax Rates

It has been proposed to extend the beneficial corporate tax rate of 25% to all companies whose turnover in FY 2018-19 does not exceed INR 400 crores. Earlier, the exemption was available only to companies whose turnover in FY 2017-18 did not exceed INR 400 crores.

The amendment is effective from Assessment Year 2021-2022 relevant to Financial Year 2020-2021.

Tax on Co-operatives societies reduced to 22% from existing rate of 30%

It is proposed that on satisfaction of certain conditions, a co-operative society resident in India shall have the option to pay tax at 22 percent for Assessment year 2021-22 onwards in respect of its total income so however that if it fails to satisfy the conditions in any previous year, the option shall become invalid and other provisions of the ITA shall apply.

It is further proposed to amend section 115JC of the ITA so as to provide that the provisions relating to Alternate Minimum tax (AMT) shall not apply to such co-operative society.

It is also proposed to amend section 115JD of the ITA so as to provide that the provisions relating to carry forward and set off of AMT credit, if any, shall not apply to such co-operative society.

The amendment is effective from Assessment Year 2021-2022 relevant to Financial Year 2020-2021.

Additional deduction allowable in concessional tax schemes for domestic companies

Presently, section 115BAA and section 115BAB provides domestic companies an option to be taxed at concessional tax rates by prohibiting deductions under Chapter VI-A under the heading "C. Deduction in respect of certain incomes" other than the provisions of section 80JJAA.

It is proposed to amend the provisions of section 115BAA and section 115BAB to not allow deduction under Chapter VI-A other than section 80JJAA or section 80M in case of domestic companies opting for these sections.

The amendment is effective from Assessment Year 2020-2021 relevant to Financial Year 2019-2020.

TAX INCENTIVES

Extending time limit for sanctioning of loan for affordable housing for availing deduction under section 80EEA

The existing provisions of section 80EEA of the ITA 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 INR 1,50,000 and is subject to certain conditions.

One of the conditions is that loan has been sanctioned by the financial institution during the period from 1st April, 2019 to 31st March, 2020.

It is proposed to be extended to 31st March, 2021.

The amendment is effective from Assessment Year 2021-2022 relevant to Financial Year 2020-2021.

Incentives for start-ups

As per section 80-IAC of the ITA, deduction of an amount equal to one hundred per cent of the profits and gains derived from an eligible business by an eligible start-up for three consecutive assessment years out of seven years is allowed, at the option of the assessee, subject to the condition that the eligible start-up is incorporated on or after 1st April, 2016 but before 1st April, 2021 and the total turnover of its business does not exceed twenty-five crore rupees.

It is proposed to amend section 80-IAC of the ITA so as to provide that-

(i) the deduction under section 80-IAC shall be available to an eligible start-up for a period of three consecutive assessment years out of ten years beginning from the year in which it is incorporated;

(ii) the deduction under the said section shall be available to an eligible start-up, if the total turnover of its business does not

exceed one hundred crore rupees in any of the previous years beginning from the year in which it is incorporated.

The amendment is effective from Assessment Year 2021-2022 relevant to Financial Year 2020-2021.

Incentives for building affordable housing

As per section 80-IBA of the ITA, The conditions contained in the section, prescribe that the project is approved by the competent authority during the period from 1st June, 2016 to 31st March, 2020.

It is proposed to extend the period of approval of the project by the competent authority up to 31st March, 2021.

The amendment is effective from Assessment Year 2021-2022 relevant to Financial Year 2020-2021.

Amendment of Section 194LC

To attract fresh investment, create jobs & stimulate the economy, it is proposed to; -

i. extend the period of concessional rate of TDS of 5% u/s 194LC to 1st July, 2023 from 1st July, 2020;

ii. provide that rate of TDS shall be 4% on the interest payable to a Non-resident, in respect of monies borrowed in foreign currency 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 & which is listed only on a recognized stock exchange located in any IFSC.

Effective from 1st April, 2020.

