

Union Budget **2019-20**

Delivering growth. Forging ahead.



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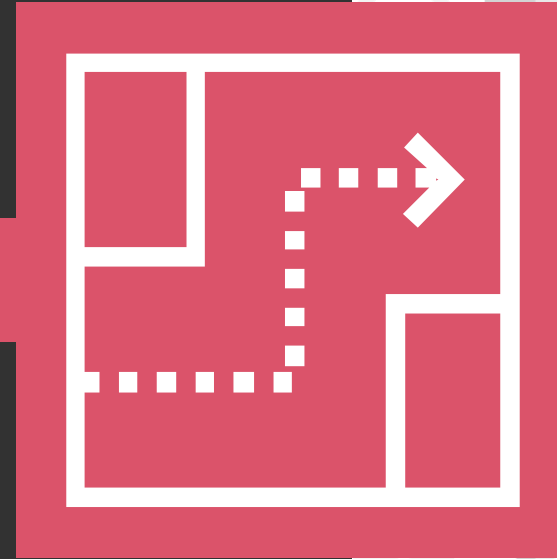
Glossary



Key Policy Announcements

Section 1

Introduction



Introduction



The Finance Minister presented the maiden Budget of the Modi Government 2.0. It lays down the blueprint to catapult India to a US\$ 5tn economy by 2024. The expectations from the Finance Minister were huge – to propel GDP growth beyond 8% year-on-year in real terms, provide stimulus to infrastructure and manufacturing, accelerate job creation and provide much-needed succour to the rural economy – and more importantly, achieving all this while maintaining the fiscal balance.

The Budget reflects a vision for the next three to five years and lays down the roadmap for making India an investment-driven economy. It specially focussed on strengthening the country's infrastructure, uplifting the rural economy (with a focus on agriculture), fostering gender inclusiveness by empowering women, creating world class education system, supporting MSMEs and revival of NBFC and the banking sector. It emphasises the importance of partnering with India Inc. to ensure all-round development.

The Finance Minister needs to be credited for ingenious thinking for bringing up proposals like focusing on newer areas, such as "Maintenance, Repair and Overhaul" of aircrafts and making India a hub for manufacturing of electric vehicles, on-shore aircraft financing/ leasing activities, creating a fund-raising platform for social enterprises etc.

Reducing the carbon footprint appears to be another focus area of the Government with incentives for electric vehicles, replacement of CFL lighting with LED etc.

To promote FDI, the Finance Minister proposed further liberalisation of limits in the aviation, media and insurance sectors and proposed relaxation of the "sourcing" norms in the Single Brand Retail Trade sector.

On the tax front, the Budget reiterated the Government's intent to stimulate growth, incentivise affordable housing, encourage start-ups. Although, the Budget proposes that the reduced corporate tax rate be extended to companies with turnover in AY 2018-19 up to INR 4bn, it fell short on rationalising the DDT.

In order to boost economic growth and make in India, there was a clear intent in the Budget for setting-up of mega-manufacturing plants in advanced technology areas such as fabricating semi-conductors, Solar Photo Voltaic cells etc. coupled with investment based tax incentives. Further, the Government has introduced several tax incentives with a view to promote the GIFT City.

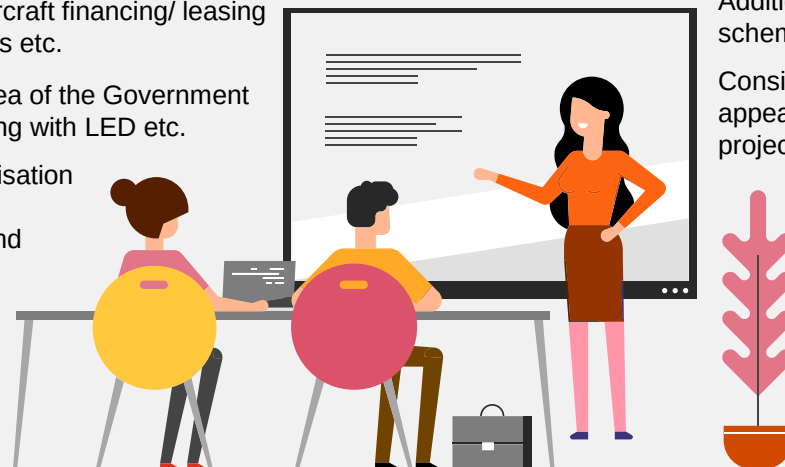
The measures relating to the facility of pre-filled return forms and faceless e-assessments are again welcome steps. There has been emphasis on promoting a "less cash" economy, while simplifying tax administration and ushering in improved transparency. A slew of proposals for the start-ups will give them a much-needed breather and should help curb avoidable litigation.

Customs duty rates have been reduced on raw materials to incentivise indigenous manufacturing.

Additionally, the Government's proposal to introduce a legacy dispute-resolution scheme for pending litigation is highly appreciated.

Consistent with the vision of the Government, inclusive investment led growth appears to be the central theme of this year's Budget. The fiscal deficit has been projected to reduce to 3.3% that will keep the fiscal parameters within bounds.

The realisation of the goals will depend on how the private sector responds to the various incentives in the capital markets as well as the ease of doing business and tax friendly approach announced by the Government.



Section 2

Budget highlights



Budget highlights



Personal tax

- No change in tax slabs or rates for individual taxpayers.
- Increase in applicable surcharge now - @ 25%, where total income exceeds INR 20m and @ 37%, where total income exceeds INR 50m.
- Additional interest deduction for first-time home buyers and on electronic vehicles.

Corporate tax

- Reduced tax rate of 25% will be extended to companies with turnover of INR 4bn in FY 2017–18.
- Proposal to introduce faceless assessment in electronic mode involving no human interface.
- Investment-linked deduction for mega-manufacturing plants in sunrise and advance technology areas: mentioned in budget speech; detailed provisions to be announced.
- Aggregate amount of unabsorbed depreciation and brought-forward loss to be allowed as deduction for computing MAT liability of distressed companies.
- Incentives to start-ups to carry forward and set-off losses on continuity of either 51% of voting power or 100% original shareholders.
- Option to taxpayer to pay 18% additional tax plus 12% surcharge on primary adjustment against perpetual tax on secondary adjustment of imputed interest.
- Buy-back tax also made applicable on buy-back of shares of listed companies.
- Tax incentives for units located in the IFSC.
- Deemed income imputation for money paid/ Indian property transferred from residents to a NR Indian below prescribed value.

Indirect Tax

- Proposals in line with the government's objective to give impetus to "ease of compliance" and Make in India initiative.
- Tax reforms to be introduced to encourage the use of environmental-friendly electric vehicles.
- Duties proposed to be increased on petrol, diesel and tobacco products.
- Amendments proposed for GST, such as:
 - Interest computation will be clarified, and to apply on the net tax payable.
 - 10% penalty to be prescribed for the amount profiteered as recommended by the examining authority.
 - Constitution of National Appellate Authority for Advance Ruling.
- New category of residual composition dealers for services and deliverables has been inserted, with an annual turnover of INR 5m and GST rate of 3%.
- Dispute resolution-cum-amnesty scheme called "the Sabka Vishwas Legacy Dispute Resolution Scheme, 2019" is proposed for resolution and settlement of legacy cases (pre-GST regime).

Section 3

Economic Performance



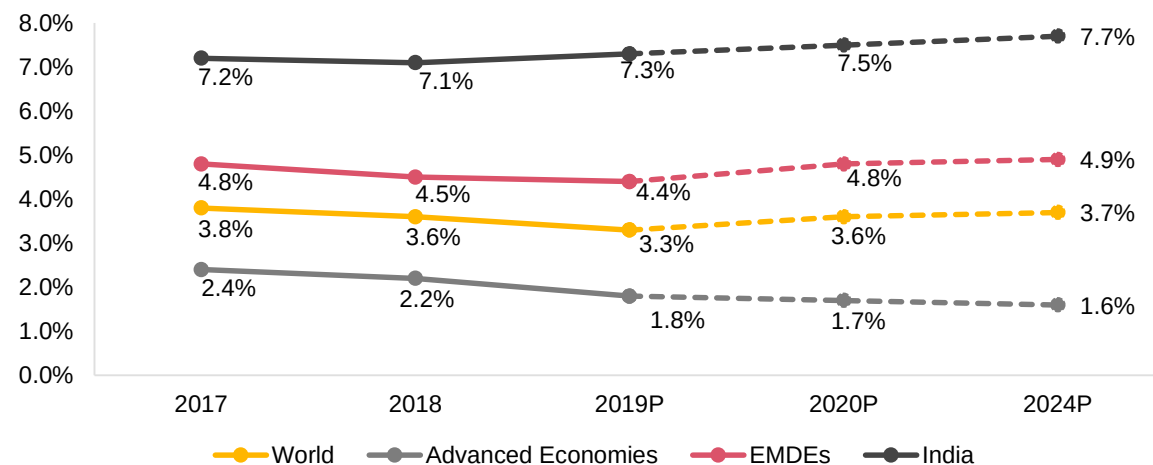
Economic Performance



Global economy

- There is slowdown in global economic activity. As per the IMF's World Economic Outlook Report (April 2019), the growth in world output reduced to 3.6% in 2018 from 3.8% in 2017 and is further expected to reduce to 3.3% in 2019.
- The trade tensions between the US and China, weakening of consumer and business confidence, financial tightening in emerging and advanced economies and softening of demand from emerging markets have contributed to the global slowdown.
- Despite a downward revision, in coming years, India's growth is expected to remain stronger than that of the world and of Emerging Market and Developing Economies.

Figure 1: Global real GDP growth rates



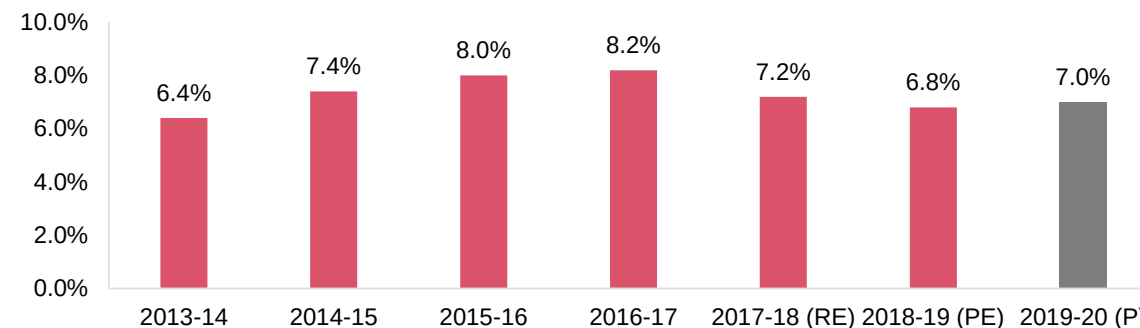
Source: World Economic Outlook, April 2019, IMF

- Global growth is expected to pick up in the second half of 2019, based on policy stimulus by major economies and improvements in global financial market sentiment and possible easing in trade tensions.

Indian economy

- Several downside risks continue for India based on global factors, including geo-political tensions leading to pressures on oil prices and India's import dependence on oil. The falling yields in the US have also led to FII inflows and consequent strengthening of the INR. This further impacts our export competitiveness.
- There is also slowdown in Indian economic growth in recent years. The GDP grew by 6.8% in 2018-19, which is the lowest growth rate in the last five years. GDP growth for Q4 for 2018-19 has dropped to 5.8%, which is significantly lower than 8%–6.6% growth witnessed during the first three quarters. The Economic Survey 2018-19 has projected that the economy will grow at 7% in 2019-20.

Figure 2 – Annual growth rate of GDP at constant prices



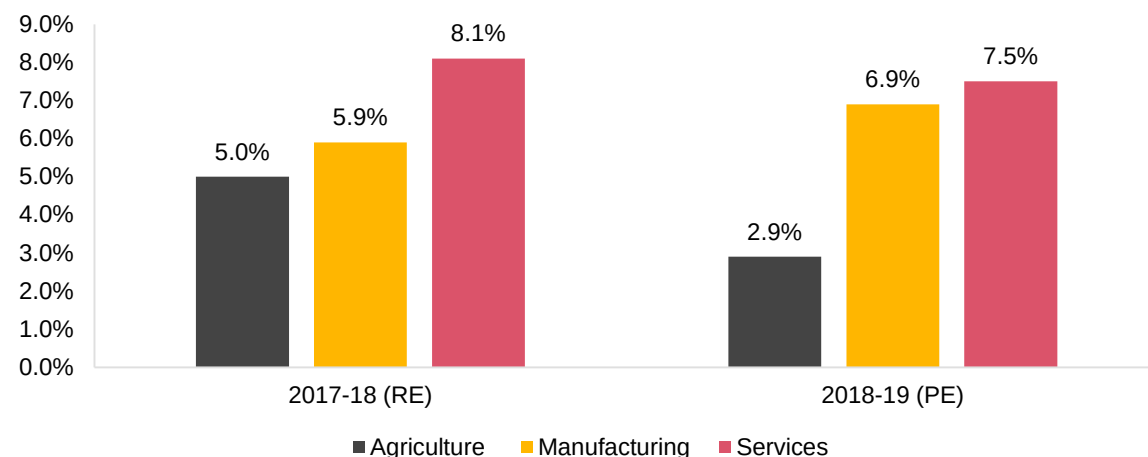
Source: National Statistical Office

Economic Performance



- **The agriculture sector** grew at 2.9% in 2018-19, against 5% the previous year. The total production of food grains during 2018-19 reduced to 283.4m tonnes from 285m tonnes in 2017-18. Gross Capital Formation in agriculture and allied sectors fell to 15.2% of sectoral GVA in 2017-18 from a peak of 17.7% in 2013-14. The Economic Survey notes a growth in rural wages since mid-2018.

