

BUDGET ANALYSIS 2020-21

J P Chawla & Co. LLP

Chartered Accountants

Taxation | Audit | Outsourcing | Regulatory | Transaction Advisory | Business Intelligence Services



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With Budget 2020 bringing in a lot of changes for all strata of business society, the Indian businesses are busy analyzing the fine print of this budget. The government task is tightly cut out with the Indian economy slowing down and political landscape becoming sticky, the fact that global cues are also not in much favor, the budget presented is seemed to be a balance between fiscal responsibility and tax cuts. The budget is aimed to please the middle class, economically deprived, startups, corporates and foreign companies.

India is the fifth-largest economy of the world. India's foreign direct investment got elevated to the level of US\$ 284 billion during 2014-19 from US\$ 190 billion that came in during the years 2009-14. The Central Government debt that has been the bane of our economy got reduced, in March 2019, to 48.7% of GDP from a level of 52.2% in March 2014.

The budget talks about Aspirational India, Economic development and Caring Society.

Budget proposals in aspirational India cover programmes and plans related to Agriculture Irrigation and Rural development, Wellness, Water and Sanitation and Education and Skills, while economic development proposals cover Industry, Commerce and Investment, infrastructure and a new economy. Caring society proposals focus on Women & Child, Social Welfare; Culture and Tourism and also on Environment and Climate Change.

In direct tax numerous changes inspired from draft direct tax code have been incorporated such as new income tax slabs, available only to those taxpayers who are willing to forego certain exemptions and deductions, change in definition of residential status, removal of DDT, lower TDS on technical services, increase in audit threshold, making direct tax digital, ESOP tax relaxation, Startup eligibility extension, TCS on eCommerce, etc.

In the past, the Government has taken several measures to reduce tax litigations. In the last budget, Sabka Vishwas Scheme was brought in to reduce litigation in indirect taxes. It resulted in settling over 1,89,000 cases.

Currently, there are 4,83,000 direct tax cases pending in various appellate forums, i.e., Commissioner (Appeals), ITAT, High Court and Supreme Court. Thus, this year, the Finance Minister has brought in a scheme similar to indirect tax Sabka Vishwas for reducing litigations even in the direct taxes. The Govt. has introduced Direct Tax Vivad se Vishwas Bill, 2020 in the Lok Sabha on February 5, 2020. For taxpayers whose appeals were pending before the appellate forums [i.e., CIT(A), ITAT, High Court and Supreme Court] as on January 31st 2020, the scheme provides for waiver of interest, penalty & prosecution where the declaration provided under the Scheme is filed by the declarant before the designated authority.

Certain changes have been brought in Indirect tax, such as in the GST penalty for bogus bills have been introduced, input credit has been linked with a debit note without required linkage with original bill date. Certain central excise and custom rates have been rationalized.

External Commercial Borrowings and FDI are being proposed to finance the education system so as to be able to deliver higher quality education with the motive to attract talented teachers, innovate and build better labs.

The Government has come up with few positive changes in the area of regulations, which include amendments in stamp act and MSME.

This final budget of 2020-21 has been released with a vision for inclusive development for all and putting back India on growth path quickly.

Please Note:

- This budget has been prepared as a knowledge document, does not constitute an advertisement of any manner and is for private circulation only.

- Contribution of J P Chawla & Co. LLP's team members: Mr. J.P. Chawla, Mrs. Richa Juneja Chawla, Mr. Ankit Vyas, Mr. Maneet Puri and Mrs. Garishma Arora for preparation of this comprehensive budget document is highly appreciated and acknowledged with thanks.

Hope you enjoy reading our analysis of Budget 2019-20.

Happy reading!!

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ECONOMIC OUTLOOK



Overview of the Economy

Global headwinds and challenges in the domestic financial sector moderated the growth of the Indian economy in 2019-20. The real GDP growth moderated to 5.0 percent in 2019-20 as compared to 6.8 percent in 2018-19. Despite a temporary moderation in the Gross Domestic Product (GDP) growth in 2019-20, the fundamentals of the Indian economy remain strong and GDP growth is expected to rebound from the first quarter of 2020-21. The fiscal situation remained close to the consolidation path and consumer price inflation was within the targeted limits set by the monetary policy committee of Reserve Bank of India (RBI). Despite continuing sluggishness in global demand, the Current Account Deficit (CAD) narrowed to 1.5 percent of GDP in the first half (H1) of 2019-20 from 2.1 percent in 2018-19. Global confidence in the Indian economy improved as reflected in growing inflows of net Foreign Direct Investment (FDI) and an all-time high accumulation of foreign exchange reserves of US\$ 457.5 billion as in end December 2019. India moving up by 14 positions to 63rd rank in 2019 World Bank's Ease of Doing Business 2020 Report, has among others, contributed to the increase in global confidence in the Indian economy. India has emerged as an important player in the world on the back of high GDP growth and announcement/implementation of critical measures in the current year and last few years.

The measures announced/implemented in 2019-20 include-hike in minimum support price of agricultural crops for 2019-20; reduction in corporate tax rate; policy initiatives for development of textiles & handicrafts and electric vehicles; outreach programme for growth, expansion and facilitation of micro, small and medium

enterprises; incentives for start-ups in India; scheme to provide a one-time partial credit guarantee to public sector banks (PSBs) for purchase of pooled assets of financially sound non-banking financial companies (NBFCs); recapitalization of public sector banks, relaxation of external commercial borrowing guidelines for affordable housing; realty fund worth ` 25,000 crore for stalled housing projects; additional tax deduction of interest for affordable housing; merger of 10 public sector banks into four entities; revised Priority Sector Lending (PSL) norms for exports; and streamlining of many labour laws at the central government level. Apart from this, various steps were taken to boost manufacturing; employment generation; financial inclusion; digital payments; improving ease of doing business via schemes such as Make in India, Skill India and Direct Benefit Transfer. The government has also announced the National Infrastructure Pipeline (NIP) of projects worth 102 lakh crore, which will commence in phases from 2020-21 to 2024-25.

Economic growth

As per the first advance estimates of annual national income, the real GDP growth is estimated at 5.0 percent in 2019-20, as compared to the provisional estimates of 6.8 percent in 2018-19. Correspondingly, the real growth of gross value added (GVA) is estimated at 4.9 percent in 2019-20 as compared to 6.6 percent in 2018-19. This moderation in GVA growth in 2019-20 (AE) as compared to 2018-19 is attributed to all sectors on the supply side save public administration, defence and other services. From the demand side private final consumption expenditure, public final consumption expenditure and net exports have driven the growth GDP in 2019-20 as compared to 2018-19. Gross fixed capital formation, on the other hand, has slowed the growth of GDP.

Prices

Consumer Price Index (Combined) (CPI-C) inflation for 2018-19 declined to 3.4 percent from 3.6 percent in 2017-18 and 4.5 percent in 2016-17. It averaged 4.1 percent in 2019-20 (April to December) and stood at 7.3 percent in December 2019. Food inflation based on the Consumer Food Price Index (CFPI) for 2018-19 declined to 0.1 percent from 1.8 percent in 2017-18 and 4.2 percent in 2016-17. It averaged 5.3 percent in 2019-20 (April to December) and stood at 14.1 percent in December 2019.

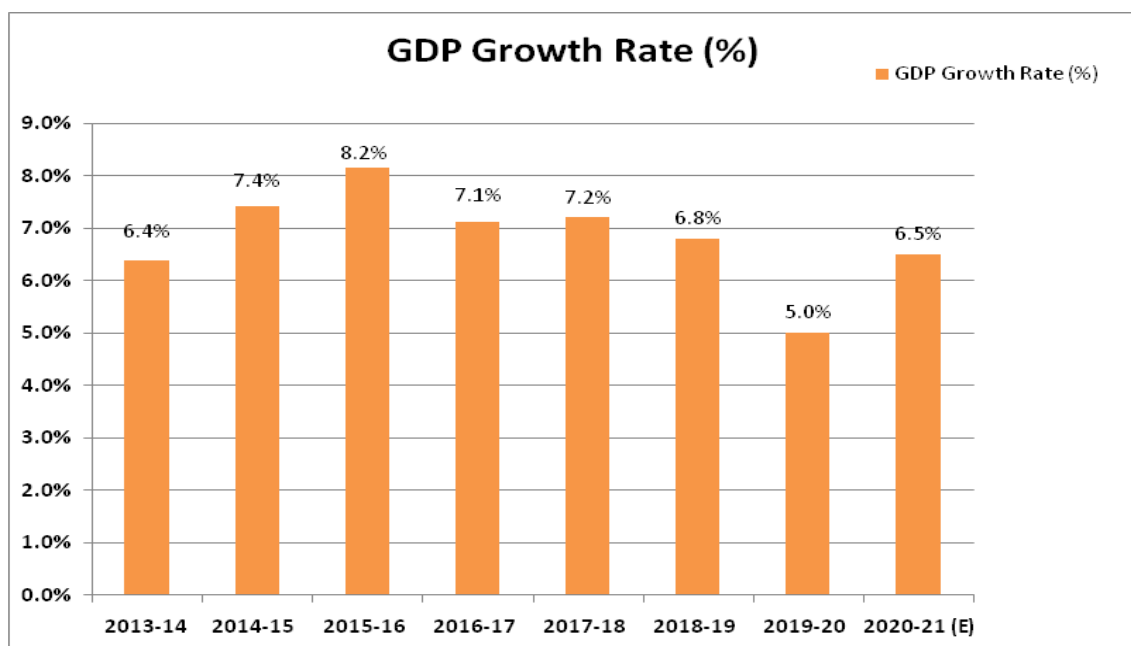
Inflation measured in terms of Wholesale Price Index (WPI) stood at 4.3 percent in 2018-19 as compared to 3.0 percent in 2017-18 and 1.7 percent in 2016-17. It averaged 1.5 percent in 2019-20 (April to December) and stood at 2.6 percent in December 2019.

Government has taken various measures from time to time to stabilize prices of essential food items through, inter-alia, trade and fiscal policy instruments like import duty, minimum export price, export restrictions, the imposition of stock limits besides advising

States for effective action against hoarders & black marketers to regulate domestic availability and moderate prices. For increasing productivity and production in key segments of agriculture towards moderating prices, the government has been incentivizing farmers by announcing minimum support prices and implementing schemes such as Mission for Integrated Development of Horticulture (MIDH) and National Mission on Oilseeds and Oil Palm (NMOOP), among others. The government is also implementing the Price Stabilization Fund (PSF) to help moderate the volatility in prices of agri-horticultural commodities like pulses, onion, and potato.

Central Government Finances

The fiscal deficit and revenue deficit for 2019-20 were budgeted at 3.3 percent of GDP and 2.3 percent of GDP respectively. The BE 2019-20 envisaged a tax to GDP ratio of 11.7 percent and total expenditure to GDP ratio of 13.2 percent. The envisaged growth for gross tax revenue was 9.5 percent over 2018-19 Revised Estimates (RE). The total expenditure in BE 2019-20 was estimated to increase by 13.4 percent over 2018-19 RE.



As per the data on Union Government Finances released by Controller General of Accounts for April- November 2019, the gross tax revenue increased by 0.8 percent over the corresponding period of the previous year achieving 47.7 percent of the budget estimate. The non-tax revenue increased by 67.8 percent during (April- November 2019) over the corresponding period of the previous year achieving 74.3 percent of the budget estimate. At the end of November 2019, the non-debt capital receipts stood at 24.2 percent of the budget estimate.