Amendment of Section 194LD

To attract fresh investment, create jobs & stimulate the economy, it is proposed to:

(i) extend the period of rate of TDS of 5% u/s 194LC to 1st July, 2023 from 1st July, 2020;
(ii) provide that the concessional rate 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.

Effective from 1st April, 2020.

Relaxation in conditions for exemption of offshore funds from constituting a 'business connection'

Relaxation in conditions for exemption of offshore funds from constituting a 'business connection' pertaining to:

a) Time-period of participation or investment in the fund by the eligible fund manager has been extended to 3 years shall not be accounted for;

b) For newly incorporated funds, time-limit of 6 months for computing monthly average corpus of INR 100 crores extended to 12 months

The amendment is effective with effect from 01st April 2020

REMOVE DIFFICULTIES FACED BY TAXPAYERS

Deferring TDS or tax payment in respect of income pertaining to Employee Stock Option Plan (ESOP) of start- ups.

Currently, ESOPs are taxed as perquisites under section 17(2) (vi) of the ITA.

it is proposed that a person, being an eligible start-up referred to in section 80-IAC, responsible for paying any income to the Assessee being perquisite of the nature specified in section 17(2) (vi) of the ITA, in any previous year, deduct or pay, as the case may be, tax on such income within fourteen days:

(i) after the expiry of forty eight months from the end of the relevant assessment year; 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 .

Similar amendments have been carried out in section 191 (for Assessee to pay the tax direct in case of no TDS) and in section 156 (for notice of demand) and in section 140A (for calculating self-assessment).

These amendments will take effect from 1st April, 2020.

Providing an option to the assessee for not availing deduction under section 35AD.

As per section 35AD of the ITA, deduction in respect of expenditure on specified business, provides for 100 per cent. No deduction is allowable under any other section in respect to the expenditure. At present, an assessee does not have any option of not availing the incentive under this section.

It is proposed to amend section 35AD of the ITA to make the deduction thereunder optional.

The amendment is effective from Assessment Year 2020-2021 relevant to Financial Year 2019-2020.

Increase in safe harbour limit under section 43CA, 50C and 56 of the ITA

Presently, safe harbor limit is 5% under section 43CA, 50C, 56 of the ITA.

It is proposed to increase the safe harbor limit to 10% under section 43CA, 50C, 56 of the ITA.

The amendment is effective from Assessment Year 2021-2022 relevant to Financial Year 2020-2021

Interest paid/ payable to PE of a non-resident Bank excluded from ambit of section 94B

It is proposed to amend section 94B to provide that interest limitation would not apply to interest paid in respect of a debt issued by a lender which is a PE of a Non-Resident Bank.

Amendment is effective from Assessment Year (AY) 2021-22 relevant to Financial Year (FY) 2020-21.

Non-Resident exempted from filing return in certain cases

It is proposed to amend section 115A to provide that a non-resident, shall not be required to file return of income if, -

(i) his or its total income consists of only dividend or interest income or royalty or fee for technical services (FTS) income under section 115(1), and

(ii) the TDS on such income has been deducted at rates not lower than the prescribed rates u/s 115A(1).

Amendment is effective from AY 2020-21 relevant to FY 2019-20.

MEASURES TO PROVIDE TAX CERTAINTY

Change in TDS rate in respect of fees for technical services (other than professional services)

Section 194J of the ITA provides that any person, not being an individual or a HUF, paying fees for professional services, or fees for technical services, or any remuneration or fees or commission (other than salary to a director), or royalty or any sum referred to in section 28(va) of ITA, to a resident shall deduct an amount equal to ten per cent as income-tax.

Section 194C of the ITA provides that any person paying to a resident for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract shall deduct an amount equal to one per cent in case payment is made to an individual or a HUF and two per cent in other cases.

It is proposed to reduce TDS rate in section 194J of the ITA in case of fees for technical services (other than professional services) to two per cent from existing ten per cent.

The amendment will take effect from 1 April 2020.

Safe harbor and APA to apply to attribution of profits to PE as well

Section 92CB & 92CC proposed to be amended to cover even the determination of attribution of profits to a PE within scope of Safe Harbour Rules (SHR) and Advance pricing agreement (APA).