Figure 3: Growth rate for sectoral Gross value added

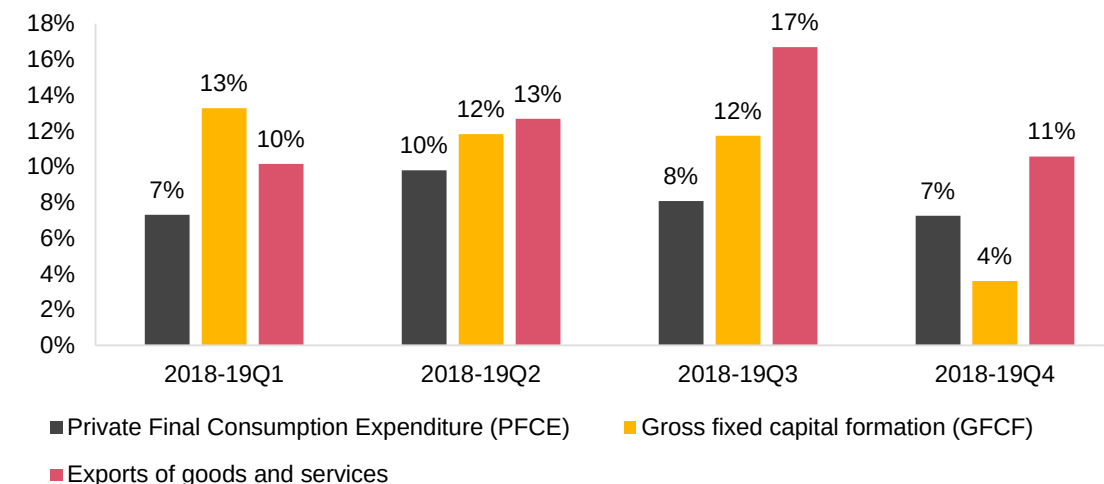


Source: National Statistical Office

- **Manufacturing sector** grew at 6.9% in 2018-19, in comparison to 5.9% in 2017-18. The sector witnessed subdued growth in Q3 and Q4 of FY 2018-19 due to slow credit flow to SME industries, reduced lending by NBFCs owing to liquidity crunch and decelerating domestic demand in key sectors such as automobiles, pharmaceuticals and machinery & equipment. The IIP for manufacturing has also dipped in 2018-19, standing at 3.6%, in comparison to 4.6% in 2017-18.

- **Services sector accounts** for around 54% of GDP. Its growth dipped to 7.5% in 2018-19, in comparison to 8.1% in 2017-18. Tourism, trade, hotels, transport, and communication suffered major deceleration, while the financial, real estate and professional services segment accelerated. FDI equity inflow into the services sector fell by 1.3% from last year.
- Analysing the expenditure components of GDP, there has been deceleration in growth of private consumption, investment and exports in the last two quarters of 2018-19.

Figure 4: Growth rate of expenditure components of GDP



Source: National Statistical Office

- **Employment:** As per the periodic labour force survey released in May 2019, the unemployment rate in India is 6.1% in 2017-18 with higher unemployment in urban areas (7.8%) than rural areas (5.3%).

Economic Performance



- Net employment generation in the formal sector has increased to 0.815m in March 2019 against 0.487m in February 2018. Further, as per Economic Survey 2018-19, although the general education of youth has improved, 94.3% of those aged 15 or over in urban areas do not have technical education.
- **Credit growth and liquidity conditions:** As per Economic Survey 2018-19, liquidity conditions have been systematically tight since September 2018. Although non-food bank credit growth improved to 11.2% in 2018-19, in comparison to 7.7% in 2017-18, the pace of credit growth has moderated in the last few months. NBFCs faced severe shortage of resources, which affected their lending capacity.
- Given the challenges in the Indian economy, short-term measures were necessary, including relief and support packages to specific sectors. India is already moving in the right direction by implementing reforms for ease of doing business and formalisation of economy. Further reforms in the banking sector, increasing productivity in agricultural sector and boosting job-creating sectors such as construction and labour intensive manufacturing are now requirements for the country.



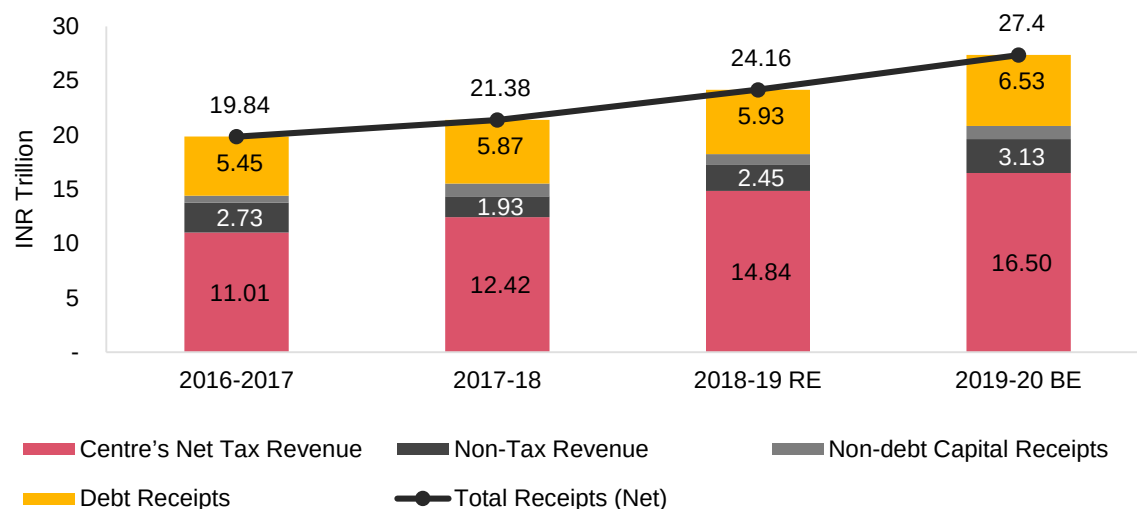
Economic Performance



Budget at a glance

Revenue

Figure 1: Composition of Total Receipts of Central Government

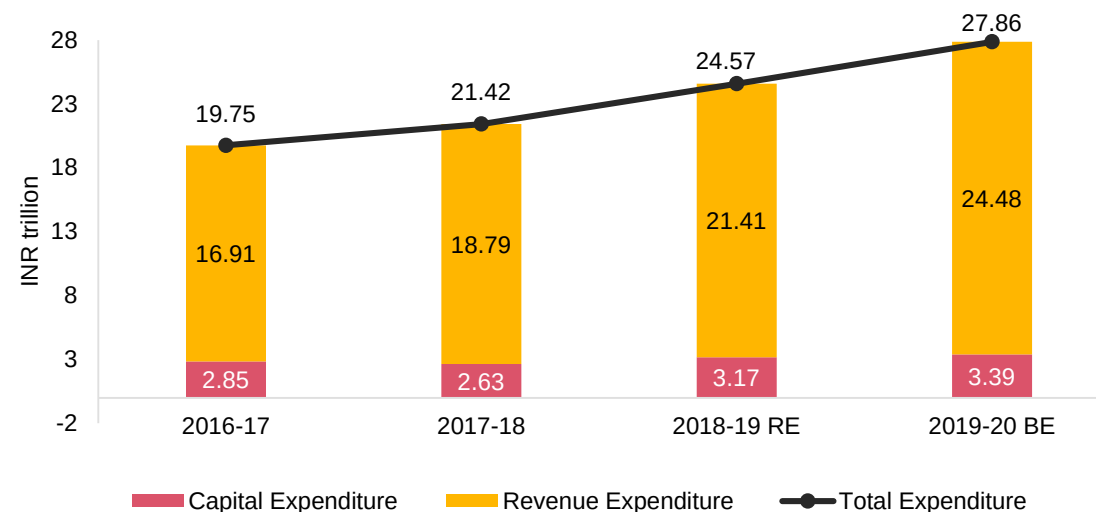


- Total receipts (net) of the Central Government are expected to be INR 27.4tn in 2019-20, which is 13.2% higher than 2018-19 RE.
- Revenue receipts account for 72% and capital receipts accounted for 28% of the Central Government's receipts in 2019-20 BE.
- Tax receipts are expected to increase by 11.1% in 2019-20, which is lower than the 19.5% growth estimated for 2018-19. Non-tax revenue growth is expected to be 27.7% in 2019-20, which is higher than growth in 2018-19.

- Non-debt receipts, comprising recoveries of loans and advances and disinvestment receipts is expected to increase by 28.6% in 2019-20. Receipts from disinvestment have been budgeted at INR 1.05tn for 2019-20. Debt receipts are expected to increase by 10% in 2019-20.

Expenditure

Figure 2: Composition of Total Expenditure of Central Government



- Total expenditure of the Central Government is expected to be INR 27.9tn in 2019-20, which is 13.4% higher than in 2018-19.
- Revenue expenditure accounts for 87.8% of the Central Government's expenditure in 2019-20 BE, which is higher than the 87.1% share in 2018-19. Capital expenditure accounts for 12.2% of the Government's expenditure in 2019-20 BE, which is lower than the 12.9% share in 2018-19.

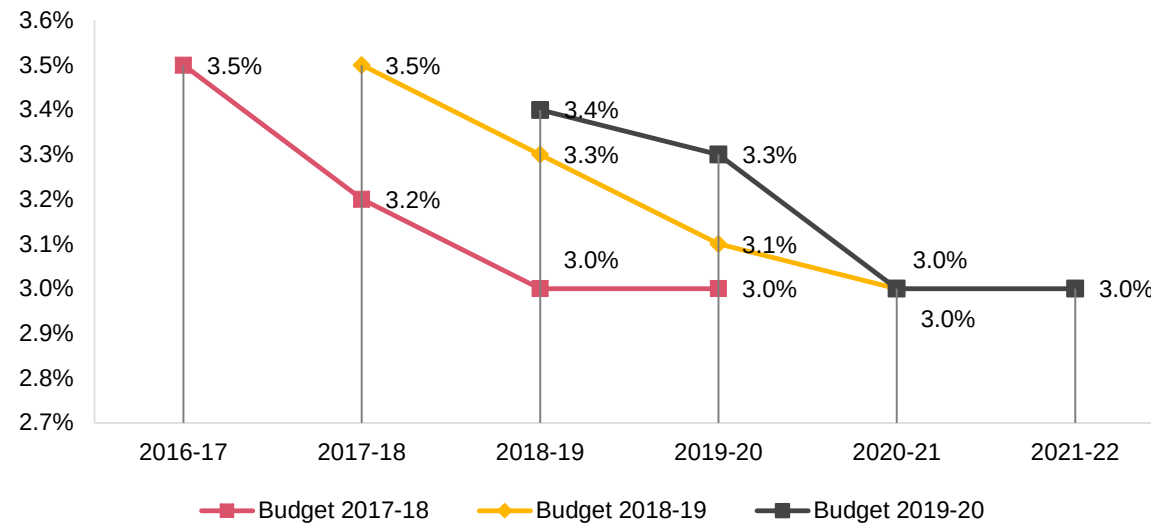
Economic Performance



- Capital expenditure as a percentage of GDP is expected to be 1.60% in 2019-20, which is lower than 1.68% in 2018-19.
- Sectoral expenditure as a percentage of total expenditure has increased for Agriculture and Allied Activities and IT and Telecom. Agriculture and Allied Activities account for 5.4% of the Government's expenditure in 2019-20, in comparison to 3.5% in 2018-19. However, sectors such as Commerce and Industry, Energy, Rural Development, Social Welfare and Transport are likely to receive lower propositional allocations in 2019-20 than they did in 2018-19.