Major subsidies (food, nutrient based fertilizers, urea and petroleum) increased by 7.3 percent during April-November 2019, as compared to April-November 2018. Urea subsidy increased by 52.7 percent and petroleum subsidy increased by 27.7 percent during April-November 2019, as compared to the corresponding period in 2018-19.

During April-November 2019, fiscal deficit reached 114.8 percent of the budgeted amount in 2019-20. During the corresponding period of the previous year, the same ratio had prevailed in relation to 2018-19 budgeted amount. The revenue deficit for April-November 2019 is 128.4 percent of BE and is lower than the corresponding figure of 132.6 percent in the previous year. The Revised Estimates place fiscal and revenue deficits at 3.8 percent of GDP and 2.4 percent of GDP respectively in 2019-20.

Monetary Management and Financial Intermediation

Monetary policy remained accommodative during 2019-20. Five meetings of the Monetary Policy Committee (MPC) have been held so far in the financial year 2019-20. In the first four meetings, the MPC decided to cut the policy repo rate. The repo rate was reduced by 110 basis points (bps) from 6.25 percent in April 2019

to 5.15 percent in October 2019. In its fifth bi-monthly monetary policy statement in December 2019, the MPC decided to keep the repo rate unchanged at 5.15 percent.

The growth of reserve money as on December 27, 2019 was 10.2 percent over 17.0 percent on December 27, 2018. The expansion in reserve money was led by Currency in Circulation (CIC). Broad money (M3) growth has been on a declining trend since 2009. However, since 2018-19 growth of M3 has picked up and was marginally, mainly driven by the growth in aggregate deposits. The growth of M3 was 10.4 percent as on December 20, 2019 over 10.2 on December 20, 2018. The expansion in M3 so far during the year is attributable to aggregate deposits, which recorded a growth of 10.1 percent as on December 20, 2019 over 9.2 percent on December 20, 2018.

External Sector

Merchandise exports (customs basis) during 2019- 20 (April-December), were US\$ 239.3 billion, which declined by 2.0 percent over the level of US\$ 244.1 billion in the corresponding period of the previous year. During 2019-20 (April-December), merchandise imports were US\$ 357.4 billion, registering a decline of 8.9 percent over the level of US\$ 392.3 billion in the corresponding period of the previous year. Oil imports declined from US\$ 108.5 billion in 2018-19 (April- December) to US\$ 95.7 billion in 2019-20 (April- December). Merchandise trade deficit improved from US\$ 148.2 billion in 2018-19 (April-December) to US\$118.1 billion in 2019-20 (April-December).

Following a rise in vulnerabilities in 2018-19, India's external sector has regained some stability in the first half of 2019-20, with improvement in Balance of Payments (BoP) position anchored in narrowing of current account deficit from 2.1 in 2018-19 to 1.5 in H1 of 2019-

20, growing inflows of foreign direct investment (FDI), rebounding of portfolio flows from net outflow to net inflow and receipt of robust remittances, all showing up in higher accretion of foreign exchange reserves, which as on end December 2019 stood at US\$ 457.5 billion.

Net FDI inflows have continued to be buoyant in 2019-20 (April-November) attracting US\$ 24.4 billion as against US\$ 21.2 billion, which is a reflection of a global sentiment that increasingly believes in India's growth story and reform measures being undertaken by the government.

The average monthly exchange rate of rupee (RBI's reference rate) was Rs. 70.41 per US dollar in 2019-20 (April-December), as compared to Rs. 69.92 per US dollar during 2018-19. External debt as at the end of September 2019 remains low at 20.1 percent of GDP. After witnessing a significant decline since 2014-15, India's external liabilities (debt and equity) to GDP have increased at the end of June 2019 primarily driven by an increase in FDI, portfolio flows and external commercial borrowings (ECBs).

Banking and Non-Banking Sector

During 2019-20, gross non-performing advances (GNPA) ratio of Scheduled Commercial Banks (SCBs) remained unchanged at 9.3 percent in September 2019 as compared to March 2019. Similarly, the restructured standard advances (RSA) ratio of SCBs remained unchanged at 0.4 percent during the same period. The stressed advances (SA) ratio of SCBs followed suit by remaining flat at 9.7 percent. GNPA ratio of public sector banks (PSBs) was also unchanged at 12.3 percent in September 2019 while stressed advance ratios increased from 12.7 percent in March to 12.9 percent in September 2019.

The growth of non-food credit was 7.2 percent on November 22, 2019 as compared to 13.8 percent on November 23, 2018. The moderation in credit growth was witnessed across all the major segments of non-food credit except personal loans, which grew at 16.4 percent as on November 22, 2019 as compared to 17.2 percent as on November 23, 2018.

In case of Non-Banking Financial Sector after growing rapidly in 2017-18 and the first half of 2018-19, the NBFC sector has decelerated sharply since then. The growth of loans from NBFCs declined to 3.4 percent at end September 2019 from 14.6 percent in December 2018 and 31.9 percent in September 2018. The balance sheet of the NBFC sector grew by 17.9 percent from ` 26,17,790 crore to ` 30,85,480 crore during 2018-19. There is an observable shift in the sources of funding of NBFCs. Borrowings from banks increased from ` 5.62 lakh crore in October 2018 to 7.13 lakh crore in October 2019 registering a growth of 26.8 percent. However, deployment of credit by Mutual funds to NBFCs has been contracting since October 2018.

Agriculture

In 2018-19, as per fourth advance estimates, food grain production in the country was estimated at 285 million tonnes, the same as in 2017-18. However, food grain production was 19.2 million tonnes higher than the average production of the previous five years. Rice production during 2018-19 was estimated at 116.4 million tonnes as compared to 112.8 million tonnes in 2017-18. Wheat production during 2018-19 was estimated at 102.2 million tonnes as compared to 99.9 million tonnes during 2017-18. The government has increased Minimum Support Prices (MSP) for all mandated kharif, rabi and other commercial crops. The enhanced MSP ensures a return of 1.5 times over all India weighted average cost of production for the season 2019-20.

India continues to be the largest producer of milk in the world. The milk production in the country was 187.7 million tonnes in 2018-19 growing 6.5 percent over the previous year. The egg production in the country also increased from 95217 million in 2017-18 to 103318 million in 2018-19. Fish production in India has registered an average annual growth rate of more than 7 percent in recent years. Total fish production in the country stood at 13.4 million metric tonnes during 2018-19. Of this, the marine fisheries contributed 3.7 million metric tonnes and the inland fisheries 9.7 million metric tonnes. Under agriculture credit, a sum of ` 9,07,843.4 crore has been disbursed in 2019-20 as on 30th November 2019.

The agriculture credit flow target for 2018-19 was fixed at ` 11,00,000 crore and against this target, as reported by NABARD, the disbursement by banks till September 2018 is ` 6,45,205 crore.

Industry

The Index of Industrial Production (IIP) grew at 0.6 percent during April-November 2019 as compared to 3.8 percent in 2018-19. Mining, manufacturing and electricity sectors in IIP grew at (-)0.1 percent, 0.9 percent and 0.8 percent respectively during April- November 2019. The full year growth in these three sectors in 2018-19 was 2.9 percent, 3.9 percent and 5.2 percent respectively. Under the use-based categories growth in April-November of 2019-20 stood for primary goods at 0.1 percent, capital goods at (-) 11.6 percent, intermediate goods at 12.2 percent and infrastructure/construction goods at (-) 2.7 percent. The corresponding full year growth of these categories in 2018-19 was 3.5 percent, 2.7 percent, 0.9 percent and 7.3 percent respectively.

The eight core infrastructure supportive industries, viz. coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity that have a total weight of nearly 40 percent in the Index of Industrial Production (IIP) remained stagnant during April-November 2019 as compared to a growth of 4.4 percent in 2018-19. The production of fertilizers, steel, and electricity increased by 4.0 percent, 5.2 percent, 0.7 percent respectively during April-November 2019 while the production of coal, crude oil, natural gas, refinery products and cement contracted by 5.3 percent, 5.9 percent, 3.1 percent, 1.1 percent and 0.02 percent respectively during the same period.

Capital Market

The primary market resource mobilization through 85 public and rights issues was ` 73,896 crore during 2019-20 (up to December 31, 2019) as against 124 issues which had raised ` 44,355 crores during 2018-19 (up to December 31, 2018). Funds raised through the private placement of 1,520 issues amounted to ` 6.29 lakh crores in 2019-20 (up to December 31, 2019) as compared to ` 5.3 lakh crores through 2006 issues in the 2018-19.

India's benchmark indices, namely, Nifty 50 and S&P BSE Sensex index, have continued to grow during 2019-20. The S&P BSE Sensex, the benchmark index of Bombay Stock Exchange (BSE), reached an all-time high closing of 41,681 on December 20, 2019, witnessing an increase of 7.2 percent from the level of 38,871 on April 1, 2019. Nifty50 index gained 5.3 percent over April 1, 2019 to close at 12,226 on January 3, 2020. The average annual growth of BSE and Nifty50 in 2019-20 (April-December) was 8.9 percent and 5.7 percent respectively.

Prospects

The growth of the economy appears to have bottomed out and is expected to pick up in 2020-21. The prospects for the Indian economy for the year 2020-21 need to be assessed in the light of emerging global and domestic challenges and opportunities. Major challenges for the economy arising from the external front are geopolitical tensions in the Middle East and rising crude oil prices due to supply disruption which may decelerate the growth and increase inflation.

Challenges in the domestic front are the revival of investments and savings.

The positive prospects for the economy are the continuation of structural reforms that will revive growth and expected normalization of credit flow as investment picks up induced by a cut in the corporate tax rate and anticipated transmission of repo rate cuts earlier implemented by the Monetary Policy Committee. Global economic growth is expected to pick up in 2020 which could also support India's growth. In view of a positive outlook on the economic rebound, the nominal growth of the economy is expected to be 10 percent in the financial year 2020-21.

Overview

The Budget 2020-21 has come at a time where global and Indian business sentiments are slowing down and the economy requires a major impetus from the government to sustain a 5 Plus GDP Growth. After China's world looks towards India as a sustainable growth engine and India itself has set its eyes towards a five trillion economy. To achieve such ambitious goals, this budget tries to focus on areas that can lead this country to be a world leader. The budget receipts are largely focused towards growth in direct and indirect tax revenue with disinvestment receipt (being part of Non-debt receipts) being the main source for this year and expenditure is focusing on Agriculture, Social Sector, Defense, subsidies, Interest, Education and Health.

This is substantiated by the increase in expenditure of ` INR 343,679 crores over RE (2019-20) while keeping the fiscal deficit at 3.5% of GDP.