This has been done as the attribution of profits to PE of a non-resident also results in avoidable disputes and thus to provide certainty, such cases are also required to be clearly covered under the SHR and the APA.

SHR Amendment is effective from AY 2020-21 relevant to FY 2019-20. APA amendment to take effect for APAs entered into on/after 1st April, 2020.

IMPROVING EFFECTIVENESS OF TAX ADMINISTRATION

Modification of residency provisions

Section 6 of the ITA provide for situations in which an individual shall be resident in India in a previous year. The individual shall be Indian resident in a year, if he,-

(i) has been in India for an overall period of 365 days or more within four years preceding that year, and

(ii) is in India for an overall period of 60 days or more in that year.

An Indian citizen or a person of Indian origin shall be Indian resident if he is in India for 182 days instead of 60 days in that year. This provision provides relaxation to an Indian citizen or a person of Indian origin allowing them to visit India for longer duration without becoming resident of India.

It is proposed that-

(i) the exception provided in clause (b) of Explanation 1 of sub-section (1) to section 6 for visiting India in that year be decreased to 120 days from existing 182 days.

(ii) an individual or an HUF shall be said to be "not ordinarily resident" in India in a previous year, if the individual or the manager of the HUF has been a non-resident in India in seven out of ten previous years preceding that year. This new condition to replace the existing conditions in clauses (a) and (b) of sub-section (6) of section 6.

(iii) an Indian citizen who is not liable to tax in any other country or territory shall be deemed to be resident in India.

The amendment is effective from Assessment Year 2021-2022 relevant to Financial Year 2020-2021.

Provision for e-penalty

Section 274 of the ITA provides for the procedure for imposing penalty. The taxpayer is required to visit the office of the Assessing Officer in response to the notice issued by the Assessing Officer (AO). In order to eliminate human interface, it is imperative that an e-penalty scheme be launched on the lines of E-assessment Scheme-2019.

The amendment will take effect from 1 April 2020.

Provision for e-appeal

A taxpayer can file appeal through his registered account on the e-filing portal. However, the process that follows after filing of appeal is neither electronic nor faceless.

It is proposed to provide for the following:

• Empowering Central Government to notify an e-appeal scheme for disposal of appeal so as to impart greater efficiency, transparency and accountability.

• Eliminating the interface between the Commissioner (Appeals) and the appellant in the course of appellate proceedings to the extent technologically feasible.

• Optimizing utilization of the resources through economies of scale and functional specialization.

• Introducing an appellate system with dynamic jurisdiction in which appeal shall be disposed of by one or more Commissioner (Appeals).

This amendment will take effect from 1st April, 2020.

Clarity on stay by the Income Tax Appellate Tribunal (ITAT)

As per section 254 of the ITA, Income Tax Appellate Tribunal (ITAT) may, after considering the merits of the application made by the assessee pass an order of stay for a maximum period of 180 days in any proceedings against the order of the Commissioner of Income-tax (Appeal). Where the appeal is not so disposed of, the ITAT on being satisfied that the delay is not attributable to the assessee, extend the stay for a further period subject to the restriction that the aggregate of the periods originally allowed and the period so extended shall not, in any case, exceed 365 days and the Appellate Tribunal shall dispose of the appeal within the period or periods of stay so extended or allowed.

It is proposed to provide that ITAT may grant stay subject to the condition that the assessee deposits not less than twenty per cent of the amount of tax, interest, fee, penalty etc. or furnish security of equal amount in respect thereof.

This amendment will take effect from 1st April, 2020.

Option of DRP route now to non-residents other than companies as well

Section 144C [Dispute resolution panel (DRP)] is proposed to be amended to include cases where Assessing Officer (AO) proposes to make any variation prejudicial to the interest of an 'eligible assessee', now expanded to include non-resident other than company as well within its ambit.

Existing provision defines eligible assessee to be foreign companies and any person in whose case TP-adjustment has been made

Effective from 1st April, 2020. Thus, if the AO proposes to make any variation after this date, which is prejudicial to the interest of the eligible assessee, this provision shall apply.