Fiscal consolidation

Figure 3: Fiscal deficit as percentage of GDP



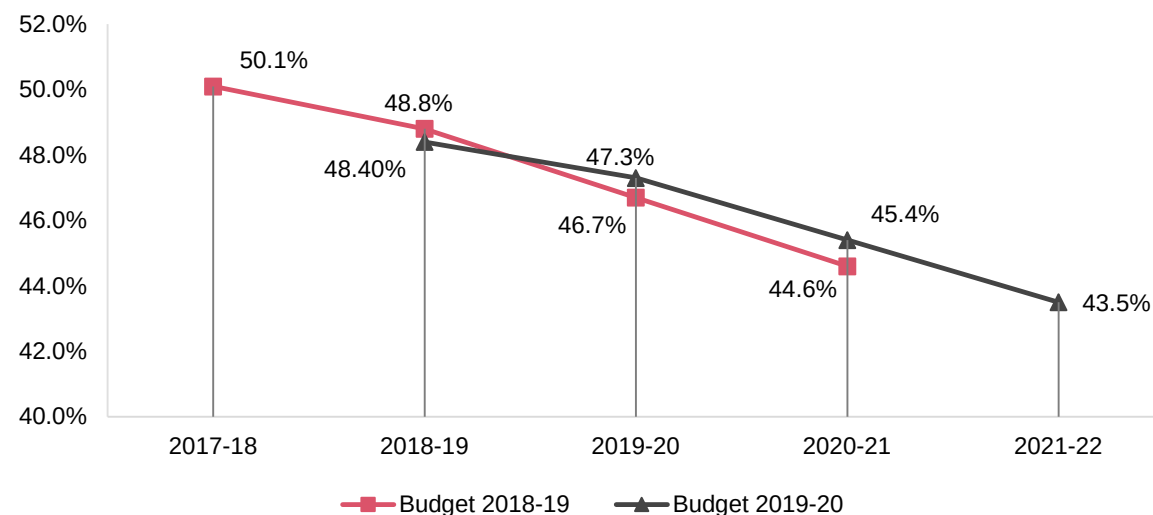
- As per the 2019-20 Budget, fiscal deficit is expected to be 3.4% of GDP in 2018-19 and 3.3% in 2019-20. This is higher than the 3.3% and 3.1% envisaged for 2018-19 and 2019-20, respectively, in the 2018-19 Budget. The Government has projected to adhere to the FRBM Act's target of 3% in 2020-21, which seems challenging right now.
- Although revenue deficit is no longer a parameter for measuring fiscal outcomes in the FRBM Act, it is projected to be 2.2% of GDP in 2018-19 and 2.3% in 2019-20. The Government expects revenue deficit to reduce to 1.9% of GDP in 2020-21 and to 1.7% in 2021-22.



Economic Performance

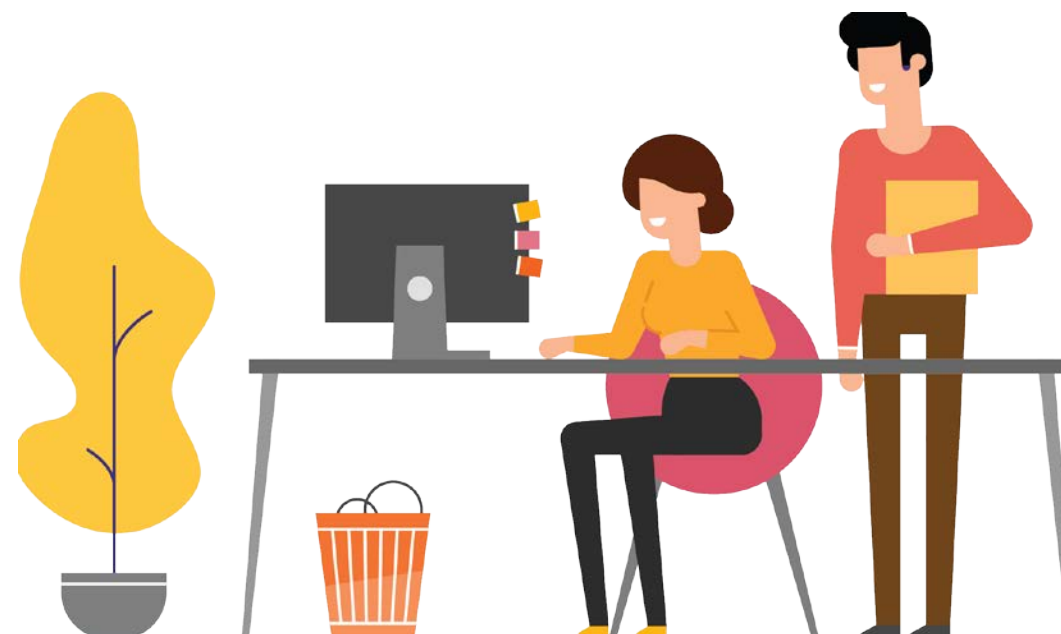


Figure 4: Central government debt as percentage of GDP



- As per the 2019-20 Budget, Central Government debt (excluding extra budgetary resources) is expected to be 48.4% of GDP in 2018-19, which is lower than the 48.8% projected in the 2018-19 Budget.
- Central Government debt (excluding EBR) is projected to reduce to 47.3% of GDP in 2019-20 and further to 45.4% and 43.5% in 2020-21 and 2021-22, respectively. As per the amended FRBM Act, the Government will limit Central Government debt to 40% of GDP by FY 2025.

- Central Government debt comprises of 79% of internal debt and 2.7% of external debt in 2019-20. The share of external debt has showed a declining trend from 3% in 2017-18 to 2.7% in 2019-20. The Government has quoted this as a basis to target external markets for Government debt and avoid crowding out the private sector in the Indian debt market.
- Interest payments to revenue receipts ratio, which is an indicator of debt sustainability, is expected to improve from 36.9% in 2017-18 to 33.7% in 2019-20.



Section 4

Key Policy Announcements



Key Policy Announcements



Electronics and manufacturing

- To enhance economic growth and Make in India, the Government proposes to launch a scheme to invite global companies through a transparent competitive bidding to set-up mega-manufacturing plants in sunrise and advanced technology areas such as Semi-conductor Fabrication, Solar Photo Voltaic cells, Lithium storage batteries, Solar electric charging infrastructure, Computer Servers, Laptops, etc. It will provide them investment-linked income-tax exemptions under section 35 AD of the Act, and other indirect tax benefits.
- The Government proposes introducing measures for making India a hub for aircraft financing and leasing activities from Indian shores and development of MROs.

Foreign investment

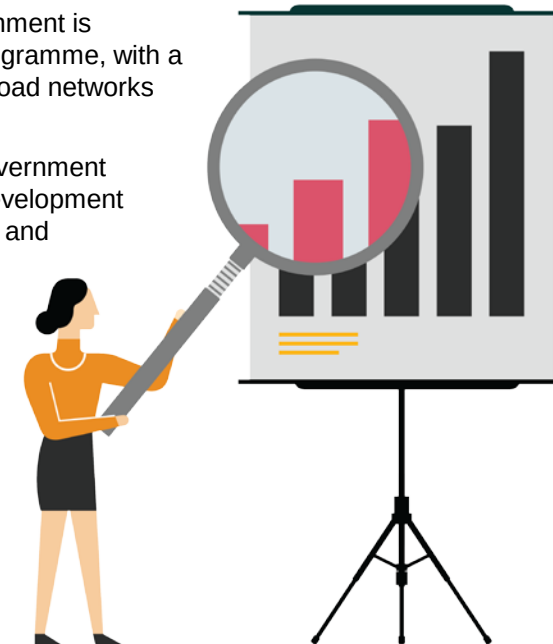
- Government proposes consider liberalisation of FDI in Animation, Visual effect, Gaming & Comics (AVGC) sector basis consultations with relevant stakeholders.
- It also proposes considering easing local sourcing norms for FDI in Single Brand Retail Trading.
- To promote greater participation by FPI and NRIs, the Government proposes the following measures:
 - Easier KYC norms for FPIs.
 - Enhancement of FPI investment limit from 24% to the permitted sectoral limit at the option of the concerned investee company.
 - Permitting FPI investment listed debt securities issued by REITs and InvITs.
 - Merging of NRI Portfolio Investment and FPI Investment windows.

Insurance

- FDI up to 100% will be permitted for insurance intermediaries.
- Proposal to reduce Net Owned Fund requirement from INR 50bn to INR 10bn to facilitate on-shoring of international insurance transactions and enable foreign reinsurers to open branches in the IFSC.
- The Government is also examining a proposal to open up FDI in the insurance sector.

Infrastructure

- To achieve desirable length and capacity, the Government is proposing the restructuring of National Highways Programme, with a proposal to help States in the development of State road networks under Bharatmala Phase 2.
- For faster implementation of railway projects, the Government proposes enhancing the use of the PPP model for development and completion of tracks, rolling stock manufacturing and passenger freight services.
- One Nation, One Grid Model to be implemented for ensuring power to States at affordable rates and a blueprint for developing gas grids, water grids, i-ways and regional airports.
- Measures to be taken to improve low capacity utilisation of existing gas plants. In addition, the Government also proposes a package of power sector tariff and structural reforms.
- Amendment proposed to the Ujjwal DISCOM Assurance Yojana.



Key Policy Announcements



Public shareholding in listed companies

The Government proposes increasing the minimum public shareholding threshold from 25% to 35% of the paid-up capital of public listed companies. It would lead to wider participation in the shares of listed companies and improve corporate governance in listed companies.

Social stock exchange

The Government proposes steps to create a “social stock exchange,” under the regulatory ambit of the SEBI, which would act as an electronic fund raising platform for listing social enterprises and voluntary organisations working towards a social welfare objective to raise capital as equity, debt or as units such as a mutual fund.

Labour laws

The Government proposes streamlining multiple labour laws and structuring them into a set of four labour codes. This will not only ensure standardised process of registration and filing of returns but will also help in reducing labour disputes across the country. This will also boost foreign investment in manufacturing activities, which was otherwise shying away from establishing manufacturing plants in the country due to various labour law issues.

Model tenancy law

A Model Tenancy Law to be introduced and circulated to the States for promotion of rental housing in the country.



NBFCs

- To strengthen the RBI's monitoring mechanism and enhance corporate governance of NBFCs, the Government has proposed amendments in the Reserve Bank of India Act, 1934. This will give more powers to the RBI in prescribing minimum net owned funds of up to INR 1bn for different categories of NBFCs, removal of directors, suppression of powers of the board of directors, issuing schemes for reorganisation of NBFCs and seeking more information about their group companies. The changes also include provisions regarding action against defaulting auditors and enhancement of penalties for non-compliances by the NBFCs, its management and the auditors.
- To encourage financially sound NBFCs, a partial credit guarantee of six months will be provided to public sector banks to purchase high-rated pooled assets for first loss, of up to 10%. The requirement of Debenture Redemption Reserve for public issues of debt by NBFCs to be removed.
- The Factoring Regulation Act, 2011 will be amended to increase participation, especially by NBFCs, on the TReDS platform.

Housing finance

To avoid conflict, as the National Housing Bank is both the lender and the regulator of housing finance sector, the Government proposes that the regulatory authority for housing finance sector returns to the RBI. In addition, the minimum net owned fund requirement for housing finance companies is proposed to be enhanced to INR 100m from the current INR 20m.

Key Policy Announcements



Education and skilling

- The Government proposes introducing a new National Education Policy to achieve the dual objective of
 1. Promoting research and innovation.
 2. Developing India as a knowledge hub destination.A draft of the National Education Policy, 2019 has already been put up for public consultation until July 2019.
- To develop India's youth and make them future ready, the Government intends to train them to develop skill sets in niche areas such as AI, IoT, 3D printing, robotics, virtual reality and Big Data.
- The Government proposes a comprehensive regulatory overhaul in higher education:
 - a) Providing greater autonomy, performance and learning outcome-based evaluations and focus on employability will be the key policy directions.
 - b) Promote "Study in India" to attract foreign students to Indian institutions.
 - c) INR 4bn allocated to building "World Class Institutions" for FY 2019-20.
- Introduction of new regulatory bodies:
 - a) A National Research Foundation to promote and coordinate research in the country.
 - b) A National Sports Education Board for Development of Sportspersons will be set up under the "Khelo India Scheme."
 - c) Introduction of a HECI bill in the current year. The Government had announced its intention to introduce the HECI as a new regulator for higher education last year. This year, we expect to see the introduction of the bill to implement this.

Digital economy

- To bridge the rural-urban digital divide, Bharat-Net is targeting internet connectivity in local bodies in every panchayat in the country. The Universal Service Obligation Fund will provide assistance under a PPP arrangement.
- Twenty technology business incubators to be set-up in 2019-20 to skill entrepreneurs in rural areas.

Investment and finance

- Alternative development models to be explored under the Indian Development Assistance Scheme, which include private sector equity, multilateral financing, contributions from corporates, NRs, etc.
- To boost credit, Public Sector Banks will be provided with capital of INR 700bn. Reforms to strengthen governance and user convenience will also be undertaken.
- To maintain an arm's length relationship, the National Pension System Trust will be separated from the Pension Fund Regulatory and Development Authority.

Disinvestment

- Strategic disinvestment of select CPSEs and PSUs, including Air India, will continue to be a priority. A target of INR 1050bn of disinvestment receipts set for 2019-20. The Government proposes to reduce its stake from 51% in those non-financial public undertakings where it intends to retain control. ETFs will also be offered as an investment option to encourage long-term investment in CPSEs.
- Foreign shareholding limits will be raised to maximum permissible sector limits for all PSU companies that are part of the Emerging Market Index.