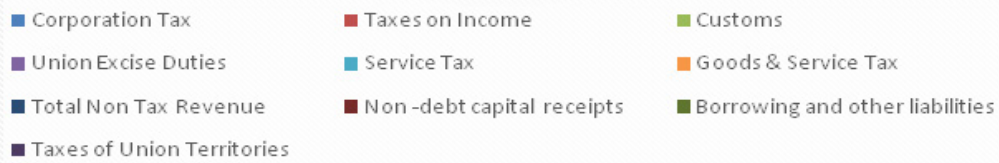
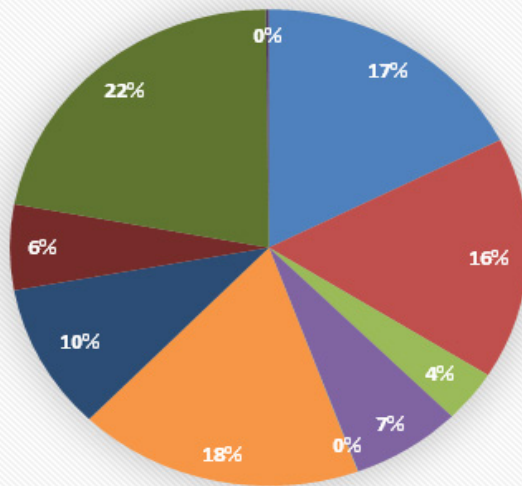
In BE 2020-21, the total expenditure has been kept at INR3,042,230 crore and is more than RE 2019-20 by INR 343,679 crore. The increase in total expenditure is on account of increased support to the agricultural sector, interest payments, Defense etc.

The total share of resources going to States for State's share in taxes in BE (2020-21) is INR 787,111 crore.

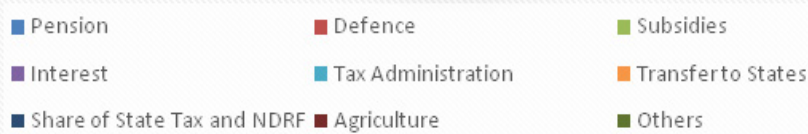
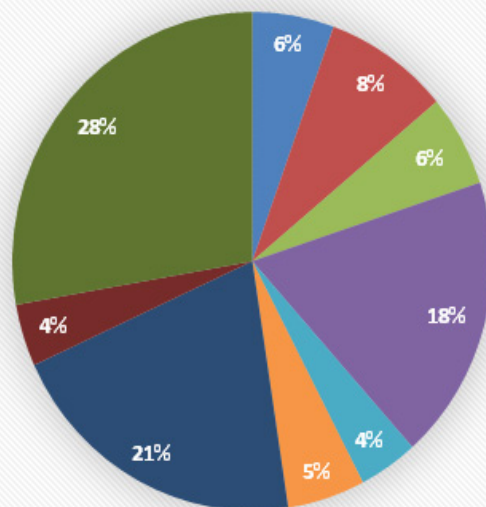
Amount in INR Crores (10 Million)

| Particulars | 2018-2019 Actuals | 2019-2020 Budget Estimates | 2019-2020 Revised Estimates | 2020-2021 Budget Estimates |
|--|-------------------|----------------------------|-----------------------------|----------------------------|
| 1. Revenue Receipts | 1,552,916 | 1,962,761 | 1,850,100 | 2,020,926 |
| 2. Tax Revenue (Net to Centre) | 1,317,211 | 1,649,582 | 1,504,587 | 1,635,909 |
| 3. Non Tax Revenue | 235,705 | 313,179 | 345,513 | 385,017 |
| 4. Capital Receipts | 762,197 | 823,588 | 848,450 | 1,021,304 |
| 5. Recovery of Loans | 18,052 | 14,828 | 16,604 | 14,967 |
| 6. Other Receipts | 94,727 | 105,000 | 65,000 | 210,000 |
| 7. Borrowings and Other Liabilities | 649,418 | 703,760 | 766,846 | 796,337 |
| 8. Total Receipts (1+4) | 2,315,113 | 2,786,349 | 2,698,551 | 3,042,230 |
| 9. Total Expenditure (10+13) | 2,315,113 | 2,786,349 | 2,698,551 | 3,042,230 |
| 10. On Revenue Account of which | 2,007,399 | 2,447,780 | 2,349,645 | 2,630,145 |
| 11. Interest Payments | 582,648 | 660,471 | 625,105 | 708,203 |
| 12. Grants in Aid for creation of Capital assests | 191,781 | 207,333 | 191,737 | 206,500 |
| 13. On Capital Account | 307,714 | 338,569 | 48,907 | 412,085 |
| 14. Revenue Deficit (10-1) | 454,483 | 485,019 | 499,545 | 609,219 |
| 15. Effective Revenue Deficit (14-12) | 262,702 | 277,686 | 307,808 | 402,719 |
| 16. Fiscal Deficit [9-(1+5+6)] | 649,418 | 703,760 | 766,848 | 796,337 |
| 17. Primary Deficit (16-11) | 66,770 | 43,289 | 141,743 | 88,134 |


WHERE THE RUPEE COMES FROM



WHERE THE RUPEE GOES



DIRECT TAX PROPOSALS

A close-up photograph showing a hand dropping a coin into a stack of coins held by another hand. The scene is set on a surface with a calculator and several other coins scattered around. The background is blurred, showing a red object and a white object. The text 'DIRECT TAX PROPOSALS' is overlaid in a white, serif font at the top of the image.

Direct Tax

In direct tax numerous changes inspired from direct tax code have been incorporated such as new income tax slabs, available only to those taxpayers who are willing to forego certain exemptions and deductions, change in the definition of residential status, removal of DDT and many more such amendments. Changes introduced in the Finance Bill 2020-21 are highlighted as under:-

Personal Tax

The Union Budget 2020-21 has introduced new income tax slabs with lower tax rates. However, the benefit of such reduced income-tax slabs would be available only to those taxpayers who are willing to forego certain deductions and exemptions. New income-tax slabs are optional and now taxpayers have the option to choose between the old taxation regime and the new taxation regime. The old tax slabs and structure would remain unchanged.

Tax rates for AY 2021-22 (Old taxation regime - Option 1)

Rates of tax for individuals, Hindu Undivided Family, or every association of persons or body of individuals, whether incorporated or not or every artificial juridical person.

| Amount of Net Income | Tax Rates (AY 2020-21) |
|----------------------------|------------------------|
| Upto Rs 2,50,000 | Nil |
| Rs 2,50,001 - 5,00,000 | 5% |
| Rs 5,00,001 – Rs 10,00,000 | 20% |
| Above Rs 10,00,000 | 30% |

Tax rates in the case of every individual, being a resident in India, who is of the age of 60 years or more but less than 80 years at any time during the previous year.

| Amount of Net Income | Tax Rates (AY 2020-21) |
|----------------------------|------------------------|
| Upto 3,00,000 | Nil |
| 3,00,010 - 5,00,000 | 5% |
| Rs 5,00,010 – Rs 10,00,000 | 20% |
| Above Rs 10,00,000 | 30% |

Tax rates in the case of every individual, being a resident in India, who is of the age of 80 years or more at any time during the previous year.

| Amount of Net Income | Tax Rates (AY 2020-21) |
|----------------------------|------------------------|
| Upto 5,00,000 | Nil |
| Rs 5,00,010 – Rs 10,00,000 | 20% |
| Above Rs 10,00,000 | 30% |

Surcharge/effective tax rate on Super Rich (other than capital gains on listed shares)

| Amount of Net Income | Existing Surcharge | Proposed *Surcharge (AY 2020-21) | Proposed Surcharge (AY 2020-21) |
|---------------------------|--------------------|----------------------------------|---------------------------------|
| 50,00,001 – 1,00,00,000 | 10% | 10% | 34.32% |
| 1,00,00,010– 2,00,00,000 | 15% | 15% | 35.88% |
| 2,00,00,001 – 5,00,00,000 | 15% | 25% | 39% |
| Above 5,00,00,000 | 15% | 37% | 42.74% |

*Subject to Marginal Relief

Surcharge/effective tax rate on short-term and long-term capital gains on listed shares covered u/s 111A and 112A, respectively.

| Amount of Net Income | Existing Surcharge | Proposed *Surcharge (AY 2021-22) |
|------------------------------------|--------------------|----------------------------------|
| 50,00,010 – 1,00,00,000 | 10% | 10% |
| Above Rs 1,00,00,000 – 2,00,00,000 | 15% | 15% |

***Subject to Marginal Relief**

Health & Education Cess:

Health and Education Cess at the rate of 4% shall be levied on tax and applicable surcharge.

Tax rates for AY 2021-22-(New Regime -Option- 2)

Rates for individuals(including senior citizen and super senior citizen), HUF, or every AOP or BOI, whether incorporated or not, or every artificial juridical person

| Amount of Net Income | Tax Rates (A.Y. 2021-22) |
|------------------------------|--------------------------|
| Upto Rs 2,50,000 | Nil |
| Rs 2,50,001 to Rs 5,00,000 | 5% |
| Rs 5,00,001 to Rs 7,50,000 | 10% |
| Rs 7,50,001 to Rs 10,00,000 | 15% |
| Rs 10,00,001 to Rs12,50,000 | 20% |
| Rs 12,50,001 to Rs 15,00,000 | 25% |
| Above Rs 15,00,000 | 30% |

- The aforesaid new option shall be exercised for every previous year where the individual or the HUF has no business income.
- Where any Individual or HUF has any business income this option once exercised for a previous year shall be valid for that previous year and all subsequent years.
- However, such an option would be available only when Individual or HUF satisfy certain conditions. In other words, Individual or HUF shall compute total income:-
 - a. Without following exemptions/deductions
 - Leave travel concession;
 - House rent allowance;
 - Standard deduction (i.e. Rs 50,000)
 - Deduction of Entertainment allowance or professional tax.
 - Interest on housing loan u/s 24(b);
 - Additional depreciation;
 - Deductions under section 32AD, 33AB, 33ABA
 - Any deduction under chapter VI-A (viz, section 80C, 80CCC, 80CCD, 80D, 80DD, 80DDB, 80E, 80EE, 80EEA, 80EEB, 80G, 80GG, 80GGA, 80GGC, 80IA, 80-IAB, 80-IAC, 80-IB, 80-IBA, etc). [Deduction u/s 80CCD(2) can be claimed]
- Without set-off of unabsorbed business loss or depreciation if such loss or depreciation is attributable to any of the aforesaid deductions/exemptions.
- Without set-off of house property loss with any other head of income.
- by claiming the depreciation, if any, except additional depreciation determined in such manner as may be prescribed;
- without any exemption or deduction for allowances or perquisite, by whatever name called, provided under any other law for the time being in force.

- Such option shall become invalid if the Individual or HUF fails to satisfy aforesaid conditions in any PY. In such a case, option/ tax slabs available under the old regime would be applicable.
- Where option II [taxation under new regime] is chosen by the Individual or HUF having business income, such option can be withdrawn only once in subsequent years and thereafter, the individual or HUF shall never be eligible to exercise option under this section, except where such individual or HUF ceases to have any business income.

Rationalization of the tax treatment of employer's contribution to recognized PF, superannuation funds and NPS [Section 17] [Applicable from AY 2021-22]

Under the existing provisions of the Income Tax Act, the contribution by the employer to the account of an employee in an RPF exceeding 12% of salary is taxable.

Further, the amount of any contribution to an approved superannuation fund by the employer exceeding Rs 1.5 lakhs is treated as perquisite in the hands of the employee.

Similarly, the assessee is allowed a deduction under NPS for 14% of the salary contributed by the Central Government and 10% 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. This is giving undue benefits to employees earning a high salary income.

Thus, this portion of salary does not suffer taxation at any point of time, since Exempt-Exempt-Exempt (EEE) regime is followed for these three funds. Thus, not having a combined upper cap is iniquitous and hence, not desirable.

Therefore, it is proposed to provide a combined upper limit of Rs 7.5 lakhs in respect of employer's contribution in a year to:-

- NPS,
 - Superannuation fund and
 - Recognised provident fund and
- any excess contribution is proposed to be taxable.