Clarity on stay by ITAT

It is proposed to provide that ITAT may grant stay subject to the condition that the assessee deposits not less than 20% of the amount of tax, interest, fee, penalty, or any other sum payable under the provisions of this Act, or furnish security of equal amount in respect thereof.

The amendment shall take effect from 01st April 2020.

RATIONALISATION OF TAX PROVISIONS

Rationalization of the provisions of section 49 and clause (42A) of section 2 of the ITA in respect of segregated portfolios

Section 49 of the ITA provides for cost of acquisition for the capital asset which became the property of the assesse under certain situations. Further, clause (42A) of section 2 of the ITA provides the definition of the term "short-term capital asset". It also provides for determination of period of holding of the capital asset held by the Assessee.

It is proposed to amend sub-section (42A) of section 2 of the ITA to provide that in the case of a capital asset, being a unit or units in a segregated portfolio, referred to in sub-section (2AG) of section 49, there shall be included the period for which the original unit or units in the main portfolio were held by the Assessee.

Further, a new sub-section (2AG) is proposed to be inserted in section 49 of the ITA 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. It is also proposed to insert another sub-section (2AH) in the said section to provide that 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).

The amendment is effective from Assessment Year 2020-21 relevant to Financial Year 2019-20.

Rationalization of provisions relating to tax audit

As per section 44AB of the ITA, every person carrying on business is required to get his accounts audited, if his total sales, turnover or gross receipts, in business exceed or exceeds INR 1 Crore in any previous year. In case of a person carrying on profession he is required to get his accounts audited, if his gross receipt in profession exceeds, INR 50 lakh in any previous year.

It is proposed to increase the threshold limit for a person carrying on business from INR 1 Crore to INR 5 Crore in cases:

(i) Aggregate of all receipts in cash during the previous year does not exceed five per cent of such receipt; and

(ii) Aggregate of all payments in cash during the previous year does not exceed five per cent of such payment.

It is also proposed to shift the filing of tax audit report at least one month prior to the due date of filing of return of income which requires changes in the relevant sections of the ITA.

Further, the due date for filing return of income under section 139(1) of the ITA is proposed to be amended by:

- Providing 31st October of the assessment year (as against 30th September);
- Removing the distinction between a working and a non-working partner of a firm with respect to the due date.

The amendment is effective from Assessment Year 2020-2021 relevant to Financial Year 2019-2020.

As a consequential effect of the above amendment, it is proposed to amend the provisions contained in sections 194A, 194C, 194H, 194I, 194J and 206C.

The amendment will take effect from 1 April 2020.

Removing Dividend Distribution Tax (DDT)

As per section 115-O dividends shall be charged to additional income-tax at the rate of 15 per cent. The dividend referred to in section 115-O is exempt in the hands of shareholders under section 10(34) of the ITA.

Similarly as per section 115R of the ITA, specified companies and Mutual Funds are liable to pay additional income-tax at the specified rate on any amount of income distributed by them to its unit holders. Such income is exempt in the hands of unit holders under section 10(35) of the ITA.

It is proposed to tax dividend or income from units in the hands of shareholders or unit holders at the applicable rate and the domestic company or specified company or mutual funds are not required to pay any DDT. It is also proposed to provide that the deduction for expense under section 57 of the ITA shall be maximum 20 per cent of the dividend or income from units.

The amendment is effective from Assessment Year 2021-2022 relevant to Financial Year 2020-2021.

Aligning purpose of Double Taxation Avoidance Agreements (DTAA) with Multilateral Instrument (MLI)

To align purpose of MLI with DTAA, section 90 of the ITA is proposed to be amended to include the preamble text of Article 6 of MLI to provide that the Central Government may enter into an agreement with the Government of any country outside India or specified territory outside India for, inter alia, the avoidance of double taxation of income under the ITA and under the corresponding law in force in that country or specified territory, without creating opportunities for non-taxation or reduced taxation through tax evasion or avoidance (including through treaty-shopping arrangements aimed at obtaining reliefs provided in this agreement for the indirect benefit of residents of any other country or territory).