Key Policy Announcements



MSME

- Proposal to allow loan sanction of INR 10m within 59 minutes through an online portal to MSMEs.
- Proposal for interest subvention of 2% on existing and fresh loans for MSMEs.
- Proposal for an online payment platform for MSMEs.
- Pradhan Mantri Karam Yogi Maandhan Scheme to be launched to provide pension benefit to retail traders and small shopkeepers with annual turnover of up to INR 15m.

Rural India initiatives

- Every rural family (except those optioning out) will have electricity and clean cooking facility by 2022.
- Department of fisheries to establish a robust fisheries management framework through Pradhan Mantri Matsya Sampada Yojna, addressing infrastructure, modernisation, traceability, production, productivity, post-harvest management and quality control.
- Scheme of Fund for Upgradation and Regeneration of Traditional Industries (SFURTI) aims to set-up common facility centres and it will contemplate Technology and Livelihood Business Incubators for artisans and skilled labour.
- More Technology and Livelihood Business Incubators to be set-up to skill entrepreneurs in rural areas.
- A vision of “Har Ghar Jal,” which will ensure piped water supply to all rural households through sustainable water supply management.
- Swachh Bharat Mission to be extended to solid waste management in every village.
- Government to promote cluster-based development of traditional industries by setting up CFCs for focused sectors: bamboo, honey and khadi.
- Proposal to replicate zero-budget farming, already being practiced in some states.

Corporate debt market

- Action plan for deepening the long-term bonds market with focus on infrastructure sector to be introduced.
- The Government will work with regulators such as SEBI/ RBI to enable stock exchanges to allow AA rated bonds as collaterals.
- Sale of debt investments made by FIIs/ FPIs in Infrastructure Debt Fund – NBFCs within the lock-in period proposed to be permitted.
- Enable the inter-operability of RBI and SEBI depositories to allow retail investors to invest in treasury bills.

Space

NSIL, a public sector enterprise, incorporated as a new commercial arm of the Department of Space to tap the benefits of R&D by ISRO. NSIL will spearhead the commercialisation of various space products, including production of launch vehicles, transfer to technologies and marketing space products.



Section 5

Tax Proposals



Tax Proposals



Tax rates

Foreign company

Corporate tax rates remain unchanged at 40% (plus applicable surcharge and cess).

Particulars	Taxable income <= INR 10m	INR 10m < taxable income <= INR 100m	Taxable income > INR 100m
Corporate tax	40.00%	40.00%	40.00%
Surcharge	-	2.00%	5.00%
Corporate tax + Surcharge	40.00%	40.80%	42.00%
Health and Education cess thereon	4.00%	4.00%	4.00%
Effective tax rate	41.60%	42.43%	43.68%

Domestic company

Corporate tax rate reduced to 25% (plus applicable surcharge and cess) for a domestic company having total turnover/ gross receipts not exceeding INR 4bn in FY 2017-18. In other cases, the tax rate remains unchanged at 30% (plus applicable surcharge and cess).

For a domestic company having total turnover/ gross receipts not exceeding INR 4bn in the FY 2017-18

Particulars	Taxable income <= INR 10m	INR 10m < taxable income <= INR 100m	Taxable income > INR 100m
Corporate tax	25.00%	25.00%	25.00%
Surcharge	-	7.00%	12.00%
Corporate tax + Surcharge	25.00%	26.75%	28.00%
Health and Education cess thereon	4.00%	4.00%	4.00%
Effective tax rate	26.00%	27.82%	29.12%

Tax Proposals



For other domestic companies

Particulars	Taxable income <= INR 10m	INR 10m < taxable income <= INR 100m	Taxable income > INR 100m
Corporate tax	30.00%	30.00%	30.00%
Surcharge	-	7.00%	12.00%
Corporate tax + Surcharge	30.00%	32.10%	33.60%
Health and Education cess thereon	4.00%	4.00%	4.00%
Effective tax rate	31.20%	33.38%	34.94%

Domestic companies set up or registered on or after 1 March 2016 that are engaged solely in the business of manufacture or production of an article or thing and research in relation to, or distribution of, such article or thing manufactured or produced by it, can opt to tax at the rate of 25% (plus applicable surcharge and cess), if while computing its total income, the company has not claimed any prescribed deductions (such as under section 10AA, accelerated depreciation, additional depreciation, investment allowance and expenditure on scientific research) or claimed any set-off any brought forward losses attributable to such deductions etc.

Partnership firm/ LLP

Tax rates remain unchanged. Effective tax rate will be 31.2% if taxable income is less than INR 10m and 34.94% if taxable income exceeds INR 10m.

Minimum Alternate Tax/ Alternative Minimum Tax

MAT and AMT rates remain unchanged at 18.5% (plus applicable surcharge and cess).

Tax on dividends distributed/ paid by domestic companies

Rate of dividend distribution tax remains unchanged at 15% (plus applicable surcharge of 12% and cess), as computed in the prescribed manner.

Individual/ HUF

There is no change in the proposed in slab rates. However, the bill proposes to increase the surcharge from 15% to 25% when the total income is between INR 20m and INR 50m and 37% when the total income exceeds INR 50m. The effective maximum marginal rates are as follows:

Taxable income (INR)	Proposed Maximum Marginal Rate	Existing Maximum Marginal Rate
Up to INR 5,000,000	31.2%	31.2%
INR 5,000,001 to INR 10,000,000	34.32%	34.32%
INR 10,000,001 to INR 20,000,000	35.88%	35.88%
INR 20,000,001 to INR 50,000,000	39%	35.88%
INR 50,000,001 and above	42.744%	35.88%

Personal taxes

Deductions

Additional deduction for interest paid on housing loan for first home buyers

An additional deduction of INR 0.15m per annum is proposed for first-time homebuyers on borrowed capital. The loan should be sanctioned during FY 2019-20 and the stamp-duty value of the house property shall not exceed INR 4.5m. With this proposal, the total deduction available to such taxpayer would be up to INR 0.35m, i.e., INR 0.2m under section 24 and INR 0.15m under the new section 80EEA of the Act.

Section 80C deduction - ELSS

To facilitate expansion of the disinvestment programme in Central Public Sector Enterprises and to provide opportunities to retail investors, it is proposed to include exchange trade funds under the ELSS scheme for deduction under section 80C of the Act.

NPS

Under the existing scheme of NPS, upon retirement, an individual can withdraw a lump-sum up to 60% of the corpus fund and balance 40% is required to be invested in an annuity plan.

It is now proposed to raise exemption limit from 40% to 60% of the corpus fund. Presently, only 40% of the corpus fund so withdrawn is exempt and 20% is taxable in the hands of the taxpayer.

Further, the Government had made certain announcements in December 2018 in relation to NPS, wherein it raised its contribution to Tier I account for its employees from 10% to 14%.

Furthermore, it also proposed that tax benefit to such employees on their own contribution to the Tier II account would be available under section 80C with a lock-in period of three years.

It is proposed to give effect to the above announcements by amending section 80CCD(2) of the Act to allow exemption of employer contribution up to 14% of the salary of Central Government employees.

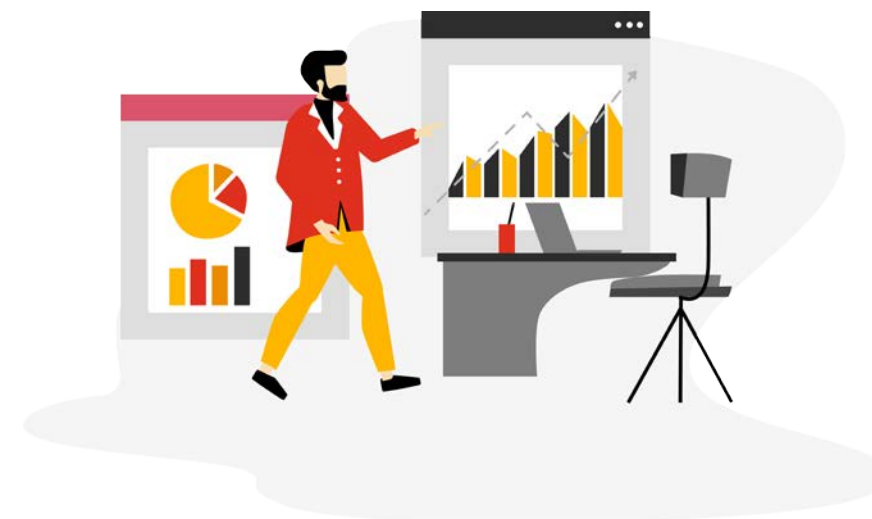
Interest deduction on loan taken for purchase of electric vehicles

A new section 80EEB has been proposed to provide for deduction up to INR 0.15m to individual taxpayers, in respect of interest on loan taken for purchase of an “electric vehicle” from any financial institution. The terms electric vehicle and financial institution have also been defined.

This deduction is available for loans sanctioned by a financial institution (including a NBFC) during the period beginning on the 1 April 2019 to 31 March 2023.

It has also been provided that no deduction for such interest will be allowed for the same or any other AY.

The proposed section will be effective from 1 April 2020 and will accordingly apply from AY 2020-21 onwards.



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It has also been provided that no deduction for such interest will be allowed for the same or any other AY.

The proposed section will be effective from 1 April 2020 and will accordingly apply from AY 2020-21 onwards.

Amendments in relation to the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015

Rationalisation of definition of taxpayer

It is proposed to amend the definition of “taxpayer” as provided in section 2 of the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 to include cases in which an individual is qualifying as NR or not ordinarily resident in the relevant FY, who was resident in India either in the FY to which the undisclosed overseas income relates or in the FY in which the undisclosed asset located outside India was acquired. Further, a clarificatory amendment has been proposed under section 10(3)/ (4) of the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 to include the expressions “re-assess” and “reassessment.”

Currently, the definition of “taxpayer” does not cover NR/ not ordinarily resident cases and does not provide for any reassessment of the undisclosed overseas income or assets located outside India.

It has also been proposed that the previous year of acquisition of the undisclosed asset located outside India shall be determined without giving effect to the provisions of section 72(c) of the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015.

This amendment is proposed to clarify the legislative intent behind enacting the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 which was to tax such foreign income and assets, which were not charged to tax under the Act.

The proposed amendment will take effect retrospectively from 1 July 2015.

Rationalisation of the IDS, 2016

As per the IDS, 2016 all dues were required to be paid in three instalments, ending on 30 September 2017 and the IDS had no provision to allow refund of the excess amount received as tax, surcharge and penalty.

It is proposed to amend section 187 of the IDS, 2016 to enable payment of dues along with interest at the rate of 1% every month or part of the month from the due date to the date of such payment. In addition, it has been proposed to amend section 191 of the IDS to empower the Central Government to notify the class of persons to whom the excess amount paid towards the tax, surcharge and penalty shall be refunded.

This amendment will provide another opportunity to the declarants to comply with the IDS introduced and shall address the genuine concerns in cases where the excess amount was paid to authorities and taxpayers were unable to obtain refunds.

Provision of credit of relief provided under section 89

Currently, section 140A, section 143, section 234A, section 234B and section 234C of the act provide for certain reliefs in form of credit of prepaid taxes, relief under section 90, etc., for computation of tax liability. However, the relief under section 89 is not considered under the aforementioned sections.

It has been proposed to amend section 140A, section 143, section 234A, section 234B and section 234C of the Act to allow the relief under section 89 of the Act while computing the tax liability.

The proposed amendments will be effective retrospectively from 1 April 2007 and will accordingly apply from AY 2007-08 onwards.

Corporate taxes

Widening of tax base

Tax deduction at source in respect of payment by individual/ HUF to contractors and professionals

Currently, there is no obligation on an individual or HUF to deduct tax at source on any payment made to a resident contractor or professional when it is for personal use/ the person is carrying on business or profession that is not subjected to tax audit. Due to this dispensation, payments made by individuals or HUFs in respect of contractual work or for professional service is currently escaping the levy of TDS.

To address this issue, it is proposed that section 194M will be introduced in the Act to provide for levy of TDS at the rate of 5% on the sum, or the aggregate of sums, paid or credited by an individual or HUF on account of contractual work or professional fees, if such individual or HUF is not required to deduct tax at source under section 194C or 194J of the Act and such sum, or aggregate of such sums paid to a resident, exceeds INR 5m in a year. However, such individuals or HUFs will be able to deposit the tax deducted using their PAN and will not be required to obtain TAN.

The proposed amendment will be effective from 1 September 2019.

Tax deduction at source in respect of purchase of immovable property

It is proposed that section 194-IA will be amended to expand the definition of “consideration on immovable property” on which tax will be required to be deducted at source. Going forward, such consideration will include all charges of the nature of club membership fee, car parking fee, electricity and water facility fees, maintenance fee, advance fee or any other charge of similar nature, that are incidental to transfer of the immovable property.

The proposed amendment will be effective from 1 September 2019.

Deemed accrual of income with respect to money or property received by a person outside India without or for inadequate consideration

Currently, income of NRs arising from money or property received from Indian residents without or for inadequate consideration are claimed to be not taxable in India as such income does not accrue or arise in India.