Consequently, it is also proposed that any annual accretion (on amount in excess of INR 7,50,000) 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.

Extending the time limit for sanctioning of loan for affordable housing [Section 80EEA][Applicable from AY 2021-22]

- The existing provisions of section 80EEA provide for a deduction of interest on housing loan upto Rs 1.5 lakhs. Such deduction is over and above the deduction allowed u/s 24.
- The said deduction is aimed to incentivise first time buyers to invest in residential house property whose stamp duty does not exceed Rs 45 lakhs.
- It allows deduction subject to certain conditions. One of the conditions is that loan should be sanctioned by the financial institution during the period from 1st April, 2019 to 31st March, 2020.
- In order to continue promoting purchase of affordable housing, the period of sanctioning of loan by the financial institution is proposed to be extended to 31st March, 2021.

Corporate Tax Changes

Tax Rates (old regime)

All companies having annual turnover upto Rs 400 crore in the previous year 2018-19 is in the tax bracket of 25%.

Companies

| Particulars | Rates of tax F.Y 2020-21 (AY 2021-22) |
|---|---------------------------------------|
| Domestic Company whose total turnover or gross receipts for PY 2018-19 does not exceed INR 400 Crores (INR 4,000 Million) | 25% |
| Domestic Company whose total turnover or gross receipts for PY 2018-19 exceeds INR 400 Crores (INR 4,000 Million) | 30% |
| In case of foreign Company | 40% |

Sucharge

In the case of a domestic company:

- 7% surcharge if the income is more than 1 crore (INR 10 Million) but less than 10 crores (INR 100 Million)
- 12% surcharge if the income is more than 10 Crores (INR 100 Million)

In the case of a foreign company:

- 2% surcharge if the income is more than 1 crore (INR 10 Million) but less than 10 crores (INR 100 Million)
- 5% surcharge if the income is more than 10 crore. (INR 100 Million)

Note:

Health and Education Cess of 4% shall be levied over and above taxes.

Tax Rates (New Regime)

| Particulars | Rates of tax F.Y. 2019-20 (AY 2020-21) |
|---|--|
| Domestic Company covered u/s 115BAA(Other than Manufacturing) | 22% (plus 10% surcharge and 4% cess) |
| New manufacturing companies* covered u/s 115BAB | 15% (plus 10% surcharge and 4% cess) |

*In case of new manufacturing companies u/s 115BAB, the tax rate would be different for following type of incomes:-

- Short-term capital gains in case of the non-depreciable asset would be taxable @ 22% instead of 15%.
- Any income neither derived from nor incidental to manufacturing/ production of an article or a thing would be taxable @ 22% instead of 15%.

The Taxation Laws Amendment Act, inserted section 115BAA and section 115BAB in the Act to provide domestic companies an option to be taxed at concessional tax rates provided they do not avail specified deductions and incentives. Some of the deductions prohibited are deductions under any provisions of Chapter VI-A under the heading "C. Deduction in respect of certain incomes" other than the provisions of section 80JJAA (New Employees).

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

Further, provisions of the Taxation Laws Amendment Act, provides that following, businesses shall not be considered as manufacturing or production of article or

thing in order to avail concessional tax rate of 15%-

- Development of computer software,
- Mining,
- Conversion of marble blocks or similar items into slabs,
- Bottling of gas into cylinder,
- Printing of books or production of a cinematograph film or any other business as may be notified by the Central Government.

It has been proposed that the manufacturing or production of an article or thing shall include the generation of electricity. Thus, now companies engaged in electricity generations can also avail concessional tax rate of 15% subject to satisfaction of certain conditions.

Firms & LLP's

No changes were proposed in the tax rates for firms and LLPs.

Flat Rate of tax @ 30% shall be applicable on the firm. Surcharge @ 12% of income tax shall be levied if net income exceeds INR 1 Crore.(INR 10 Million).

Health and Education Cess shall be levied @ 4% over and above taxes including surcharge.

Cooperative Societies

No changes were proposed in the tax rates for co-operative society.

| Particulars | Rates of tax F.Y. 2019-20 (AY 2020-21) |
|--|--|
| Having a total income of less than 10,001 | 10% |
| Having a total income of more than 10,000 but less than 20,001 | 1,000 plus 20% of total income in excess of 10,000 |
| Having a total income of more than 20,000 to 1 crore | 3,000 plus 30% of total income in excess of 20,000 |

Note:

Surcharge @ 12% of income tax if net income exceeds INR 1 Crore (INR 10 Million) and Health and Education Cess of 4% shall be levied over and above the above taxes.

However, from the assessment year 2021-22, resident co-operative societies have an option to opt for taxation @ 22% under newly proposed section 115BAD of the Act. Such new provision has been proposed on the lines of section 115BAA.

Start-ups

Rationalisation of provisions for start-ups [Section 80-IAC] [Applicable from AY 2021-22]

The existing provisions of section 80-IAC provide for a deduction of 100% of the profits and gains derived from an eligible business by an eligible start-up for 3 consecutive assessment years out of 7 seven years, at the option of the assesses, 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 Rs 25 crores.

In order to further rationalise the provisions relating to start-ups, it has been proposed to amend section 80-IAC of the Act so as to provide that-

- the deduction under the said section 80-IAC shall be available to an eligible start-up for a period of 3 consecutive assessment years out of 10 years beginning from the year in which it is incorporated.
- the deduction under the said section shall be available to an eligible start-up, if its total turnover does not exceed Rs 100 crore in any of the previous years beginning from the year in which it is incorporated.

ESOPs [Section 192] [Applicable from April 1, 2020]

Currently, ESOPs are taxed as perquisites under section 17(2) of the Act read with Rule 3(8)(iii) of the Rules. The taxation of ESOPs is split into two components:

- Tax on perquisite as income from salary at the time of exercise of ESOP.
- Tax on income from capital gain at the time of sale of shares.

The tax on perquisite is required to be paid at the time of exercising of option which may lead to cash flow problems as this benefit of ESOP is in kind.

In order to ease the burden of payment of taxes by the employees of the eligible start-ups or TDS by the start-up employer, it is proposed to amend section 192 of the Act, a person, being an eligible start-up responsible for paying any income to the assessee being ESOP perquisite shall deduct or pay, as the case may be, tax on such income within fourteen days:-

- after the expiry of 48 months from the end of the relevant assessment year; or
- from the date of the sale of such specified security or sweat equity share by the assessee; or
- 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).

Tax Audit

Increased threshold limit for applicability of audit [Section 44AB] [Applicable from AY 2020-21]

In order to reduce the compliance burden on SME, it has been proposed to increase the threshold limit for a person carrying on business from one crore rupees to five crore rupees in cases where, -

- aggregate of all cash receipts does not exceed 5% of total receipts; and
- aggregate of all cash payments does not exceed 5% of total payments.

However, it may be noted here that no changes were proposed in the tax audit limit for professionals and it remained unchanged at Rs 50 lakhs.

Due date of filing of ITR and Tax Audit [Section 139] [Applicable from AY 2020-21]

To enable pre-filing of ITR in case of persons having income from business or profession, it is required that the tax audit report may be furnished at least one month prior to the due date of filing of ITR.

Thus, in order to enable filing of tax audit one month before the due of filing of ITR, all the sections of the Act which mandates the filing of audit report along with the return of income or by the due date of filing of return of income have been proposed to be amended accordingly.

Thus, the due date of filing of Tax Audit in Form 3CA-3CD and Form 3CA-3CB would be 30th September of Assessment Year. Accordingly, the due date of filing of transfer pricing certificate in Form 3CEB and for 3CA/3CD for transfer pricing cases would be 31st October of Assessment year.

Accordingly, the due date for filing return of income has also been proposed to be amended as under:-

- Due date of filing of ITRs by companies and entities liable to tax audit would be 31st October of the assessment year as against 30th September;
- Now the due date of filing of ITR would be 31st October of AY as against 30th September for both working and a non-working partner of a firm that is liable to tax audit.
- Due date of filing of ITR by companies liable for transfer pricing audit in Form 3CEB would remain unchanged [i.e., 30th November of Assessment Year].

Dividend Distribution Tax

Abolition of dividend distribution tax [Section 115-O] [Applicable from AY 2021-22]

As per the existing provisions of Section 115-O, any domestic company distributed dividend is required to charge dividend distribution tax of 20.56%. However, such dividend is exempt in the hands of shareholders u/s 10(35).

Similarly, under section 115R, 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 then exempt in the hands of unit holders under clause (35) of section 10.

The incidence of tax is, thus, on the payer company/ Mutual Fund and not on the recipient, where it should normally be. The present system of taxation of dividend in the hands of company/mutual funds was reintroduced by the Finance Act, 2003 (with effect from the assessment year 2004-05) since it was easier to collect tax at a single point and the new system was leading to increase in compliance burden. However, with the advent of technology and easy tracking system available, the justification for current system of taxation of dividend has outlived itself.

In view of above, it is proposed to carry out amendments so that dividend or income from units are taxable 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 Act shall be maximum 20 percent of the dividend or income from units.

Now dividend would be taxable in the hands of shareholders, we need to consider its tax impact on various type of shareholders as under:-

| Type of shareholder | Tax Rate |
|--------------------------|---------------------------------|
| Resident Individual | Slab rate |
| Resident corporate | 22%/25%/30% |
| Non-resident shareholder | 20% [subject to treaty benefit] |

TDS on dividend distribution [Section 194, 196A, 196C, 196D, etc] [Applicable from April 1, 2020]

The rate of withholding tax would be 10% for resident shareholders and 20% for non-resident shareholders.

Removal of cascading effect on inter-corporate dividends [Section 80M] [Applicable from AY 2021-22]

A new section has been proposed to be inserted, wherein dividend received by an Indian company from an Indian company shall not be taxable to the extent it is distributed by such company.

It allows the removal of the cascading effect in multi-tier corporate structures, irrespective of shareholding in the Indian company.

Under the existing provisions, moving funds by way of dividend attracted Dividend Distribution Tax and credit was available only in holding-subsidiary situations.

TDS/TCS

TDS on E-commerce transactions [Section 194-O] [Applicable from April 1, 2020]

In order to widen and deepen the tax net by bringing participants of e-commerce within tax net, it is proposed to insert a new section 194-O in the Act so as to provide for a new levy of TDS at the rate of 1% on gross amount of sales or services or both.

The TDS is to be paid by e-commerce operator for sale of goods or provision of service facilitated by it through its digital or electronic facility or platform.

E-commerce operator is required to deduct tax at the time of credit of the 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.

Any payment made by a purchaser of goods or recipient of services directly to an e-commerce participant shall be deemed to be amount credited or paid by the e-commerce operator to the e-commerce participant and shall be included in the gross amount of such sales or services for the purpose of deduction of income-tax.

A transaction in respect of which tax has been deducted by the e-commerce operator under this section or which is not liable to deduction under the exemption discussed in the previous bullet, there shall not be further liability on that transaction for TDS under any other provision of Chapter XVII-B of the Act. This is to provide clarity so that the same transaction is not subjected to TDS more than once. However, it has been clarified that this exemption will not apply to any amount received or receivable by an e-commerce operator for hosting advertisements or providing any other services which are not in connection with the sale of goods or services referred to in sub-section (1) of the proposed section.

Thus, now e-commerce operators like Ola, Uber, Amazon, Flipkart, etc. would be liable to deduct TDS on sales or services made by vendors through their platform.