Similar amendment is proposed for section 90A with respect to an agreement with a specified association in specified territory.

Amendment is effective from AY 2021-22 relevant to FY 2020-21.

Significant Economic Presence (SEP) Deferred

Applicability of the SEP provisions have been deferred to AY 2022-23 relevant to FY 2021-22 onwards since OECD is expected to finalize the G20 - BEPS 2.0 report by Dec 2020.

Source Rule expanded u/s 9 of ITA

Certificatory explanation has been inserted to include following income as accruing or arising in India:

(i) Income from advertisements targeting Indian customers or
(ii) income from sale of data collected from India or
(iii) income from sale of goods and services using such data collected from India.

This explanation to take effect from AY 2022-23 for SEP cases and from AY 2021-22 for all other cases.

Aligning exemption for FPIs from indirect transfer provisions

Exemption from indirect transfer provisions granted to Category I/ II Foreign Portfolio Investors (FPIs) registered under the erstwhile SEBI (FPI) 2014 Regulations to be grandfathered. Only Category I FPIs under the SEBI (FPI) 2019 Regulations will be exempted.

Amendment is effective from Assessment Year (AY) 2020-21 relevant to Financial Year (FY) 2019-20.

Rationalizing definition of royalty

Due to exclusion of consideration for the sale, distribution or exhibition of cinematographic films from the definition of royalty, such royalty is not taxable in India even if the DTAA gives India the right to tax such royalty. Such a situation is discriminatory against Indian residents, since India is foregoing its right to tax royalty in case of a non-resident from another country without that other country offering similar concession to Indian resident. Hence, it is proposed to amend the definition of royalty so as not to exclude consideration for the sale, distribution or exhibition of cinematographic films from its meaning.

Amendment is effective from AY 2021-22 relevant to FY 2020-21.

WIDENING AND DEEPENING OF TAX BASE

Widening the scope of TDS on E-commerce transactions through insertion of a new sections

Section 194-O in the ITA is introduced for TDS at the rate of one per cent on payment by e-commerce operator for sale of goods or provision of service facilitated by it through its digital or electronic facility or platform;

The sum credited or paid to an e-commerce participant (being an individual or HUF) by the e-commerce operator shall not be subjected to provision of this section, 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 five lakh rupees and such e-commerce participant has furnished his Permanent Account Number (PAN) or Aadhaar number to the e-commerce operator.

This amendment will take effect from 1st April 2020

Enlarging the scope for tax deduction on interest income under section 194A

Currently, co-operative society referred to section 194A(3)(v) or 194A(3)(viia) of the ITA is not liable to deduct income-tax on payment of interest.

It is proposed that such society shall be liable to deduct income-tax in accordance with the provisions of section 194A (1) of the ITA, if-

(a) the total sales, gross receipts or turnover of the co-operative society exceeds fifty crore rupees during the financial year immediately preceding the financial year in which the interest referred to in sub-section (1) is credited or paid;

and

(b) the amount of interest, or the aggregate of the amount of such interest, credited or paid, or is likely to be credited or paid, during the financial year is more than fifty thousand rupees in case of payee being a senior citizen and forty thousand rupees, in any other case.

This amendment will take effect from 1st April, 2020.

Widening Scope of TCS to include foreign remittance through Liberalized Remittance Scheme (LRS) on selling overseas tour package and sale of goods

It is proposed to expand the scope of TCS to include sales of overseas tour packages @ 5% and 10%, for non-PAN / Aadhar cases, subject to certain other conditions.

Further, scope of TCS has also been extended to sales of goods on consideration received from a buyer exceeding INR 50 lacs, @ 0.1% and 1% for PAN-Non Aadhar cases, subject to certain conditions.

The amendment shall take effect from 01st April 2020.