It is proposed that income of the nature referred to in section 2(24)(xviiia) of the Act (viz. money or property situated in India) received by a NR on or after 5 July 2019 from a resident without or for inadequate consideration will be provided as deemed to accrue or arise in India. However, the existing provisions of section 56(2)(x) of the Act that provides exemption from tax in specific cases will continue to apply. Further, this would be subject to the provisions of the relevant double taxation avoidance agreement.

The proposed amendment will take effect from 1 April 2020 and will accordingly apply from AY 2020-21 onwards.

Mandatory furnishing of return of income

It is proposed that section 139 of the Act will be amended to include certain additional criteria, wherein a person shall be mandatorily required to file his return of income. These would include the following situations wherein, during the FY, such person:-

- has deposited amounts more than INR 10m in one or more current accounts maintained with banks or co-operative banks; or
- has incurred expenditure exceeding INR 0.2m for self/ any other person for travel to a foreign country; or
- has incurred expenditure exceeding INR 0.1m towards consumption of electricity; or
- fulfils any other such conditions, as may be prescribed.

It is also proposed that a person who is claiming rollover benefits on investment in a house or a bond or other assets, under sections 54, 54B, 54D, 54EC, 54F, 54G, 54GA and 54GB of the Act, will necessarily be required to furnish a return, if his total income is more than the maximum amount not chargeable to tax before claim of the rollover benefits.

The proposed amendments will take effect from 1 April 2020 and will accordingly apply from AY 2020-21 onwards.

Tax on buyback of shares in case of listed companies

Currently, as per section 115QA of the Act, buyback of unlisted shares attracts additional tax at 20% (plus surcharge and cess) in the hands of the company distributing the income on such buyback. Such income arising in the hands of shareholders is exempt under section 10(34A) of the Act. However, such provision is not applicable on buyback of listed shares.

It is now proposed that section 115QA of the Act will be amended to include such tax on buyback of listed shares. Further, section 10(34A) of the Act is consequentially proposed to exempt income received by the shareholders on buyback of listed shares.

The proposed amendment will be applicable with effect from 5 July 2019.

Ease of compliance

Inter-changeability of PAN and Aadhaar and mandatory quoting in prescribed transactions

It is proposed that section 139A of the Act will be amended to provide that every person, who intends to enter into certain prescribed transactions and has not been allotted a PAN, will also apply for allotment of a PAN.

The following is also proposed:

- Every person who is required to disclose his PAN under the Act, and who, has not been allotted a PAN but possesses the Aadhaar number, may disclose his Aadhaar number in lieu of PAN, and such person will be allotted a PAN in the prescribed manner; and

- Every person who has been allotted a PAN, and who has linked his Aadhaar number under section 139AA, may disclose his Aadhaar number in lieu of a PAN.

It is further proposed to provide the following:

- Every person entering into a prescribed transaction will quote his PAN or Aadhaar number in the documents pertaining to such transaction and authenticate such PAN or Aadhaar number in the prescribed manner; and
- Every person receiving a document relating to such transactions will ensure that the PAN or the Aadhaar number has been duly quoted therein and that it is authenticated.

Further, it is also proposed that section 272B of the Act will be amended to provide for the levy of penalty of INR 10,000 for failure to comply with the provisions of section 139A of the Act for each default.

The proposed amendments will be effective from 1 September 2019.

Widening the scope of SFT

In order to enable pre-filing of return of income relating to small amount of transactions and to ensure appropriate compliance with the filing of SFT, it is proposed that section 285BA of the Act will be amended to provide as follows:-

- Reporting requirements to be extended to certain prescribed persons other than those who are currently furnishing SFT; and
- The current threshold of INR 50,000 for furnishing of information to be removed; and
- If the defect in the statement is not rectified within the specified time limit, the provisions of the Act will apply as if such person had furnished inaccurate information in the statement.

It is also proposed that the penalty provisions contained in section 271FAA will be amended so as to ensure correct furnishing of information in SFT and widen the scope of penalty to cover all the reporting entities under section 285BA of the act.

The proposed amendments shall be effective from 1 September 2019.

Online filing of application for NIL or lower withholding tax certificate

Currently, applications filed before TO under section 195 of the Act, seeking NIL or lower withholding certificate in relation to the payments to be made to NR are processed manually. In order to use technology to streamline such processing and to reduce the time involved, it is proposed that sections 195(2) and 195(7) of the Act will be amended, to allow the CBDT to prescribe form and manner of making such application to TO. Further, the CBDT will also prescribe the manner in which such application would be disposed by the TO.

The proposed amendment will be applicable with effect from 1 November 2019.

E-filing of statement of transactions on which tax has not been deducted

Currently, statement in respect of interest payments to residents where no tax has been deducted can be furnished on a floppy, diskette, magnetic tape, CD ROM or any other computer readable media. It is proposed that section 206A of the Act will be substituted to provide form and manner in order to enable online filing of such statements or to furnish correction statement for rectification of any mistake or to add, delete or update information already furnished.

The proposed amendment will take effect from 1 September 2019.



Promoting digital payments

Prescription of electronic mode of payments

There are various provisions in the Act that prohibit cash transactions and allow/ encourage payment or receipt only through account payee cheque, account payee draft or electronic clearing system through a bank account. In order to encourage other electronic modes of payment, it is

proposed that the below-mentioned sections of the Act will be amended so as to include such other electronic mode as may be prescribed, in addition to the already existing permissible modes of payment/ receipt:

Section	Description	Effective Date
13A	Income of political parties	1 April 2020
35AD	Deduction in respect of expenditure on specified business	
40A	Expenses or payments not deductible in certain circumstances	
43(1)	Determination of actual cost of an asset	
43CA	Full value of consideration for transfer of assets other than capital assets in certain cases	
44AD	Computing profits and gains of business on presumptive basis	
50C	Full value of consideration in certain cases	
56(2)(x)	Income from receipt of immovable property	
80JJAA	Deduction for cost incurred for an additional employee	
269SS	Mode of taking/ accepting loans, deposits and specified sums	1 September 2019
269ST	Mode undertaking transactions	
269T	Mode of repayment of certain loans or deposits	

Introduction of TDS on withdrawal of cash exceeding INR 10m

It has been proposed that a new section 194N will be inserted in the act that provides for levy of TDS at the rate of 2% on aggregate cash payments in excess of INR 10m made during a FY by (i) banking company or (ii) cooperative bank or (iii) post office, to any person (recipient) in respect of account maintained by such person.

Exemption has been provided to certain category of taxpayers who handle substantial cash due to unique nature of business such as the Government, banking company, cooperative society (engaged in carrying on the business of banking) post office, banking correspondents and white label ATM operators and such other categories as the Central Government may notify in future.

This section will be effective from 1 September 2019.

Mandate for acceptance of payments through prescribed electronic modes

A newly proposed section 269SU mandates every person carrying on business having turnover, sales or gross receipts in excess of INR 500m in the immediately preceding FY, to provide facility for accepting payments through prescribed electronic modes

In case of non-compliance with the above provisions, it has been further proposed that section 271DB will be inserted that provides for levy of a penalty of INR 5,000, for every day during which such failure continues.

However, no penalty shall be imposable if the person proves that there were good and sufficient reasons for non-compliance.

These provisions shall be effective from 1 November 2019.

Corresponding changes to the Payment and Settlement Systems Act, 2007 have also been proposed stating that no charge shall be collected from anyone by bank or system provider either directly or indirectly, for using the modes of electronic payment prescribed under section 269SU.

Incentives for financial sector

1. Incentives to the IFSC

Certain tax concessions are available to units located in an IFSC. To promote IFSCs, the following tax concessions and relaxations are proposed:

a) Extension of capital gains exemption

Currently, exemption from capital gains tax is provided on transfer by a NR of the following securities listed on a recognised stock exchange located in an IFSC:

- Bonds or global depository receipts
- Rupee denominated bonds of an Indian company,
- Derivatives

It is now proposed that the exemption from capital gains tax will be extended to transfer of other securities, which may be notified by the Central Government.

Further, exemption from capital gains tax is also proposed for Category III AIFs

- That are located in any IFSC,
- That derive income solely in convertible foreign exchange, and
- All units of which are held by NRs.

The proposed exemptions shall be effective from 1 April 2020 and will accordingly apply from AY 2020-21 onwards.

b) Tax exemption on interest income earned by NRs

- To facilitate external borrowings by units located in an IFSC, tax exemption is proposed on interest income earned by NRs from units located in an IFSC.
- The exemption will be applicable with respect to monies borrowed by units located in an IFSC on or after 1 September 2019.

c) Extension of tax-free dividend distribution

- Currently, dividend distributed by a company, being a unit located in an IFSC, which derives income only in convertible foreign exchange is exempt from DDT if the dividend is distributed out of the current year's income.
- It is now proposed that the DDT exemption on dividend distributed out of income accumulated by such a unit will be extended after 1 April 2017.

The proposed exemption shall be effective from 1 September 2019.

d) Exemption from income distributed by mutual funds located in an IFSC

- It is proposed that tax exemption will be granted to unitholders on distributions by specified mutual funds on income from transactions on a recognised stock exchange in an IFSC. Specified mutual funds include mutual funds –
 - That are located in an IFSC,
 - That derive income solely in convertible foreign exchange, and
 - All units of which are held by NRs.

e) Tax holiday for units located in an IFSC

- Currently, as per the provisions of section 80LA of the Act, tax deduction is provided to units located in an IFSC as under:
 - 100% tax holiday for the first five years, and
 - 50% tax holiday for the next five years.

It is proposed that the deduction will be allowed at 100% for any 10 consecutive years out of 15 years, beginning with the year in which the necessary permission for setting up of a unit in an IFSC is obtained.

- Presently, income of the units in the IFSC is not exempt from gross basis taxation applicable to the dividend and interest earned by NR taxpayers under section 115A of the Act. Therefore, the deduction's benefit is not available when determining the tax liability on gross basis taxation. To bring parity between resident and NR units in an IFSC, it is proposed that the benefit of deduction will be granted under section 80LA when computing the tax liability under section 115A.

The proposed amendment shall be effective from 1 April 2020 and will accordingly apply from AY 2020-21 onwards.

2. Tax rate applicable to AIFs

The business income of AIF is taxed at a maximum marginal rate in accordance with the trust taxation principles. Currently, the maximum rate of tax applicable is 35.88%.

With the change in surcharge rates for high net-worth individuals, the maximum tax rate may now be 42.744%.

Further, this change in surcharge rates will also impact tax rates applicable on capital gains in the hands of Category III AIFs registered as trusts.

3. Pass through of losses available to unitholders of Categories I and II AIFs

Currently, income other than business income of Categories I and II AIFs is taxed in the hands of unitholders on a pass-through basis. The benefit of pass through of losses is not available to unitholders. Such losses are allowed to be carried forward and set-off by the AIF.

It is now proposed that pass-through status will be granted to unitholders for losses in the following manner:

- Business loss of the AIF will continue to be carried forward by the AIF and not the unitholder.
- Losses other than business losses:
 - Losses as on 31 March 2019 will be available to the unitholders. These losses will be allowed to be carried forward for set-off by the unitholder for the unexpired period.
 - After 1 April 2019, such losses will be available to unitholders only if the units are held for 12 months or more.
 - Irrespective of whether the losses are available to unitholder or not, such losses shall not be allowed to be carried forward by the AIF.

The proposed amendment shall be effective from 1 April 2020 and will accordingly apply from AY 2020-21 onwards.

4. Exemption under section 56(2)(viib) extended to Category II AIFs

Currently, where a closely held company receives consideration for issue of shares to a resident that exceeds the face value of such shares, the consideration received in excess of the FMV of such shares is taxable in the hands of the issuing company. A specific exemption from the applicability of these provisions exists in respect of shares issued by a venture capital undertaking to a VCF or VCC.

It is now proposed that this exemption will extend to funds received by venture capital undertakings from Category II AIFs as well.

This exemption will apply to issuance of shares by a venture capital undertaking to a Category II AIF on or after 1 April 2019 and will accordingly apply from AY 2020–21 onwards.

5. Relaxation in conditions of the special taxation regime for offshore funds

Section 9A of the Act provides that eligible offshore investment funds do not constitute a business connection in India by virtue of the activities carried out by the eligible fund manager. Moreover, the presence of the fund manager in India does not result in the fund qualifying as a tax resident of India. To qualify as an eligible fund and a manager, certain conditions are prescribed.

It is now proposed that the following conditions be relaxed:

There is a requirement that the monthly average of the corpus of the fund should not be less than INR 1bn. Presently, if the fund is established during the year, the condition has to be met at the end of such a year. It is now proposed that a relaxation will be provided to such funds for meeting the corpus requirement at the end of six months from the date of establishment of the fund or the end of the year, whichever is later.

Presently, it is required that the remuneration paid by the fund to an eligible fund manager should not be less than the ALP. It is proposed that this will be changed to a minimum remuneration calculated in a prescribed manner.

As per the memorandum, this amendment shall be effective retrospectively from 1 April 2019 and will accordingly apply from AY 2019-20 onwards.