Let us understand this provision with the help of an example.

Situation 1

Mr. A has booked Ola ride for travelling in Delhi and paid Rs 1,000 on completion of the ride via Ola wallet.

In this case, Ola would deduct TDS @1% [i.e. Rs 10] and deposit the same with tax authorities where the driver has provided his PAN/Aadhaar Card.

Situation 2

Mr. A has booked Ola ride for travelling in Delhi and paid Rs 1,000 on completion of the ride via Ola wallet. In this case, Ola would deduct TDS @5% [i.e. Rs 50] and deposit the same with tax authorities where the driver has not provided his PAN/Aadhaar Card.

Situation 3

Mr. A has booked Ola ride for travelling in Delhi and paid Rs 1,000 in cash directly to the driver on completion of the ride. In this case, Ola would pay TDS @1% [i.e. Rs 10] and deposit the same with tax authorities where the driver has not provided his PAN/Aadhaar Card.

“E-commerce operator” is defined to mean any person who owns, operates or manages digital or electronic facility or platform for electronic commerce and is a person responsible for paying to e-commerce participants.

“E-commerce participant” is defined to mean a person resident in India selling goods or providing services or both, including digital products, through the digital or electronic facility or platform for electronic commerce.

This provision also covers non-resident E-commerce operators. Thus, liability to deduct TDS could be fastened on the non-resident or foreign company operating e-commerce platform where vendors selling goods or providing services on their portal/platform are residents of India.

TCS on overseas remittance made under Liberalized Remittance Scheme [Sec. 206C][Applicable from April 1, 2020]

In order to widen and deepen the tax net, the Finance Bill, 2020 has proposed to amend section 206C to levy

TCS on overseas remittance made under Liberalized Remittance Scheme.

Under Liberalized Remittance Scheme (‘LRS’) resident individuals are allowed to remit upto USD 2,50,000 for -

- Sending money to their children studying abroad;
- Buying property abroad;
- Buying stocks listed in exchanges abroad, etc

As per the proposal, an authorised dealer receiving an amount or an aggregate of amounts of Rs7,00,000 or more in a financial year for remittance out of India under the LRS of RBI, shall be liable to collect TCS, if he receives sum in excess of said amount from a buyer being a person remitting such amount out of India,.

- at the rate of 5% .
- In non-PAN/Aadhaar cases the rate shall be 10%.

The above TCS provision shall not apply if the buyer is-

- Liable to deduct TDS under any other provision of the Act and he has deducted such amount.
- The Central Government, a State Government, an embassy, a High Commission, legation, commission, consulate, the trade representation of a foreign State, a local authority as defined in Explanation to clause (20) of section 10 or any other person notified by the Central Government in the Official Gazette for this purpose subject to such conditions as specified in that notification.

TCS on sale of overseas tour package [Sec. 206C][Applicable from April 1, 2020]

Further, the Finance Bill, 2020 has also proposed amendment in section 206C to levy TCS on sale of overseas tour package.

Now as per the proposal, a seller of an overseas tour program package who receives any amount from any person who purchases such package, shall be liable to collect TCS at the rate of –

- 5%.
- In non-PAN/ Aadhaar cases the rate shall be 10%.

A similar exemption is available in this case as available in case of remittance under LRS where TDS has already been deducted on such transaction or where the buyer is State Govt. or Central Govt.

Overseas tour program package” is proposed to be defined to mean any tour package which offers a visit to a country or countries or territory or territories outside India and includes expenses for travel or hotel stay or boarding or lodging or any other expense of similar nature or in relation thereto.

Thus, people booking tour package for foreign countries from Make My Trip, Thomas cook or via any agent would be liable to shell out more money in the form of TCS from April 1, 2020.

So, if you are planning to go for vacation in any foreign country during summers, you can book tour packages till March 31, 2020 since provisions of TCS would trigger from April 1, 2020.

TCS on sale of goods [Section 206C] [Applicable from April 1, 2020]

The Finance Bill, 2020 has proposed to amend section 206C to levy TCS on the sale of goods.

It provides that a seller of goods is liable to collect TCS at the rate of 0.1 % on consideration received from a buyer [In non-PAN/ Aadhaar cases the rate shall be 1%], subject to satisfaction of following conditions -

- Consideration received from a buyer of goods in a previous year exceeds Rs 50,00,000.
- Total sales, gross receipts or turnover of seller exceeds Rs 10 crore during the financial year immediately preceding the financial year.

Liability to collect TCS on sale of goods would not arise in the following cases:-

- Central Government has notified such person, who shall not be liable to collect such TCS.
- Buyer is Central Govt., a State Govt. and an embassy, a High Commission, legation, commission, consulate, the trade representation of a foreign State, a local authority as defined in Explanation to section 10(20) or any other person as the Central Government may notify.
- Where the seller is liable to collect TCS under other provision of section 206C or the buyer is liable to deduct TDS under any provision of the Act and has deducted such amount.

TDS on fees for technical services [Sec. 194J][Applicable from April 1, 2020]

Generally, any payment made for contractual work would fall under section 194C unless such services considered as technical services.

It is noticed that there is a large number of litigations on the issue of short deduction of tax treating assessee in default where the assessee deducts tax under section 194C, while the tax officers claim that tax should have been deducted under section 194J of the Act.

Therefore, to reduce litigation, it is proposed to reduce the rate for TDS in section 194J in case of fees for technical services (other than professional services) to 2% from the existing 10%. The TDS rate in other cases under section 194J would remain the same at 10%.

Definition of work widened [Applicable from April 1, 2020] [Sec.194C]:

Section 194C provides that any person responsible for paying any sum to a resident for carrying out **any work** (including the supply of labour for carrying out any work) in pursuance of a contract shall at the time of such credit or at the time of payment whichever is earlier deduct 1%/2% TDS.

Definition of work includes manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from such customer.

However, such definition 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 has been noted that some assesseees are using the escape clause of the section by getting the contract manufacturer to procure the raw material supplied through its related parties. As a result, a substantial amount of income escapes the tax net.

Therefore, to bring clarity in the section and plug the leakage, it is proposed to amend the definition of “work” under section 194C 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.

Taxation of non-residents

Exemption to non-residents from filing income-tax return [Sec. 115A] [Applicable from AY 2020-21]

Sub-section (5) of Section 115A provides that a non-resident is not required to furnish its return of income u/s 139(1), if its total income, consists only of certain dividend or interest income and the TDS on such income has been deducted according to the provisions of Chapter XVII-B of the Act.

While the current provisions of section 115A of the Act provide relief to non-residents from filing of return of income where the non-resident is not liable to pay tax other than the TDS which has been deducted on the dividend or interest income, the same relief has not been extended to non-residents whose total income consists only of the income by way of royalty or FTS of the nature as mentioned above. Representations have been received to extend this benefit to royalty and FTS income as well.

Therefore, it is proposed to amend section 115A of the Act in order to provide that a non-resident, shall not be required to file return of income under sub-section (1) of section 139 of the Act if, -

- his or its total income consists of only dividend or interest income as referred to in clause (a) of sub-section (1) of said section, or royalty or FTS income of the nature specified in clause (b) of sub-section (1) of section 115A; and
- the TDS on such income has been deducted under the provisions of Chapter XVII-B of the Act at the rates which are not lower than the prescribed rates under sub-section (1) of section 115A.

Therefore, where aforesaid income has been paid to the non-resident on the basis of tax rates provided under the tax treaties, the benefit of exemption from

filing ITR is not available for AY 2020-21. Benefit of exemption from filing ITR is available to non-residents only when TDS has been deducted on aforesaid passive income @ 10.4% as per Section 115A of the Income Tax Act.

Modification of residency provisions [Sec. 6] [Applicable from AY 2021-22]

However, aforesaid limit of 60 days is not applicable to an Indian Citizen or a person of Indian origin who comes on visit to India during the PY. In such cases, he would be treated as a resident in India only when his period of stay is 182 days or more in the PY.

This provision provides relaxation to an Indian citizen or a person of Indian origin allowing them to visit India for a longer duration without becoming resident of India.

Instances have come to notice where the period of 182 days specified in respect of an Indian citizen or person of Indian origin visiting India during the year, is being misused. Individuals, who are actually carrying out substantial economic activities from India, manage their period of stay in India, so as to remain a non-resident in perpetuity and not be required to declare their global income in India.

In the light of the above, it is proposed that the exception provided in section 6 for visiting India in that year be decreased to 120 days from the existing 182 days.

Thus, as per the amended provision, any Indian citizen or person of Indian origin, who comes on a visit to India and stays in India for 120 days or more, would be treated as resident in India.

Section 6(6) provides for situations in which a person shall be “not ordinarily resident” in a previous year. Clause (a) thereof provides that if the person is an individual who has been non-resident in nine out of the ten previous years preceding that year, or has during the seven previous years preceding that year been in India

for an overall period of 729 days or less.

Clause (b) thereof contains similar provision for the HUF.

There would be need for relaxation in the conditions. In light of the above, it has been proposed that 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 would replace the existing conditions in clauses (a) and (b) of sub-section (6) of section 6.

Deemed resident

Budget 2020-21 has proposed to tax NRIs in India, who are not paying tax anywhere in the world. According to the proposal, such NRI taxpayers may be required to pay tax in India.

It provides that an Indian citizen who is not liable to tax in any other country or territory shall be deemed to be a resident in India.

This is an anti-abuse provision since it is noticed that some Indian citizens shift their stay in low or no tax jurisdiction to avoid payment of tax in India.

However, in some section of the media, the new provision is being interpreted to create an impression that those Indians who are bonafide workers in other countries, including Middle East, and who are not liable to tax in these countries will be taxed in India on the income that they have earned there.

Now the CBDT vide press release dated, February 2, 2020 has clarified that in case of an Indian citizen who becomes deemed resident of India under this proposed provision, income earned outside India by him shall not be taxed in India unless it is derived from an Indian business or profession.

Penalty

Provision for e-penalty [Section 274] [Applicable from April 1, 2020]

Section 274 of the Income Tax Act provides for the procedure for imposing a penalty under Chapter XXI of the Act. In response to a show-cause notice issued by the AO, assessee or his AR is still required to visit the office of the AO. With the advent of the E-Assessment Scheme-2019 and in order to ensure that the reforms initiated by the Department to eliminate human interface from the system reaches the next level, it is imperative that an e-penalty scheme be launched on the lines of E-assessment Scheme-2019.

Therefore, it is proposed to insert a new sub-section (2A) in the said section so as to provide that the Central Government may notify an e-scheme for the purposes of imposing penalty so as to impart greater efficiency, transparency and accountability by,—

- eliminating the interface between the AO and the assessee
- optimising utilisation of the resources through economies of scale and functional specialisation;
- introducing a mechanism for imposing of the penalty with dynamic jurisdiction in which penalty shall be imposed by one or more income-tax authorities

Penalty for fake invoices [Applicable from April 1, 2020]

In the recent past after the launch of Goods & Services Tax (GST), several cases of fraudulent input tax credit (ITC) claim have been caught by the GST authorities.

In these cases, fake invoices are obtained by suppliers registered under GST to fraudulently claim ITC and

reduce their GST liability. These invoices are found to be issued by racketeers who do not actually carry on any business or profession. They only issue invoices without actually supplying any goods or services.

The GST shown to have been charged on such invoices is neither paid nor is intended to be paid. Such fraudulent arrangements deserve to be dealt with harsher provisions under the Act.