REVENUE MOBILIZATION

Rationalization of tax treatment of employer's contribution to recognize provident funds, superannuation funds and national pension scheme

Currently, the contribution by the employer to the account of an employee in a recognized provident fund exceeding twelve per cent of salary is taxable. Further, the amount of any contribution to an approved superannuation fund by the employer exceeding one lakh fifty thousand rupees is treated as perquisite in the hands of the employee. Similarly, the Assessee is allowed a deduction under National Pension Scheme (NPS) for the 14% of the salary contributed by the Central Government and ten percent of the salary contributed by any other employer. However, there is no combined upper limit for the purpose of deduction on the amount of contribution made by the employer.

It is proposed to provide a combined upper limit of seven lakh and fifty thousand rupee in respect of employer's contribution in a year to NPS, superannuation fund and recognized provident fund and any excess contribution is proposed to be taxable. Consequently, it is also proposed that any annual accretion by way of interest, dividend or any other amount of similar nature during the previous year to the balance at the credit of the fund or scheme may be treated as perquisite to the extent it relates to the employer's contribution which is included in total income.

The amendment is effective from Assessment Year 2021-2022 relevant to Financial Year 2020-2021.

PREVENTION OF TAX ABUSE

Rationalization of provisions of section 55 of the ITA to compute cost of acquisition

The existing provisions of section 55 of the ITA provide that for computation of capital gains, an assessee shall be allowed deduction for cost of acquisition of the asset and also cost of improvement, if any. However, for computing capital gains in respect of an asset acquired before 1st April, 2001, the Assessee has been allowed an option of either to take the fair market value of the asset as on 1st April, 2001 or the actual cost of the asset as cost of acquisition.

It is proposed to rationalize the provision and to insert a proviso below sub-clause (ii) of clause (b) of Explanation under clause (ac) of sub-section (2) of the said section to provide that in case of a capital asset, being land or building or both, the fair market value of such an asset on 1st April, 2001 shall not exceed the stamp duty value of such asset as on 1st April, 2001 where such stamp duty value is available. It is also proposed to insert an Explanation so as to provide that for the purposes of sub-clause (i) and (ii), "stamp duty value" shall mean the value adopted or assessed or assessable by any authority of the Central Government or a State Government for the purpose of payment of stamp duty in respect of an immovable property.

The amendment is effective from Assessment Year 2021-2022 relevant to Financial Year 2020-2021.

Amendment in definition of "work" in section 194C of the ITA

Currently, the definition of work excludes manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from a person, other than such customer.

It is proposed to amend the definition of "work" under section 194C of the ITA to provide that in a contract manufacturing, the raw material provided by the assessee or its associate shall fall within the purview of the 'work' under section 194C.

This amendment will take effect from 1st April, 2020.

3. INDIRECT TAXES PROPOSALS

Customs

- Customs duty reduced on telecom equipments;
- Customs duty rates are being revised on electric vehicles, and parts of mobiles as part of carefully conceived Phased Manufacturing Plan;
- Increase in Custom duty on imported footwear & furniture;
- Pruning and review of Custom duty concessions and exemptions in vogue;
- Remaining Custom duty exemptions would be comprehensively reviewed by September 2020;
- Customs duty on imports of news print and light-weight coated paper reduced from 10% to 5%;
- Custom duty increased on Construction Material, Precious metals, Automobile Parts, Electronic & Electrical Equipments, Iron & Steel and other base metals;
- National Calamity Contingent Duty is being raised on Cigarettes and other tobacco products;
- Anti-dumping duty on PTA (Purified Terepthalic Acid) is being abolished. Earlier the Anti-Dumping duty was imposed on import of PTA from South Korea, Thailand, China, Iran, Indonesia, Malaysia and Taiwan;
- Customs Act is being amended so as to empower the Central Government to prohibit either absolutely or conditionally the import or export of **any goods** to prevent injury to the economy on account of uncontrolled import or export of such goods;
- Section 28 of the Custom Act being clarified that any notice issued under the said Act prior to enactment of Finance Act, 2018, shall continue to be governed by the erstwhile Section 28 as it existed before the said enactment;
- Section 51B being introduced in the Custom Act to provide for the creation of Electronic Duty Credit Ledger in the Customs system;
- A new section 28DA is introduced in the Customs Act so as to provide for administration of **rules of origin** under a trade agreement and to lay down procedure regarding claim of preferential rate of duty on goods imported under a trade agreement entered into between the Government of India and the Government of a foreign country or territory or economic union;
- Section 8B of the Customs Tariff Act is substituted so as to empower the Central Government to apply safeguard measures including tariff rate quota to curb increased quantity of imports of an article to prevent serious injury to domestic;
- Anti-dumping rules are being made more comprehensive and wider in scope to strengthen the anti-circumvention measures;
- Countervailing Duty Rules are being amended to enable investigation into case of circumvention of countervailing duty for imposition of such duty.