6. Incentives to NBFCs

Currently, interest income received on prescribed categories of bad or doubtful debts by specified institutions is chargeable to tax in the year in which interest is credited to the profit-and-loss account or is actually received, whichever is earlier. The list of specified institutions presently does not include NBFCs.

It is now proposed that deposit-taking NBFCs and systemically important non-deposit-taking NBFCs will be included within the scope of the specified institutions.

It is also proposed that a corresponding amendment will be made in section 43B of the Act for claiming interest deduction by the debtor. Accordingly, the debtor will be eligible to claim the deduction on interest only if such interest is paid on or before the due date of furnishing the return of income of the relevant previous year.

The proposed amendment shall be effective from 1 April 2020 and will accordingly apply from AY 2020-21 onwards.

7. Definition of equity-oriented funds widened for availing concessional rate of tax on short-term capital gains

Currently, there is a concessional rate of tax available for short-term gains derived on units of an equity-oriented fund. For this purpose, the term “equity-oriented fund” has the meaning as provided under section 10(38) of the Act. This definition is narrower than that prescribed for availing the concessional rate of tax on LTCGs on units of equity-oriented funds.

It is now proposed that the expanded definition of the “equity-oriented fund” for the purpose of LTCGs (section 112A) will be applicable for the purpose of short-term capital gains as well (section 111A).

The proposed amendment shall be effective from 1 April 2020 and will accordingly apply from AY 2020-21 onwards.

8. Rationalisation of STT on sale of options in securities

Currently, STT is levied at the settlement price in the case of sale of an option in securities, where the option is exercised. It is proposed that on such transactions, STT will be levied on the difference between the strike price and settlement price.

The proposed amendment shall be effective from 1 September 2019.

Exemption for NRs of interest income arising from borrowings by way of issue of Rupee Denominated Bonds

CBDT vide press release dated 17 September 2018 announced that interest payable by an Indian company or a business trust to a NR, including a foreign company, in respect of rupee denominated bond issued outside India during the period from 17 September 2018 to 31 March 2019 will be exempt from tax. Consequently, no tax was required to be deducted on the payment of interest in respect of the said bond under section 194LC of the Act.

Accordingly, it has been proposed to insert section 10(4C) to legislate the above exemption granted to NRs.

The proposed section will be effective from 1 April 2019 and will accordingly apply from AY 2019-20 onwards.

Relief to start-ups

Carry forward of business losses

Currently, section 79 provides that in the case of closely held companies (in general), at least 51% of their beneficial shareholding needs to be maintained in order to carry forward/ set-off of business losses. However, closely held eligible start-up companies are allowed to carry forward their business losses (incurred during the period of seven years beginning from the year in which the start-up is incorporated), if all the shareholders (holding shares carrying voting power) continue to hold all the shares irrespective of their percentage of shareholding.

In certain situations, the provisions for carry forward/ set-off of business losses maybe onerous compared to the applicable provisions to other closely held companies. In order to provide relief to such start-up companies, the proposed amendment provides that closely held eligible start-up companies may optionally satisfy either of the two conditions for carry forward of their business losses i.e. a) continuity of 51% of beneficial shareholding; or b) continuity of the same shareholders.

This amendment will be effective from 1 April 2020 and will accordingly apply from AY 2020-21 onwards.

Exemption from LTCGs from sale of residential property on investment in eligible start-ups

Currently, section 54GB, subject to certain conditions, provides for capital gains exemption to an individual or HUF on sale of long-term capital assets, being a residential property (a house or a plot of land), provided that the net consideration received is invested for subscription of equity shares of eligible companies (including eligible start-up) and such funds are utilised by the eligible companies for purchase of new assets.

It is proposed that section 54GB will be amended to modify certain conditions for eligible start-ups, which are as follows:

1. Extending the sunset date for transfer of residential property in the case of investment in eligible start-ups from 31 March 2019 to 31 March 2021.
2. Relaxation of the minimum shareholding in the eligible company from current 50% of share capital or voting rights to 25% thereof.
3. Relaxation of the condition restricting transfer of new asset being computer or computer software from the current five years to three years.

The amended conditions will be effective from 1 April 2020 and will accordingly apply from AY 2020-21 onwards.

Compliance with the notification of exemption issued under section 56(2)(viib)

Currently, notified companies (start-up companies) are exempted from taxability of consideration received for issue of shares, in excess of the FMV of such shares, subject to fulfilment of certain specified conditions.

It has been proposed that the said provision will be amended to provide that exemption will be withdrawn if the company fails to comply with any of the specified conditions and the income will be liable to tax in the year of such failure.

The proposed amendment will be effective from 1 April 2020 and accordingly, will apply from AY 2020-21 onwards.

Others

Relaxation of provisions in respect of payments made to NR

Currently, section 201 of the Act provides for consequences for failure to deduct or pay taxes. However, a taxpayer who fails to deduct taxes while making payments is not treated as a “taxpayer in default”, in case recipient of income has duly filed its return of income disclosing such sum and has furnished an accountant’s certificate to this effect. However, till now, such exception was only provided in the case of payments to residents and not in the case of NR.

It is proposed that section 201 of the Act will be amended, in order to extend above relief to taxpayer in respect of failure to deduct taxes while making payments to NR. This amendment will take effect from 1 September 2019.

Further, a consequential amendment is proposed under section 40(a)(i) of the Act that will provide that no disallowance will be made on account of above payments made to NRs even where tax has not been deducted. This amendment will take effect from 1 April 2020 and accordingly, will apply from AY 2020-21 and onwards.

Demerger in case of Ind-AS compliant Companies

Currently, section 2(19AA) of the Act provides for various conditions for a demerger of an undertaking to be tax neutral. One such condition is that the resulting company should record property and liabilities of undertaking at the value appearing in the books of the demerged company. In the past, it has led to hardship in case of Ind AS compliant companies that are statutorily required to record such assets and liabilities at value that could be different from the book value recorded by demerged company.

Accordingly, an exception has been proposed under section 2(19AA) of the Act whereby such requirement will not be applicable in case resulting company records value of property and liabilities in compliance of Ind AS, even where such value is different from book value recorded by demerged company.

The proposed amendment will take effect from 1 April 2020 and accordingly will apply from AY 2020-21 onwards.

Relief provided to distressed companies

Certain exceptions are already provided under section 79. It is proposed that the rigors of section 79 of the Act will be relaxed in case of company, its subsidiaries and subsidiary of such subsidiary where –

- The Central Government is of the opinion that affairs of the company are being conducted in a prejudicial manner and the Central Government has moved an application before NCLT under section 241 of the Companies Act, 2013;
- Pursuant to such application, NCLT has removed the board of directors of such company and has appointed new directors, nominated by Central Government;
- Change in shareholding of such company, its subsidiaries and subsidiary of such subsidiary has taken place pursuant to resolution plan approved by NCLT, provided an opportunity of being heard has been given to the tax authorities.

Further, it is also proposed that, while calculating book profit under section 115JB of the Act, the aggregate amount of unabsorbed depreciation and brought forward loss (excluding depreciation) will also be allowed to be reduced in cases of such companies.

The proposed amendment will be effective from 1 April 2020 and accordingly, will apply from AY 2020-21 onwards.

Exemption from deeming provisions of FMV of shares for certain transactions

Currently, section 56(2)(x) of the Act provides that where any person receives any sum of money or property without consideration or for a consideration less than FMV, the recipient may have to pay tax on the basis of FMV. Further, section 50CA of the Act provides that where unquoted shares are transferred at a price less than FMV, consideration for the purpose of computing capital gains in the hands of seller shall be deemed to be the FMV. For both these provisions, FMV is determined on the basis of the prescribed method.

It is proposed that these sections will be amended to empower the CBDT to restrict the applicability of sections 56(2)(x) and section 50CA of the Act on prescribed transactions undertaken by certain class of persons, which shall be prescribed by the CBDT. Such amendment is proposed to remove genuine hardship in cases where consideration for transfer of shares is approved by certain authority and person transferring the share has no control over such determination.

The proposed amendment will take effect from 1 April 2020 and accordingly, will apply from AY 2020-21 onwards.

Consequential amendment to section 56

The Finance Act, 2018 substituted the provisions of section 145A with sections 145A and 145B. However, no consequential amendment was made in section 56(2)(viii) that provides for taxability of interest on compensation/ enhanced compensation referred in section 145B of the Act.

It is proposed that section 56(2)(viii) will be amended to provide reference to section 145B instead of section 145A of the Act.

The proposed amendment will be effective retrospectively from 1 April 2017 and will accordingly apply from AY 2017-18 onwards.

Denial or cancellation of registration of charitable trust or institution

Currently, section 12AA of the Act provides that at the time of granting registration to charitable trust or institution, TO may call for such documents and information, so as to satisfy himself about the genuineness of activities of such trust or institution.

It has been proposed that TO, while granting such registration, shall also satisfy himself about the compliance with any other law that is material for the purpose of achieving objects of trust or institution.

Further, under existing provisions, registration granted to a charitable trust or institution can be cancelled by tax authorities, if activities are not genuine or being carried out in such a manner that either whole or part of its income would cease to be exempt.

It is now proposed that registration granted to charitable trust or institution may also be cancelled if it is noticed that it has not complied with requirements of any other law that is material for the purpose of achieving its objects. It is also proposed that such registration can be so cancelled only if order or decree holding such non-compliance has been issued and such order or decree is either not disputed by such trust/ institution or has attained finality.

The proposed amendment will be applicable with effect from 1 September 2019.

Rationalisation of eligibility conditions for affordable housing

Currently, section 80-IBA of the Act provides for deduction of 100% of the profits and gains derived from business of developing and building housing projects, subject to certain conditions.

It is proposed that section 80-IBA will be amended to modify certain eligibility conditions for housing projects, approved on or after 1 September 2019. The key changes to the eligibility conditions are as follows:

1. Apart from the four cities of Chennai, Delhi, Kolkata and Mumbai within the metropolitan category for housing project location on a plot of land not less one thousand square metres, it has now been proposed that cities such as Bengaluru, Hyderabad, Noida and Gurugram will also be included in this category.
2. The carpet area of the residential unit within the housing project has been increased from thirty to sixty square metres for metropolitan cities (includes above mentioned additional cities which anyways were covered under sixty square meters) and from sixty to ninety square metres for other locations.
3. Additional condition that the stamp duty value of a residential unit in the housing project does not exceed INR 4.5m has also been proposed.

The amended conditions will be effective from 1 April 2020 and will accordingly apply from AY 2020-21 onwards.

Consequence of not linking PAN with Aadhaar

It is proposed that section 139AA of the Act will be amended to provide that if a person fails to intimate his Aadhaar number to the prescribed authority, the PAN allotted to such person shall be made inoperative in the prescribed manner.

The proposed amendment will be effective from 1 September 2019.

Tax deduction at source on non exempt portion of life insurance pay-out on net basis

It is proposed that section 194DA will be amended to restrict the tax deduction at source on the income component of the sum as against gross sum at the time of payment. Further, the rate of tax deduction at source is increased from 1% to 5%.

The proposed amendment will be effective from 1 September 2019.

Rationalisation of provision relating recovery of tax in pursuance of agreements with foreign countries

Currently, section 228A of the Act provide provisions to assist in recovery of tax under the corresponding foreign law or under the Act, from the person having property in or outside India respectively, where an agreement is entered by the Central Government with the Government of any foreign country.

It is proposed that the scope of the said section will be expanded to provide for tax recovery where the person is resident in India (irrespective of whether details of property are available). Similarly, it is proposed that the said section will be amended to provide for tax recovery from NR, from a country where he/ she is resident (irrespective of whether details of property in a foreign country are available).

The proposed amendment will be effective from 1 September 2019.

Enhancing time limitation for sale of attached property under rule 68B of the Second Schedule of the Act

Currently, the Second Schedule of the Act provides procedure for recovery of tax. Rule 68B of the Second Schedule of the Act provides that no sale of immovable property attached towards the recovery of tax, penalty etc. will be made after the expiry of three years from the end of the FY in which the order in consequence of which any tax, penalty etc. becomes final.

It is proposed that the said provisions will be amended to extend the period of limitation from three years to seven years. It is further proposed that the CBDT may, for reasons to be recorded in writing, extend the aforesaid period of limitation by a further period of three years.

The proposed amendment will be effective from 1 September 2019.

Rationalisation of provisions relating to claim of refund

Currently, a taxpayer can file for claim of refund under section 239 of the Act, in the prescribed form and verified in the prescribed manner within two years from the end of the relevant FY.

It is proposed that the said section will be amended to provide that claim for refund shall be made only in the return of income filed in accordance with section 139 of the Act, i.e. one year from the end of the relevant FY.

The proposed amendment will be effective from 1 September 2019.

Penalties and prosecution

Rationalisation of penalty provisions relating to under-reported income

Currently, section 270A of the Act, provides for penalty for under-reporting and misreporting of income. The current provision does not contain a mechanism for computing penalty in case of under-reporting of income where tax return is furnished first time under section 148 of the Act.

It has been proposed that the said section will be amended to include in its ambit the persons who have under-reported the income and furnished the return for the first time under section 148 of the Act.