Therefore, it is proposed to introduce a new provision in the Act to provide for a levy of penalty on a person, if it is found during any proceeding under the Act that in the books of accounts maintained by him there is a -

- false entry or
- 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. It is also proposed to provide that any other person, who causes in any manner a person to make or cause to make a false entry or omits or causes to omit any entry, shall also pay by way of penalty a sum which is equal to the aggregate amounts of such false entries or omitted entry.

Vivad se Vishwas Bill, 2020

In the past Government has taken several measures to reduce tax litigations. In the last budget, Sabka Vishwas Scheme was brought in to reduce litigation in indirect taxes. It resulted in settling over 1,89,000 cases.

Currently, there are 4,83,000 direct tax cases pending in various appellate forums, i.e., Commissioner (Appeals), ITAT, High Court and Supreme Court. Thus, this year, the Hon'ble Finance Minister brought a scheme similar to the indirect tax Sabka Vishwas for reducing litigations even in the direct taxes.

The Govt. has introduced Direct Tax Vivad se Vishwas Bill, 2020 in the Lok Sabha on February 5, 2020. Salient features of Vivad se Vishwas Bill, 2020 are given

- Taxpayers whose appeals were pending before the appellate forums [i.e., CIT(A), ITAT, High Court and Supreme Court] as on January 31st 2020, can opt for resolution under this Scheme;
- The scheme provides for waiver of interest, penalty & prosecution where the declaration provided under the Scheme is filed by the declarant before the designated authority.
- the amount payable by the declarant under this Act shall be as under, namely:—

| Nature of tax arrear | The amount payable before March 31, 2020 | The amount payable after March 31, 2020 but on or before the last date |
|--|--|--|
| Disputed tax, interest and penalty on such disputed tax. | 100% of disputed tax | 10% |
| (complete waiver of penalty and interest) | Entire disputed tax + 10%* of disputed tax | 15% |
| Disputed interest, disputed penalty and disputed fee | 25% of disputed interest, disputed penalty, disputed fee | 30% of disputed interest or disputed penalty or disputed fee |

*where 10% of disputed tax exceeds the aggregate amount of interest and penalty charged on disputed tax, such excess shall be ignored.

- Where the declarant has filed any appeal before the appellate forum or any writ petition before the High Court or the Supreme Court against any order in respect of tax arrear, he shall withdraw such appeal or writ petition with the leave of the Court wherever required and furnish proof of such withdrawal along with the declaration.
- Any amount paid in pursuance of a declaration

made under such scheme shall not be refundable under any circumstances

- The provisions of this Act shall not apply— in respect of tax arrear,—
- relating to an assessment year in respect of which an assessment has been made under section 153A or section 153C of the Income-tax Act, if it relates to any tax arrear;
- relating to an assessment year in respect of which prosecution has
- been instituted on or before the date of filing of a declaration;
- relating to any undisclosed income from a source located outside India or an undisclosed asset located outside India;
- relating to an assessment or reassessment made on the basis of
- information received under an agreement referred to in section 90 or section 90A of the Income-tax Act, if it relates to any tax arrear;
- relating to an appeal before the Commissioner (Appeals) in respect of which notice of enhancement under section 251 of the Income-tax Act has been issued on or before the specified date;
- a. to any person in respect of whom an order of detention has been made under the provisions of the Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974 on or before the filing of declaration [subject to satisfaction of certain conditions];
- b. to any person in respect of whom prosecution for any offence punishable under the provisions of the Indian Penal Code, the Unlawful Activities (Prevention) Act, 1967, the Narcotic Drugs and Psychotropic Substances Act, 1985, the Prevention of Corruption Act, 1988, the Prevention of Money Laundering Act, 2002, the Prohibition of Benami Property Transactions Act, 1988 or for the purpose of enforcement of any civil liability has been instituted on or before the filing of the declaration or such person has been convicted of any such offence punishable under any of those Acts;
- c. to any person notified under section 3 of the Special Court (Trial of Offences Relating to Transactions in Securities) Act, 1992 on or before the filing of declaration.

Other proposals

Rationalisation of provisions relating to Form 26AS [Applicable from June 1, 2020]

Section 203AA of the Act, inter-alia, requires the prescribed income-tax authority or the person authorised by such authority referred to in sub-section (3) of section 200, to prepare and deliver a statement in Form 26AS to every person from whose income, the tax has been deducted or in respect of whose income the tax has been paid specifying the amount of tax deducted or paid.

The Form 26AS as prescribed in the Rules, inter-alia, contains the information about tax collected or deducted at source. However, with the advancement in technology and enhancement in the capacity of the system, multiple information in respect of a person such as sale/purchase of immovable property, share transactions, etc. are being captured or proposed to be captured. In future, it is envisaged that in order to facilitate compliance, this information will be provided to the assessee by uploading the same in the registered account of the assessee on the designated portal of the Income-tax Department, so that the same can be used by the assessee for filing of the return of income and calculating his correct tax liability.

As the mandate of Form 26AS would be required to be extended beyond the information about tax deducted, it is proposed to introduce a new section 285BB in the Act regarding annual financial statements. This section proposes to mandate the prescribed income-tax authority or the person authorised by such authority to upload in the registered account of the assessee a statement in such form and manner and setting forth such information, which is in the possession of an income-tax authority, and within such time, as may be prescribed.

Consequently, section 203AA is proposed to be deleted

clauses (1) and (23C)] shall not be allowed.

It has been noticed that there is some anomaly by providing exclusion to institutions or fund registered under clause (23C) of section 10, but the same exclusion is not available to entities claiming exemption u/s 10(46) which are established or constituted under a Central or State Act or by a Central or State Government. Such entities are, thus, not able to get notified u/s section 10(46) if they are holding registration under section 12A/12AA.

Accordingly, the following changes have been proposed:-

- Similar to exemptions under clauses (1) and (23C), exemption u/s 10(46) shall be allowed to an entity even if it is registered u/s 12AA subject to the condition that the registration shall become inoperative. If the entity wishes to make it operative in the future, it will have to file an application and then it would not be entitled for deduction u/s 10(46) from the date on which the registration becomes operative.
- The registration u/s 12AA would also become inoperative in case of an entity exempt under clause (23C) of section 10 as well, to have uniformity. The condition about making it operative again would also be similar to what is proposed for clause (46) of section 10.

Rationalising the process of registration of trusts, institutions, funds, university, hospital, etc [Section 12AA] [Applicable from June 1, 2020]

Following changes have been proposed in order to rationalize the process of registration of trusts, etc:-

- an entity approved, registered or notified u/s 10(23C), u/s 12AA or u/s 35 shall be required to apply for approval or registration or intimate regarding it being approved and on doing so, the approval,

registration or notification in respect of the entity shall be valid for a period not exceeding 5 previous years at one time calculated from 1st April, 2020.

- An entity already approved u/s 80G shall also be required to apply for approval and on doing so, the approval, registration or notification in respect of the entity shall be valid for a period not exceeding five years at one time.
- Application for approval u/s 80G shall be made to Principal Commissioner or Commissioner.
- An entity making fresh application for approval under clause (23C) of section 10, for registration u/s 12AA, for approval u/s 80G shall be provisionally approved or registered for 3 years on the basis of application without detailed enquiry even in the cases where activities of the entity are yet to begin and then it has to apply again for approval or registration which, if granted, shall be valid from the date of such provisional registration.
- The application of registration subsequent to provisional registration should be at least six months prior.

- to the expiry of provisional registration or within six months of the start of activities, whichever is earlier.

Filing of statement of donation by donee to cross-check claim of donation by donor [Applicable from June 1, 2020]

At present, there is no reporting obligation by the exempt entity receiving donation/any sum in respect of such donation/ sum. With the advancement in technology, it is now feasible to standardise the process through which one-to-one matching between what is received by the exempt entity and what is claimed as a deduction by the assessee.

Accordingly, it has been proposed that deduction under section 80G/ 80GGA to a donor shall be allowed only if a statement is furnished by the donee who shall be required to furnish a statement in respect of donations received and in the event of failure to do so, fee and penalty shall be levied.



INDIRECT TAX & GST CHANGES

Indirect Tax

Our Indirect tax analysis consists of analysis of Goods and Service Tax, Customs and Excise.

Goods and Service Tax Amendments

Definition

Amendment in Sec 2

The definition of “Union territory” in clause (114) of section 2 of the CGST Act is being amended to update the definition of Union territory in view of the bringing into force of the Jammu and Kashmir Reorganization Act, 2019 and the Dadra and Nagar Haveli and Daman and Diu (Merger of Union Territories), Act, 2019.

Consequential changes are also being made in UTGST Act, 2017.

Analysis

The amendment was made to give the effect of making Dadra and Nagar Haveli, Daman and Diu and Ladakh a Union Territory.

Composition Scheme

Amendment in Sec 10

Section 10 of the CGST Act is being amended, so as to exclude from the ambit of the Composition scheme certain categories of taxable persons, engaged in making-

- (i) supply of services not leviable to tax under the CGST Act, or
- (ii) inter-State outward supply of services, or
- (iii) outward supply of services through an e-commerce operator.

Analysis

Earlier, if a person was engaged in making any of the following supplies then he was not eligible for composition registration:

- i. supply of goods which are not leviable to tax
- ii. any inter-state outward supplies of goods
- iii. supply of goods through an e-commerce operator.

It may be noted that the above restriction is imposed on the supply of goods only however through this amendment supplier of services are also covered under the above eligibility criteria.

Debit Note

Amendment in Sec 16

Subsection (4) of section 16 of the CGST Act is being amended to delink the date of issuance of debit note from the date of issuance of the underlying invoice for purposes of availing input tax credit.

Analysis

Earlier the input tax credit against debit note shall not be allowed after the due date of the return for the month of September following the end of the financial year to which invoice relating to such debit note pertains.

After such amendment, a taxpayer can avail input tax credit against debit note as per the above timeline irrespective of the date of the original invoice.

Cancellation of Registration

Amendment in Sec 29

Clause (c) of sub-section (1) of section 29 of the CGST Act is being amended to provide for cancellation of registration which has been obtained voluntarily under sub-section (3) of section 25.

Analysis

Earlier the proper officer can cancel the registration of a taxable person other than a person taking voluntary registration either on his own motion or an application filed by such person, if such person is no longer be liable to be registered under the act.

After such amendment a person can take voluntary registration shall apply for cancellation in case such person wishes to opt out and also gives power to the proper officer to cancel on his own motion.

Revocation of Registration

Amendment in Sec 30

A proviso to sub-section 1 of section 30 of the CGST Act is being inserted to empower the jurisdictional tax authorities to extend the date for application of revocation of cancellation of registration in deserving cases.

Analysis

Earlier a taxpayer can apply for revocation of registration within 30 days of service of cancellation order. Through this amendment, powers have been given to the tax authorities to extend such time limit for further 60 days on sufficient cause and reasons recorded in writing.

Issuance of TDS Certificate

Amendment in Sec 51

Section 51 of the CGST Act is being amended to remove the requirement of issuance of TDS certificate by the deductor and to omit the corresponding provision of late fees for delay in issuance of TDS certificate.

Analysis

Through this amendment the late fees of Rs. 200 per day has been removed for non-furnishing of the TDS certificate to the deductee.

Penalty

Amendment in Sec 122

Section 122 of the CGST Act is being amended by inserting a new sub-section to make the beneficiary of the transactions of passing on or availing fraudulent Input Tax Credit liable for penalty similar to the penalty leviable on the person who commits such specified offences.