Goods & Service Tax (GST)

- Simplified GST returns to be implemented from 01st April, 2020;
- Aadhar based verification of taxpayer is introduced;
- E-invoicing to be introduced in a phased manner starting February 2020;
- Dynamic QR-code is proposed for Consumer invoices;
- Deep data analytics and AI tools are being used for crackdown on GST input tax credit, refund and other frauds;
- Ladakh has been added as Union Territory under CGST Act ;
- A registered person shall not be eligible to opt for Composition Supply if he is engaged in making services which are not leviable to GST or making Inter- State supply of services or supplying services through electronic commerce operator who requires to deduct TDS;
- The Proper officer may on his own motion or on application received can cancel the registration even where the taxpayer has applied for voluntarily registration, which was not allowed earlier;
- The time limit to apply for revocation of cancellation of registration which is provided under Section 30 of the CGST Act may further be extended on sufficient cause being shown and reasons to be recorded in writing for 30 days by Additional or Joint Commissioner. Additionally, the Commissioner may further condone the delay by another 30 days;
- Late fees on delay in issue of TDS certificate has been has been omitted from the CGST Act;
- CGST Act amended to provide that Person availing fraudulent Input Tax Credit shall also be liable Penalty and Punishment as per the provisions of CGST Act;

- Provision for transition of credits unutilized under the erstwhile law is being retrospectively amended with effect from 01st July, 2017 to prescribe the time limit as provided under the rules. This would have a far reaching impact on companies which could not comply with the transition of credit of erstwhile regime within the due dates provided by the CGST Rules;
- Section 172 of the CGST Act being amended to extend the time limit of 3 years to 5 years to allow the Central government to issue removal of difficulty orders, whenever required;
- A retrospective amendment being introduced under the CGST Act to provide for Transfer of business assets or goods held for the purpose of business shall no longer be supply, if made without consideration by or under a direction of person carrying on the business.

Health Cess

- A new levy with a name of Health Cess being introduced as part of Finance Bill 2020, to be imposed on import of medical devices & equipments covered under the heading of 9018 to 9022 at the rate of 5% on the import value of such goods as determined under Section 14 of the Customs Act, 1962;
- Health Cess shall not be imposed on medical devices which are exempt from BCD;
- The proceeds from Health cess shall be used particularly for creating infrastructure for health services;
- Export Promotion scrips cannot be used for payment of Health Cess.

4. Regulatory & Policy Reforms

- The government proposes to have a new education policy in consultation with State Education Ministries and other stake-holders.
- In order to create better education system, the government proposes to open the education sector for External Commercial Borrowings and FDI.
- Deepening Bond Market.
  - Certain specified categories of Government securities to be opened fully for non - resident investors also.
  - FPI limit in corporate bonds increased to 15% from 9% of its outstanding stock.
- Government proposes to expand Debt-based Exchange Traded Fund (ETF) by floating a new Debt-ETF consisting primarily of government securities to give retail investors access to government securities as much as giving an attractive investment for pension funds and long-term investors.

Amendments in Companies Act-2013 and Allied Laws

- Companies Act- 2013 to be further amended to remove the criminal liability for certain acts that are civil in nature and other laws with such provisions are to be corrected after examination.

Amendments in Contract Act-1872

- In order to have a stable and predictable business environment, the government shall deliberate upon strengthening the existing provisions of the Contract Act-1872.