This proposed amendment will be effective retrospectively from 1 April 2017 and will accordingly apply from AY 2017-2018 onwards.

Rationalisation of the provisions of section 276CC

Currently, a non-corporate taxpayer is not proceeded with prosecution proceedings under section 276CC of the Act, in case of failure to furnish return of income, if the tax payable by such taxpayer on the total income determined on regular assessment does not exceed INR 3,000.

It is proposed that the said section will be amended to provide for reduction of self-assessment tax paid before the expiry of AY and the tax collected at source, for the purpose of determining tax payable. Additionally, the threshold limit of INR 3,000 is proposed to be increased to INR 10,000.

The proposed amendment will be effective from 1 April 2020 and will accordingly apply from AY 2020-21 onwards.



Transfer Pricing

Tax Officer's powers in relation to modified return of income pursuant to APA

Section 92CD(3) of the Act deals with situations in which for an AY covered under an APA, the assessment or re-assessment has already been completed before expiry of the time allowed for filing of modified return pursuant to the APA. The existing sub-section mentions that the TO shall "assess or reassess or recompute" the taxable income for such years with regard to the APA. This has led to apprehensions of fresh assessments/ re-assessments in such cases.

It is now proposed to amend this sub-section to clarify that in such cases, the TO shall pass an order to only modify the total income for the relevant AY in accordance with the APA. Accordingly, he shall not have the power to initiate fresh assessments/ re-assessments for such AYs.

The above amendment is effective from 1 September 2019.

Maintenance of Master File

Section 92D of the Act provides that taxpayers part of an International Group and have international transactions and group turnover exceeding specified thresholds, are required to maintain and furnish the Master File. The Master File, which is part of BEPS Action Plan 13 requirement, encapsulates details of the supply chain and key business drivers of the International Group amongst other information.

It is proposed that the TO and Commissioner (Appeals) shall not have the power to request for the Master File, which would only have to be filed with the prescribed authority.

The above amendment is effective from AY 2020-21 and onwards.

Group turnover exceeding INR 5bn and international transactions exceeding INR 500m (INR 100m for intangible related transactions) in a previous year.

Accounting year for CbCR filing

Section 286 of the Act provides that when the parent entity or alternate reporting entity are resident in India, they are required to file the CbCR in India for the accounting year, which was defined to mean the previous year. The CbCR, which is also part of the BEPS Action Plan 13 requirement, includes country-wide details of revenue, profit, employees, etc., for an International Group.

In respect of ARE, a concern was that since the parent entity is not resident in India, the CbCR should not be required to be filed for the previous year. Instead, it should be filed for the accounting year of the parent. Thus, it is proposed to amend the said section by clarifying that for ARE, the CbCR shall be required to be filed for the accounting year of the parent entity.

The above amendment takes effect retrospectively from AY 2017-18 and onwards.

Secondary adjustment provisions

Secondary adjustment provisions stipulate that in specific cases of primary TP adjustment (voluntary adjustment, adjustment in pursuance of an APA/ Safe Harbour/ MAP or adjustments accepted by the taxpayer), in case the primary adjustment amount is not repatriated to India, interest shall be imputed on the primary adjustment as per the specified manner and taxed in India.

To address concerns regarding the effective implementation of these provisions, the following amendments have been proposed in section 92CE of the Act:

- Clarifying that these provisions shall not apply if the primary adjustment does not exceed INR 10m or the same pertains to AY 2016-17 and earlier years. These two conditions are not cumulative.
- Interest to be imputed on the primary adjustment or part thereof, not repatriated to India.

Tax Proposals



- Relief from secondary adjustment for APAs signed before 1 April 2017. However, no refund of taxes already paid under the existing provisions.
- Amount of primary adjustment may be repatriated from any of the AE not resident in India and not necessarily the transacting AEs.
- Option to the taxpayer to pay additional income-tax at 18% of the primary adjustment plus 12% surcharge and not being taxed for imputed interest. This additional tax shall not be allowed as a deduction nor any credit allowed against the tax liability.

The first four amendments mentioned above are clarificatory in nature and effective from AY 2018-19 and onwards. The last amendment is effective from 1 September 2019.



Indirect Taxes

Introduction

The indirect tax proposals are largely focused on the simplification of the GST, ease of doing business, the Make in India and environment-friendly measures.

The proposals on GST include single monthly returns, free accounting software for small businesses, fully automated refund mechanism, etc. The focus on GST has also been in terms of technology, as e-invoicing will be rolled out from January 2020.

As regards to customs, the main theme has been to “Make in India” and import less. This means that customs duty on many raw materials will be reduced, so that more goods will be manufactured in India. On the other hand, customs duties on final products will be hiked to reduce imports.

Electric vehicles will get a big boost, which means that environmental issues have been considered.

In addition, dispute resolution for the legacy matters of excise and service tax is a welcome step.

Key GST proposals

- 1. Composition scheme:** There will be an alternative composition scheme for suppliers of services or mixed suppliers having an annual turnover up to INR 5m in the preceding FY.
- 2. Facilitation of digital payment:** Specified suppliers will be given the option of using identified modes of electronic payment from the recipients, in a manner to be prescribed by the Government.
- 3. Transfer of amount in an electronic cash ledger:** The facility to transfer any amount of tax, interest, penalty and fee from one head to another in the electronic cash ledger will be subject to the manner and restriction as may be prescribed by the Government.

4. Interest applicability on net tax liability:

- Interest will be charged only on the net cash tax liability, i.e., on the amount of tax paid by debiting the electronic cash ledger.
- The benefit will not be available in cases wherein returns are filed subsequent to initiation of any proceedings under sections 73 or 74 of the CGST Act (i.e., tax demand for the normal and extended periods, respectively).

5. Disbursal of refund: The Central Government may disburse a refund amount to the taxpayers in respect of the refund of State taxes.

6. Penalty on profiteered amount: Power will be granted to the National Anti-Profiteering Authority to impose penalty equivalent to 10% of the profiteered amount.

7. Formation of the National Appellate Authority of Advance Ruling: This authority will be formed to hear appeals against conflicting advance rulings pronounced on the same question by the appellate authorities of two or more States or Union Territories, in case of distinct persons (as defined under section 25 of the CGST Act).

8. Rate amendment: This retrospective amendment will exempt “Uranium ore concentrate” from levy of GST for the period from 1 July 2017 to 14 November 2017.

Service tax

Exemption of services: The following services will be exempted retrospectively –

- Tax on service by way of the grant of liquor licence by the State Government (during the period starting from 1 April 2016 and ending on 30 June 2017);
- Tax on long-duration degree or diploma programs provided by the IIM's, other than the executive development program (during the period starting from 1 July 2003 and ending on 31 March 2016); and
- Tax on upfront amount paid for services by the –
 - State Government Industrial Development Corporations or Undertakings; or
 - Any other entity having 50% or more ownership of the Central Government, State Government or Union Territory

to developers of any industrial or financial business area by way of granting long-term lease of plots for the development of infrastructure for financial business (during the period starting from 1 October 2013 and ending on 30 June 2017).

Dispute resolution

Sabka Vishwas (Legacy Dispute Resolution) Scheme, 2019

- The proposed scheme will cover past disputes on taxes that have been subsumed in the GST, e.g., the central excise and service tax.
- Matters pending on or before 30 June 2019 will be eligible under the scheme, except for a few exclusions such as those pending before the Settlement Commission, among others.

The relief will vary from 40% to 70% of the tax dues/ arrears for cases other than voluntary disclosure, including waiver of interest and penalty.

Key budget proposals under customs

The vision of the decade — Make in India, with particular emphasis on supporting domestic manufacturers and disincentivising imports of final products – can be seen in the changes in customs duties.

Accordingly BCD rates and exemptions have been tweaked, which are summarised below for specific sectors.

Automobile sector	There will be an increase in BCD rates of ancillary parts used by automobile manufacturers, e.g., windscreen wipers, defrosters, demisters and glass mirrors. This will be a boost to electronic vehicle manufacturing in India.
Electronic goods and machines sector	There will be an increase in BCD/ abolishment of exemptions of products, e.g., loudspeakers, closed-circuit televisions, internet protocol cameras, digital and network video recorders and mobile sockets, to promote the Make in India scheme.
Renewable energy sector	To promote the use of renewable energy, the Government will reduce the rate of customs duty on import of goods used by this sector.
Paper sector	The customs duty will be increased on imported newsprint and imported printed books.
Medical device sector	The customs duty rates on certain raw materials used in the manufacture of medical devices will be reduced to promote quality of health.
Steel and base metals sector	BCD rates of stainless steel and other alloy steel will be increased to boost domestic manufacturing.
Defence sector	To strengthen the armed forces, the customs duty rates on imports will be exempt for defence equipment and their parts imported by the Ministry of Defence or the armed forces.
Telecommunications sector	To promote local manufacturing of key telecom support infrastructure, BCD on the import of optical fibres will be increased.

Apart from changes in the rates of duty, there will be certain changes in the Customs Law to enhance compliance and curb the evasion of duties:

Penalty for contravention, etc., not mentioned expressly

The maximum limit of the penalty will be increased from INR 0.1m to INR 0.4m on contravention or failure, where no express penalty is provided elsewhere for such contravention or failure.

Amendment of documents

The CBIC will make regulations specifying the time, form, manner, restrictions and conditions for

the amendment of any document (including bill of entry).

Penalty for violation of any provision of rules or regulations

The maximum limit of penalty for violation of any provision of rules or regulations will be increased from INR 0.05m to INR 0.2m.

The detailed impact from the customs duty perspective on key industries will be as follows:

Automobile Sector				
S.No.	Chapter	Commodity	Rate of Duty	
			From	To
1	84	Catalytic convertor (8421 39 20, 8421 39 90)	5%	10%
2	84	Oil/ petrol filters and Intake air-filters for internal combustion engine (8421 23 00), Parts of visual or sound signalling equipment for bicycles or motor vehicles (8421 31 00)	7.50%	10%
3	85	Other visual or sound signalling equipment for bicycles or motor vehicles (8512 20 90, 8512 30 90)	7.50%	15%
4	68, 70, 83, 85, 87	Friction material, Glass mirrors, Locks, Lighting or visual signaling equipment, vehicles horns, Windscreen wipers, Chassis fitted with engines, for the motor vehicles of headings 8701 to 8705, Bodies (including cabs), for the motor vehicles of headings 8701 to 8705, etc.	10%	15%
5	87	Completely built unit (cbu) of vehicles for transportation of goods/ passengers (capacity more than 10 person) (8702, 8704)	25%	30%
6	Any Chapter	Following parts of electric vehicles: (i) E-Drive assembly, (ii) On board charger, (iii) E-compressor and (iv) Charging Gun	Applicable rate	Nil

Tax Proposals



Electronic goods and machines				
S.No.	Chapter	Commodity	Rate of Duty	
			From	To
1	84	Stone crushing (cone type) plants for the construction of roads (8474 20 10)	Nil	7.50%
2	85	Charger/ Power adapter for CCTV camera/ IP camera/ DVR/ NVR (8504 40)	Nil	15%
3	84, 85 or 90	Capital goods used for manufacturing of specified electronic items, namely - (i) Cathode Ray tubes; (ii) CD/ CD-R/ DVD/ DVD-R; (iii) Deflection components, CRT monitors/ CTVs; (iv) Plasma Display Panel	Nil	Applicable rate
4	85	Loudspeaker (8518 21 00, 8518 22 00)	10%	15%
5	90	Optical Fibres, optical fibre bundles and cables (9001 10 00)	10%	15%
6	84	Indoor and outdoor unit of split – system air conditioner (8415 90 00)	10%	20%
7	85	Digital Video Recorder (DVR) and Network Video Recorder (NVR) (8521 90 90)	15%	20%
8	85	CCTV camera and IP camera (8525 80)	15%	20%
9	82, 84, 85 or 90	Capital goods used for manufacturing of following electronic items, namely - (i) Populated PCBA (ii) Camera module of cellular mobile phones (iii) Charger/ Adapter of cellular mobile phone (iv) Lithium Ion Cell (v) Display Module (vi) Set Top Box (vii) Compact Camera Module	Applicable rate	Nil

Tax Proposals



Renewable Energy Sector				
S.No.	Chapter	Commodity	Rate of Duty	
			From	To
1	26	All forms of Uranium ores and Concentrates for generation of nuclear power (Uranium concentrate U3O8 already exempt) (2612 10 00)	2.50%	Nil
2	28	All goods for use in generation of Nuclear power (Certain goods such as sintered natural uranium dioxide already exempt) (2844 20 00)	7.50%	Nil
3	98	All goods required for setting up of the following power projects under project imports (9801): a) Mahi Banswara Atomic Power project- 1 to 4, Mahi Banswara site Rajasthan b) Kaiga Atomic Power project - 5 & 6, Kaiga site, Karnataka c) Gorakhpur Atomic Power project - 3 & 4, GHAVP, Haryana d) Chutka Atomic Power project - 1 & 2, Chutka site, Madhya Pradesh	Applicable rate	Nil