Amendment in Sec 132

Section 132 of the CGST Act is being amended to make the offence of fraudulent availment of input tax credit without an invoice or bill a cognizable and non-bailable offence; and to make any person who commits, or causes the commission and retains the benefit of transactions arising out of specified offences liable for punishment.

Analysis

Earlier the penalty/punishment has been imposed on the person who have committed the offence however through this amendment such penalty/punishment has been extended to the person who retains the benefits arising out of such offence. Further, the offence of fraudulent availment of credit without invoice or bill would now be cognizable and non-bailable.

Transitional Provision

Amendment in Sec 140

Section 140 of the CGST Act is being amended with effect from 01.07.17, to prescribe the manner and time limit for taking transitional credit.

Removal of Difficulties Order

Amendment in Sec 172

Section 172 of the CGST Act is being amended to make provision for enabling the issuance of removal of difficulties order for another 2 years, i.e. till five years from the date of commencement of the said Act.

Similar changes are also being made in the IGST Act, 2017 (section 25), the UTGST Act, 2017 section 26) and the GST (Compensation to States) Act, 2017 (section 14).

Analysis

The time limit of issuing Removal of difficulties has been extended for another 2 years in order to amend or extend any time limit under the Act.

Schedule II

Entries at 4(a) & 4(b) in Schedule II of the CGST Act is being amended with effect from 01.07.2017 to make provision for the omission of made without any consideration from Schedule II of the said Act.

Analysis

Earlier Schedule II provides that the transfer of business assets shall be considered as a supply of good even made without consideration however such provision has been amended so as to excludes transfer of assets without consideration from the ambit of supply of goods.

Retrospective amendments to give effect to the recommendations of the GST Council

| S. No. | Retrospective amendment in the Goods and Service Tax rate and refund provisions |
|--------|---|
| 1 | Exemption from Central Tax, Union Territory Tax and Integrated Tax is being given on fishmeal [HS 2301], for the period 01.07.2017 to 30.09.2019. However, GST paid on the supply of fishmeal during the period shall not be refunded. |
| 2 | Concessional 12% rate of Integrated Tax and 6% Central Tax and 6% Union Territory Tax during the period 01.07.2017 to 31.12.2018, on pulley, wheels and other parts (falling under heading 8483) and used as parts of agricultural machinery of headings 8432, 8433, and 8436. However, GST paid at any other rate (higher than 12%) shall not be refunded. |
| 3 | The refund of accumulated credit of compensation cess on tobacco products arising out of inverted duty structure in Compensation Cess has been disallowed with effect from 1.10.2019 vide notification No. 3/2019- Compensation Cess (Rate) dated 30.9.2019. This notification is being given retrospective effect from 1.7.2017 onwards. Accordingly, no refund on account of an inverted duty structure shall be admissible on tobacco products for any period. |

Central Excise

Few Amendment have been brought in the Seventh Schedule to the Finance Act 2001 (Clause [145] of the Finance Bill, 2020) in relation collect more excise from sin goods such as cigarette and tobacco products.

| S. No. | Tariff Item | Description of goods | Unit | From | To |
|--------|-------------|--|------|----------------------|----------------------|
| 1 | 2402 20 10 | Other than filter cigarettes, of length not exceeding 65 millimetres | Tu | Rs. 90 per thousand | Rs. 200 per thousand |
| 2 | 2402 20 20 | Other than filter cigarettes, of length exceeding 65 millimetres but not exceeding 70 millimetres | Tu | Rs. 145 per thousand | Rs. 250 per thousand |
| 3 | 2402 20 30 | Filter cigarettes of length (including the length of the filter, the length of filter being 11 millimetres or its actual length, whichever is more) not exceeding 65 millimetres | Tu | Rs. 90 per thousand | Rs. 440 per thousand |

| | | | | | |
|----|------------|---|-----|----------------------|----------------------|
| 4 | 2402 20 40 | Filter cigarettes of length (including the length of the filter, the length of filter being 11 millimetres or its actual length, whichever is more) exceeding 65 millimetres but not exceeding 70 millimetres | Tu | Rs. 90 per thousand | Rs. 440 per thousand |
| 5 | 2402 20 50 | Filter cigarettes of length (including the length of the filter, the length of filter being 11 millimetres or its actual length, whichever is more) exceeding 70 millimetres but not exceeding 75 millimetres | Tu | Rs. 145 per thousand | Rs. 545 per thousand |
| 6 | 2402 20 90 | Other | Tu | Rs. 235 per thousand | Rs. 735 per thousand |
| 7 | 2402 90 10 | Cigarettes of tobacco substitutes | Tu | Rs. 150 per thousand | Rs. 600 per thousand |
| 8 | 2403 11 10 | Hookah or gudaku tobacco | Kg. | 10% | 25% |
| 9 | 2403 19 10 | Smoking mixtures for pipes and cigarettes | Kg. | 45% | 60% |
| 10 | 2403 19 90 | Other | Kg. | 10% | 25% |
| 11 | 2403 91 00 | "Homogenised" or "reconstituted" tobacco | Kg. | 10% | 25% |
| 12 | 2403 99 10 | Chewing tobacco | Kg. | 10% | 25% |
| 13 | 2403 99 20 | Preparations containing chewing tobacco | Kg. | 10% | 25% |
| 14 | 2403 99 30 | Jarda scented tobacco | Kg. | 10% | 25% |
| 15 | 2403 99 40 | Snuff | Kg. | 10% | 25% |
| 16 | 2403 99 50 | Preparations containing snuff | Kg. | 10% | 25% |
| 17 | 2403 99 60 | Tobacco extracts and essence | Kg. | 10% | 25% |
| 18 | 2403 99 90 | Other | Kg. | 10% | 25% |

Custom

For improving compliance

A new Chapter VAA (a new section 28DA) is being incorporated in the Customs Act to provide enabling provision for administering the preferential tariff treatment regime under Trade Agreements. The proposed new section seeks to specifically provide for certain obligations on the importer and prescribe for time bound verification from exporting country in case of doubt. Pending verification preferential tariff treatment shall be suspended and goods shall be cleared only on furnishing security equal to differential duty. In certain cases, the preferential tariff treatment may be denied without further verification.

Analysis

A new chapter has been inserted in order to provide the procedure regarding the claim of a preferential rate of duty on goods imported under a trade agreement entered with the Government of foreign country.

For reducing litigation

An explanation is being inserted in section 28 to explicitly clarify that any notice issued under the said section, prior to the enactment of the Finance Act, 2018, shall continue to be governed by the section 28 as it existed before the said enactment, notwithstanding the order of any Appellate Tribunal, Court or any other law to the contrary.

Analysis

This is a retrospective amendment made for providing 29th March 2018 as the cut off date for the governance of notice issued prior to Finance Bill 2018 till the date of receipt.

Other enabling provisions

Clause (f) of the section 11(2) empowers the Central Government, for prevention of injury to the economy of the country by the uncontrolled import or export of gold or silver, to prohibit their import or export. This clause is being amended to include “any other goods” (in addition to gold and silver) in its ambit.

Analysis

Earlier the provision restricts the uncontrolled import of gold or silver for prevention of injury to the economy however this amendment now includes other goods under such restriction.

- A new section (section 51B) is being incorporated to provide for the creation of an Electronic Duty Credit Ledger in the customs system. This will enable duty credit in lieu of duty remission to be given in respect of exports or other such benefit in electronic form for its usage, transfer etc. In this regard, enabling provisions for issuance of suitable regulations are also being inserted in section 157(2) of the Customs Act, 1962.

The provisions for recovery of duties provided under section 28AAA of Customs Act, 1962 are also being expanded to include such electronic credit of duties.

Amendments to the Customs Tariff Act, 1975

Section 8B of the Customs Tariff Act, 1975, which provided for imposition of safeguard duty as a trade remedy against surge in imports of a commodity, is being amended to make provisions for application of other safeguard measures such as Tariff Rate Quota and other safeguard measure as the Central Government may deem necessary to protect the domestic industry from injury due to significant surge in imports.

Amendment in the First Schedule of the Customs Tariff Act, 1975

First Schedule to the Customs Tariff Act, 1975 is being amended to:

(i) Create new tariff item 8414 51 50 for “Wall fans”. The tariff rate for this item is 20% and BCD on wall fans is being increased from 7.5% to 20%.

(ii) Create new tariff item 8529 90 30 for “Open Cell of television set”. The tariff rate for this item is 15%. However, these items will continue at ‘Nil’ BCD.

(iii) Create tariff items 8541 40 11 for “Solar Cells, not assembled” and tariff item 8541 40 12 for “Solar Cells assembled in modules or made up into panels”. The tariff rate for these items is 20%. However, these items will continue at ‘Nil’ BCD.

Amendment in Countervailing Duty Rules and Anti-Dumping Duty Rules

| S. No. | Rules | Amendment |
|--------|---------------------------|---|
| 1 | Anti-Dumping Rules | Changes are being made in the Rules to strengthen the anti-circumvention measures by making them more comprehensive and wider in scope to take care of all types of circumventions of anti-dumping duty in line with best international practice. Certain other changes are being made in these Rules for bringing clarity in the scope of these rules. |
| 2 | Countervailing Duty Rules | At present, there is no provision for investigation in case of circumvention of countervailing duties. A provision is being incorporated in the Countervailing Duty Rules to enable investigation into case of circumvention of countervailing duty for enabling imposition of such duty. Certain other changes are being made for bringing clarity in the Rules. |

Review of Customs duty exemption for certain imported goods

| S. No. | Rules | Amendment |
|--------|--------------------------------|--|
| 1 | Agro and animal based products | Tuna bait, skimmed milk and certain milk products, sugar beet seeds, raw sugar, certain alcoholic beverages, whey and isolated soya protein, soya fibre, etc. |
| 2 | Items of Metal | <ul style="list-style-type: none"> a. Lead bars, rods and wire b. Zinc tubes, pipes and tubes c. Tin plates, sheets and strips |
| 3 | Machinery | Machinery imported for use in certain projects such as specified electricity generation projects, specified Metro projects, certain other specified purposes; Specified goods required for the construction of roads |
| 4 | Electronic items | Copper and articles thereof used in the manufacturing of specified electronic items; Parts for the manufacture of printers, CD Writers, MP3 or MP4 or MPEG 4 players, pre-recorded cassettes, audio cassettes, colour television tubes, etc. |
| 5 | Miscellaneous | <ul style="list-style-type: none"> a. Peanut butter, preserved potatoes b. Instant print film, exposed cinematographic films c. A few redundant and outdated customs duty exemptions are being withdrawn. Further, a few exemptions are being re-aligned for consistency. |