Reforms in Banking and Non-Banking Financial Sector

- To safeguard the interest of depositor, the Deposit Insurance and Credit Guarantee Corporation (DICGC) has permitted to increase Deposit Insurance Coverage to INR 5 lakh from INR 1 lakh per depositor.
- Co-operative Banks to be strengthen by amending Banking Regulation Act for:
  - Increasing professionalism.
  - Enabling access to capital.
  - Improving governance and oversight for sound banking through the RBI.
- NBFCs eligibility limit under Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act 2002 for debt recovery reduced from:
  - INR 500 crore to INR 100 crore asset size.
  - INR 1 crore to INR 50 lakh loan size.
- Government has proposes to sell its balance holding in IDBI Bank to private, retail and institutional investors through the stock exchange.
- Necessary amendments to be made in Factor Regulation Act 2011 to enable the

NBFCs to extend invoice financing to the MSMEs through TReDS, thereby enhancing their economic and financial sustainability.

New Economy

- To take advantage of new technologies:
  - Policy to enable private sector to build Data Centre parks throughout the country to be brought out soon
  - Fiber to the Home (FTTH) connections through Bharatnet to link 100,000 gram panchayats this year.
  - INR 6000 crore proposed for Bharatnet programme in 2020-21.

MSMEs

- To aid the working capital credit issue of the MSMEs, it is proposed to introduce a scheme to provide subordinate debt for entrepreneurs of MSMEs. This subordinate debt to be provided by banks would count as quasi-equity and would be fully guaranteed through the Credit Guarantee Trust for Medium and Small Entrepreneurs (CGTMSE).
- The Debt- restructuring window which was valid till March 31, 2020 to be extended till March 31, 2021.
- To prevent the problem of delayed payments and consequential cash flows mismatches an app-based invoice financing loans product will be launched.

Economic Development

- **Investment Clearance Cell** proposed to be set up to provide "end to end" facilitation and support, including pre-investment advisory, information related to land banks and facilitate clearances at Centre and State level through a portal.
- New scheme **NIRVIK** to be launched to achieve higher export credit disbursement, which provides for:
  - Higher insurance coverage;
  - Reduction in premium for small exporters; and
  - Simplified procedure for claim settlements.
- A National Logistics Policy will be formulated to clarify the roles of the Union Government, State Governments and key regulators and to create a single window e-logistics market and focus on generation of employment, skills and making MSMEs competitive.

Disinvestment

Government to sell a part of its holding in LIC by way of Initial Public Offer (IPO).

Other Measures

- A scheme focused on encouraging manufacture of mobile phones, electronic equipment and semi-conductor packaging to be launched.
- A National Technical Textiles Mission is proposed with a four-year implementation period from 2020-21 to 2023-24 at an estimated outlay of INR 1480 crore
- Delhi-Mumbai Expressway and two other packages would be completed by 2023.
- A policy to enable private sector to build Data Centre parks throughout the country to be introduced
- Knowledge Translation Clusters would be set up across different technology sectors including new and emerging areas
- Proposed to provide an outlay of INR 8000 crore over a period five years for the National Mission on Quantum Technologies and Applications

5. RAILWAY BUDGET

Key Measures:

- 550 wi-fi facilities have been commissioned at railway successfully;
- Successful elimination unmanned level crossings;
- Aim to achieve electrification of 27,000 kilometers of tracks.
- Government aims for INR 100 lakh crore investments in infrastructure which includes modern railway stations, airports, housing for all, irrigation projects etc.

- Indian Railway's move of shifting from manual inspection to machine-assisted automatic identification of defects will help in providing safe, efficient as well as economical services.

Cost Optimization through:

- Large solar power capacity to be set up alongside the rail tracks, on the land owned by the railways;
- Four station re-development projects and operation of 150 passenger trains would be done through Public-private partnership (PPP) mode. The process of inviting private participation is underway;
- More Tejas type trains will connect iconic tourist destinations;
- High speed train between Mumbai to Ahmedabad would be actively pursued;
- 148 km long Bengaluru Suburban transport project at a cost of INR 18,600 crores, would have fares on metro model;
- The Indian Railways will set up a Kisan Rail through PPP model. The freight trains will help farmers transport their perishable products easily.

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