Changes in Customs duty for creating a level playing field for MSME and promoting MAKE IN INDIA

| S. No. | Category of goods | Specific items | Rate of duty | |
|--------|--------------------------------|--|--------------|-------|
| | | | From | To |
| 1. | Household goods and appliances | Tableware and kitchenware of porcelain or china, ceramic, clay, iron, steel, copper and aluminium, glassware, padlocks, brooms, hand-sieves, combs, vacuum flasks, etc. | 10% | 20% |
| 2. | Electrical Appliances | Fans, food grinders/mixers, shavers and hair removing appliances, water heaters, hair/hand drying apparatus, ovens, cookers, toasters, coffee/ tea makers, insect repellents, heaters, irons, etc. | 10% | 20% |
| 3. | Footwear | a. Footwear | 25% | 35% |
| | | b. Parts of footwear | 15% | 20% |
| 4. | Furniture goods | Seats, articles of bedding including mattresses, lamps, lighting, illuminated signs, and other articles of furniture | 20% | 25% |
| 5. | Stationery items | Filing cabinets, paper trays, binders, clips, staples, sign-plates, name plates, numbers and symbols etc. made from base metal | 10% | 20% |
| 6. | Toys | Tricycles, scooters, scale models, dolls, etc. | 20% | 60% |
| 7. | Machinery | a. Specified goods used in high voltage power transmission project | 5% | 7.5% |
| | | b. Railway carriage fans | 7.5% | 10% |
| | | c. Compressors of refrigerators and air conditioners | 10% | 12.5% |
| | | d. Commercial freezers | 7.5% | 15% |
| | | e. Welding and plasma cutting machine | 7.5% | 10% |
| | | f. Rotary tillers/weeder | 2.5% | 7.5% |
| 8. | Other miscellaneous items | <ul style="list-style-type: none"> • Glass beads • Artificial flowers • Bells, gongs, statuettes, trophies and like, statuettes, ornaments, photograph, frames, mirrors etc. of base metal. | 10% | 20% |

Changes in Customs duty to promote MAKE IN INDIA under Phased Manufacturing Programme (PMP) for Electric Vehicles and Cellular Mobile Phones

| A. | Changes in customs duty under Phased Manufacturing Programme for Electric Vehicles | Rate of duty | |
|----|---|--------------|-----|
| | | From | To |
| 1. | Completely Built Units of Bus and Trucks (with effect from 01.04.2020) | 25% | 40% |
| 2. | Semi Knocked Down (SKD) units of bus, trucks and two wheelers (with effect from 01.04.2020) | 15% | 25% |
| 3. | Semi Knocked Down (SKD) units of passenger vehicles and three wheelers (with effect from 01.04.2020) | 15% | 30% |
| 4. | Completely Knocked Down (CKD) units of passenger vehicles, three wheelers, two wheelers, bus and trucks (with effect from 01.04.2020) | 10% | 15% |
| B. | Changes in customs duty under Phased Manufacturing Programme for Cellular Mobile Phones | | |
| 1 | PCBA of Mobile phones (with effect from 01.04.2020) | 10% | 20% |
| 2 | Vibrator/Ringer of Mobile phones (with effect from 01.04.2020) | Nil | 10% |
| 3 | Display Panel and Touch Assembly (with effect from 01.10.2020) | Nil | 10% |

Changes in Customs duty to promote MAKE IN INDIA in Electronics sector

| A. | Changes in customs duty under Phased Manufacturing Programme for Electric Vehicles | Rate of duty | |
|----|--|-----------------|-----|
| | | From | To |
| 1. | Motors like Single Phase AC motors, Stepper motors, Wiper Motors, etc. | 7.5% | 10% |
| 2. | Specified chargers and power adapters | Applicable Rate | 20% |
| 3. | Fingerprint readers for use in cellular mobile phones | Nil | 15% |
| 4. | Earphones and headphones | Applicable Rate | 15% |

Reduction in Customs duty on raw materials and inputs imported by Domestic Manufacturers

| S. No. | Category of goods | Specific items | Rate of duty | |
|--------|--------------------------------|---|-----------------|------|
| | | | From | To |
| 1. | Fuels, Chemicals and Plastics | Very low sulphur fuel oil meeting ISO 8217:2017 RMG380 Viscosity in 220-400 CST standards/Marine Fuel 0.5% (FO) | 10% | Nil |
| | | Calcined Petroleum Coke | | |
| | | Calendared plastic sheets used in the manufacturing of smart cards | | |
| | | Polyester Liquid Crystal Polymers for use in the manufacture of connectors | | |
| 2. | Precious Metals | Platinum or Palladium used in the manufacture of: a) Colloidal precious metals, inorganic or organic compounds of precious metal, amalgams of precious metals b) Catalyst with precious metal or precious metal compounds as the active substance | 12.5% | 7.5% |
| | | Spent Catalyst or Ash containing precious metal, subject to specified conditions | | |
| 3. | Machinery and Electronic Goods | Following parts of Microphone for use in manufacture of Microphone namely, a) microphone cartridge b) microphone holder c) microphone grill d) microphone body | 10% | Nil |
| | | Micro-fuse base, sub-miniature fuse base, Micro-fuse Cover and sub-miniature fuse cover for use in manufacture of micro fuse and sub-miniature fuse. | 7.5% | Nil |
| 4. | Sports Goods | Willow is being included in the list of items allowed duty free import up to 3% of FOB value of sports goods exported in the preceding financial year | Applicable Rate | Nil |
| 5. | Stationery items | Filing cabinets, paper trays, binders, clips, staples, sign-plates, name plates, numbers and symbols etc. made from base metal | | 20% |

| S. No. | Category of goods | Specific items | Rate of duty | |
|--------|-------------------|---|--------------|----|
| | | | From | To |
| 5. | FNewsprint | <ul style="list-style-type: none"> Newsprint, when imported by importer registered with Registrar of Newspapers, India. Uncoated paper used for printing newspaper, when imported by importer registered with Registrar of Newspapers, India. Lightweight coated paper used for printing magazines subject to actual user condition. | 10% | 5% |

Other changes in Customs duty

| S. No. | Category of goods | Specific items | Rate of duty | |
|--------|------------------------|---|--------------|-----------------|
| | | | From | To |
| 1. | Food processing | Walnuts, shelled | 30% | 100% |
| 2. | Chemicals and Plastics | Colloidal precious metals, inorganic or organic compounds of precious metal, amalgams of precious metals | 7.5% | 10% |
| | | Butyl Acrylate | 5% | 7.5% |
| | | Other prepared binders for foundry moulds or cores; Chemical products and preparations of the chemical or allied industries | 10% | 15% |
| 3 | Auto and auto parts | Catalytic converter | 10% | 15% |
| | | Noble metal solutions and noble metal compounds used in manufacture of catalytic converter and its parts | 5% | 10% |
| | | Platinum or Palladium used in manufacturing of catalytic converter and its parts | 5% | Applicable Rate |
| | | Parts and other specified inputs for the manufacture of catalytic converters. | 5% | 7.5% |
| | | Completely Built Units (CBUs) of commercial vehicles (other than electric vehicles) (with effect from 01.04.2020) | 30% | 40% |

REGULATORY CHANGES

LAW

Regulatory Changes

The Modi Government has come up with few positive changes in the area of regulations, which includes amendments in stamp act and MSME, amendments are analysed in detail below:

Indian Stamp Act, 1899

With insertion of proviso to sub-section (2) of Section 9A of the Act, an exception has been provided on payment of duty for instruments of transaction in stock exchanges and depositories established in any International Financial Services Centre set up under section 18 of the Special Economic Zones Act, 2005, they are given special leverage with no duty.

Section 73B has been inserted for empowering central government to issue directions and to authorise certain authorities viz. SEBI and RBI to issue instructions, circulars and guidelines, retrospectively, for carrying out the provisions of Part AA of Chapter II of this Act.

Benami Property transaction Act, 1988

Amendment to section 9 has been made to include a person who is "qualified to be appointed as district judge" as a qualification to be appointed as chairperson and member of the Adjudicating Authority.

Election Commission (Conditions of service of election commissioners and transaction of business) Act, 1991

The service conditions of the Chief Election Commissioner as well as other Election Commissioners is reduced by withdrawing certain perquisites such as exemption from payment of income-tax on the value of such rent-free residence, conveyance facilities, sumptuary allowance, medical facilities.

Other Proposals

- External Commercial Borrowings and FDI is being proposed to finance the education system so as to be able to deliver higher quality education with the motive to attract talented teachers, innovate and build better labs.
- It is also been proposed that the Companies Act to be suitably amended to demarcate the nature of the actions as criminal or civil, likewise it is proposed to bring such changes in the other laws as well.

Proposed Amendment for MSMEs

MSMEs play a vital role in our economy. Government has taken various measure for their upliftment and through this budget, government is proposing the following:

- It is proposed to amend the Factor Regulation Act 2011 so that NBFCs are able to extend invoice financing to the MSMEs through TReDS.
- To cater the working capital credit requirements of MSME, it proposed to introduce a scheme to provide subordinate debt for entrepreneurs of MSMEs. This subordinate debt to be will be provided by banks and would be quasi-equity, fully guaranteed through the Credit Guarantee Trust for Medium and Small Entrepreneurs (CGTMSE). The corpus of the CGTMSE would accordingly be boosted by the government.
- Considering the benefit that MSMEs have derived from restructuring of debt permitted by RBI in the last year. The restructuring window has to end on March 31, 2020. Government has asked RBI to consider extending this window till March 31, 2021.
- It is proposed to launch an app-based invoice financing loans product to remove the problem relating to delayed payments and consequential cash flows mismatches for the MSMEs.

| | | | |
|------|------------------------------------|-------|--|
| AOP | Association of Persons | MSME | Medium small scale enterprises |
| AY | Assessment Year | NBFC | Non Banking Finance Company |
| AO | Assessing Officer | PE | Permanent Establishment |
| BOI | Body of Individuals | R&D | Research & Development |
| BE | Budget Estimates | RBI | Reserve Bank of India |
| CAD | Current Account Deficit | SEBI | Security Exchange Board of India |
| CBDT | Central Board of Direct Taxes | SEZ | Special Economic Zone |
| CPI | Consumer Price Index | RE | Revised Estimates |
| CSO | Central Statistics Organisation | SHE | Secondary Higher Education Cess |
| DDT | Dividend Distribution Tax | TDS | Tax deducted at source |
| EC | Education Cess | UTs | Union Territories |
| FIPB | Foreign Investment Promotion Board | WHT | Withholding Taxes |
| FDI | Foreign Direct Investment | WPI | Whole sale Price Index |
| GDP | Gross Domestic Product | PFCE | Private Final Consumption Expenditure |
| GST | Goods & Service Tax | GFCE | Government Final Consumption Expenditure |
| HUF | Hindu Undivided Family | | |
| GVA | Gross Value Added | Crore | One Crore INR is equivalent to INR 10 Million/ 0.15 Million US dollars |
| INR | Indian Rupee | | |

Dear Valuable Client / Colleague,

In case you require any further detailed analysis on above mentioned proposals, please do get back to us and we shall be happy to provide you the same.

With Best Regards,

Team JPC

About JPC.

JPC is a professional services firm based in Noida- National Capital Region and New Delhi, India. We were established in the year 1974 with the aim to create value for our clients by delivering quality, comprehensive, timely, practical and innovative services. We offer a comprehensive range of services, including taxation services, regulatory services, transaction advisory services, financial & management consultancy services, assurance & risk services, and outsourcing services. Over the past several decades, we have established significant competitive presence in the country. Our vast and diversified client base includes Multinational enterprises, domestic companies, high net worth individuals, government companies and institutions in all leading industry verticals. We are a team of distinguished Chartered Accountants, Management Accountants, Corporate Financial Advisors and Tax Consultants. Our team has the requisite skills and experience to provide complex business, financial, assurance, tax and regulatory services to our clients. Our strength lies in our timely performance-based, industry-tailored and technology-enabled services which are delivered by some of the most talented professionals in the country. For more information about JPC's service offerings, visit www.jpc.co.in

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