Paper Sector				
S.No.	Chapter	Commodity	Rate of Duty	
			From	To
1	49	Printed books (including covers for printed books) and printed manuals, in bound form or in loose-leaf form with binder, executed on paper or any other material including transparencies. (4901 10 10, 4901 91 00, 4901 99 00)	Nil	5%
2	48	a. Newsprint b. Uncoated paper used for printing of newspapers c. Lightweight coated paper used for printing of magazines	Nil	10%

Tax Proposals



Medical Device Sector				
S.No.	Chapter	Commodity	Rate of Duty	
			From	To
1	Any Chapter	Raw material, parts or accessories for use manufacture of artificial kidneys, disposable sterilised dialyzer and micro-barrier of artificial kidney	Applicable rate	Nil

Steel and base metals (illustrative)				
S.No.	Chapter	Commodity	Rate of Duty	
			From	To
1	72, 81	Inputs for the manufacture of CRGO steel (7225, 72251990): a) MgO coated cold rolled steel coils b) Hot rolled coils c) Cold-rolled MgO coated and annealed steel d) Hot rolled annealed and pickled coils e) Cold rolled full hard Cobalt mattes and other intermediate products of cobalt metallurgy (8105 20 10)	5%	2.50%
2	72	Amorphous alloy ribbon (7226 99 30)	10%	5%
3	72	Stainless steel in ingots or other primary forms; semi-finished products of stainless less, Other alloy steel in ingots or other primary forms; semi-finished products of other alloy steel, Wire of other alloy steel (other than INVAR) (7218, 7224, 7229)	5%	7.50%
4	83	Base metal fittings, mountings and similar articles suitable for furniture, doors, staircases, windows, blinds, hinge for auto mobiles (8302)	10%	15%

Tax Proposals



Defence Sector				
S.No.	Chapter	Commodity	Rate of Duty	
			From	To
1	Any Chapter	Specified Defence equipment and their parts imported by the Ministry of Defence or the Armed Forces	Applicable rate	Nil

Telecommunication Sector				
S.No.	Chapter	Commodity	Rate of Duty	
			From	To
1	28, 70	Raw materials used in manufacture of Preform of Silica:- (i) Refrigerated Helium Liquid (2804 29 10) (ii) Silicon Tetra Chloride and Germanium Tetra Chloride (2812 19 20, 2812) (iii) Silica Rods (7002 20 90) (iv) Silica Tube (7002 31 00)	Applicable Rate	Nil
2	56	Water blocking tapes for manufacture of optical fiber cable (5603 94 00)	Nil	20%

Section 6

Expert's Speak



Overall

Shyamal Mukherjee, Chairman - PwC India

"The Finance Minister's Budget speech re-iterates the Government's thrust on minimum Government and maximum governance. Ramping up infrastructure investments to INR 20 lakh crores a year would help India move to the 8% growth trajectory. The proposed Expert Committee will have a critical role to play in channeling long term private capital to meet this need. Resource mobilisation through further disinvestment and increase in tax rates, and encouraging banks to take risks in lending to NBFCs through partial guarantees to ease credit flow is likely to have a positive impact. The focus given to the MSMEs and the rural sector is welcome."

Economy

Ranen Banerjee, Partner and Leader - Public Finance and Economics, PwC India

"The Finance Minister has done well to target the fiscal deficit 10 basis points lower than what was estimated in the interim budget in the backdrop of higher investment requirements. This has been achieved in the backdrop of required momentum to the economy that has been facing several headwinds. A very high reliance has been placed on investments from the private sector to realise the same. There are several commendable measures on capital market front to attract the FPIs and also further easing of the FDI norms in insurance intermediation and relaxing the local sourcing requirements in single brand retail to cheer the private sector. The outcome will however depend on how the private sector reacts to the proposals and realisation of the investments. The disinvestment targets are high but the intents announced on non-financial public sector disinvestments and public shareholding requirements in them should make it possible."

Tax

Gautam Mehra, Partner and Leader - Tax & Regulatory, PwC India

"The theme of 'enablement' has played out in the Budget, through multiple measures like interchangeability of PAN/ Aadhar, pre filled tax returns, part removal of the 'startup tax' pain and e-assessments. Tax sops granted to IFSC should further help in the 'Make in India' initiative. Revenue shoring is proposed with an increase in effective income tax rates for HNIs, with projected GST revenues being revised downwards. Announcements made to undertake reforms in rental laws, education and labour augur well, as with the proposed infusion of additional capital in PSU banks."

Rahul Garg, Senior Partner, PwC India

"Tax proposals are very pragmatic dealing with angle tax issue and applying the 25% rate to companies having turnover upto 400 crore on one hand and even deviating from policy of phasing out tax exemption to provide tax incentive on mega park under section 35D. It is encouraging to see strengthening administration being achieved using technology. Discouraging cash economy is consistent to digital movements. Imposing higher taxes on rich is the measure to increase revenue in addition to using technology. Additionally given higher investment target shall also support revenue garnering. It was expected that corporate tax would have been made more competitive for all businesses. Overall a pragmatic budget that is responsive to ground reality and seeks to reduce litigation and technology enable the tax administration."

Kuldip Kumar, Partner and Leader - Personal Tax, PwC India

"No changes in tax rates or slabs but surcharge increased for the higher income group. Maximum marginal rate of tax for those falling in the income group of INR 2 to 5 crores stands increased from 35.88% to 39% and 42.74% for those having income exceeding 5 crore. First time home buyers, buying house not exceeding 45 lakhs to get additional deduction of INR 1.5 lakhs towards interest. 2% TDS on cash withdrawals exceeding 1 crore and mandatory filing of returns by certain category of individual even having no income to tighten the grip on compliance."

Pratik Jain, Partner and Leader - Indirect Tax, PwC India

"Indirect tax proposals are based on promoting the key themes around make in India, environmental concern, technology led tax administration and ease of doing business. Implementation of e-invoicing from January 2020 will give time to the Government as well as industry to prepare. Customs duty rates have been reduced on many inputs to incentivise manufacturing and increased on finished products to garner additional revenues as well as to reduce non-essential imports. Proposal to introduce legacy dispute resolution scheme for pending litigation is also a great idea and should help the industry to move on with GST in place. Interest subvention for GST registered MSMEs should help in expansion of tax base while reducing the cost of doing business."

Bhavin Shah, Partner and Leader - Financial Services Tax, PwC India

"The Budget presented today, reiterated the importance being accorded to the start-up sector with announcements such as additional steps to ease the angel tax issue and liberalising the conditions for carry-forward of tax losses. We also saw the unexpected proposal around a dedicated television channel for start-ups. Extending the angel tax exemption to category-2 AIFs should also further boost investments into the start-up sector."

Hiten Kotak, Partner and Leader - M&A Tax, PwC

"As always, the expectations from the Budget were soaring high, more particularly in case of this Government backed by a huge mandate. The budget provide much needed impetus to capital market both equity and debt. Increasing minimum public shareholding to 35% is a masterstroke but should be staggered over a time period. The relaxation of FDI norms would act as a catalyst for foreign exchange inflows. Finally, Angel tax issue seems to have been addressed and the Government has realised start-ups need to be nurtured. Also, preservation of losses in case of start-ups is a well deserved incentive but could have been better. With the IFSC on radar, the Government is looking to get the people onshore, showcasing the change in mindset, as the Government is willing to provide incentives to organisation to carry out business in India and to generate employment. Overall a promising budget, looking forward to the execution plan."

Anita Rastogi, Partner - Indirect Taxes, PwC India

"The key theme has been to ease of doing business as far as GST is concerned. The proposals include single monthly returns, free accounting software for small businesses, fully automated refund mechanism etc. The focus on GST has also been on technology where e-invoicing will be rolled out from January 2020. In customs the main theme has been make in India and less imports. This meant that customs duty on many raw materials have been reduced so that goods are manufactured in India. On the other side customs duties on final products have been hiked to reduce imports. Electric vehicles are getting a big boost which means that environment concerns have been considered. Also dispute resolution for the legacy matters of excise and service tax is a welcome step."

Insurance

Akash Gupta, Partner and Leader - Regulatory, PwC India

Increase in FDI limit will definitely help cash strapped insurance sector in India. A controlling stake in hands of foreign investor can result in real money inflow, new entrants in the sector (specially intermediaries), and even consolidation. Additional headroom will also help new age Indian entrepreneurs in the sector to raise more money to fund innovative business models.

Media

Anshul Jain, Partner - Regulatory, PwC India

Fundamentally, 100% FDI should be permissible in Animation, Visual effect, Gaming & Comics segment. A concerned policy support for the entire ecosystem would enable market creation in digital space, benefitting consumers with abundance in quality content. If an enabling platform is allowed for distribution of such digital products, it will help in creation of more Indian content in addition to the global content opening up avenues for artistes/innovation, thereby creating more jobs indirectly. Policy should encourage creation of intellectual property, also reducing possibilities of piracy and unauthorized downloads.

Agriculture

Ajay Kakra, Partner and Leader - Food and Agriculture, PwC India

"The SFURTI yojna is also an excellent initiative to organize farmers under bamboo and honey farmers and artisans who have been working in an unorganized sector. Also beneficial step for NE states where bamboo is a major produce."

"Bringing allied sector such as fisheries in focus can help the development of fishing communities and fisheries as an occupation."

"ASPIRE scheme aiming to create 100 technology and livelihood incubation centers will boost the entrepreneurial spirit amongst the youth and encourage them to come out with innovative business ideas in the agro sector. This will go along way to make the Indian agricultural industry fit for future."

"The creation of 10000 FPO's targets the much required need of the agriculture sector to organise the farmer community and helping them to undertake agro trade in a effective and profitable way."

"The Budget re-emphasised its focus on agri reforms, which clearly shows its push on improving the ease of living of the Indian farming community. The focus on allied sectors such as fishery, bamboo and honey farming is a welcome move as it helps to organise this sector, who have been highly unorganised in that past. Government's continued focus to strengthen farming community through creation of 10000 new FPOs is also encouraging. The ASPIRE scheme with its objective of creating 100 technology and livelihood incubation centers, will boost the entrepreneurial ecosystem in the agricultural sector. It will also encourage the youth to come up with innovative business ideas for the industry. This will go a long way in making Indian agricultural industry fit-for-future."



Cybersecurity

Siddharth Viswanath, Partner and Leader - Cybersecurity, PwC India

"It is good to see the finance minister Nirmala Sitharaman promote Digital India in her maiden Budget speech. The focus on BharatNet program which aims to connect every village block via high-speed broadband and on creating a pool of skilled professionals in areas such as AI, robotics, VR, 3D, etc., is commendable. For India to be truly digital and fit for future economy, we also need to nurture and build cyber skills and technologies."

Government and Public

Neel Ratan, Partner and Leader - Government and Public Sector, PwC India

"Universal access to basic services is one of the biggest challenges as well as opportunity for our country. With less than 25% internet penetration in rural India, a large part of our population remains digitally deprived. Opening up BharatNet through the PPP model is a welcome step towards propelling the vision of Digital Bharat."

"PAN and Aadhaar to be made interchangeable for Income Tax- this does away with the need to have another identity proof, perhaps the first step to abolish PAN altogether for individuals. This also paves the way for better tax compliance with a single identifier and data driven governance."

"The Government's move to introduce 2% TDS on cash withdrawal of more than one crore and Zero Merchant Discount Rate would eventually be a deterrent to cash usage. This will incentivise digital payments, a crucial step towards propelling a Digital economy".

Clean Energy

Amit Kumar, Partner - Clean Energy, PwC India

"The focus of the government is clearly shifting towards adoption of cleaner energy, providing incentives and benefits to batteries manufacturing in India and tax benefits to consumer directly for major EV penetration in the economy."

GRID

Ashok Varma, Partner and Leader - Social sector, PwC India

"The announcement to set up a National Research Foundation to look at national priorities and converging the funds allocated to all ministries is a welcome step in making India fit for future. This would help in making the research more practical and relevant to solve important problems locally than do more academic research."

Energy, Utilities and Mining

Kameswara Rao, Partner and Leader - Energy, Utilities and Mining, PwC India

"The one-grid agenda is not new, but intensive investment in the resource rich states is now urgent. This will allow transfer of cheaper renewable energy to other states, and equally, help exporting states manage the challenges of surplus. This is also critical to avoid states forcing renegotiation of PPAs and protect the private investments, thereby contributing to an energy sector which is fit for future."

Sambitosh Mohapatra, Partner and Leader - Energy & Utilities, PwC India

"Aspirations and support of manufacturing new age technologies - solar PV, EV, storage, batteries, charging infra will go a long way in making the energy sector fit for future. It can be transformational for attracting private investments to the sector. The Focus on group captive can trigger massive interest of large international utilities to invest in the power sector. Captive rules amendment which has been in discussion since long should conclude soon."

Automotive

Kavan Mukhtyar, Partner and Leader - Automotive, PwC India

"Budget 2019 signaled the Government's commitment to several long-term structural changes to make India a USD 5 trillion economy. There were clear areas of focus like rural and farm sector, power, infrastructure, boosting connectivity and improving quality of credit in the banking system. The Automotive industry would benefit through the Pradhan Mantri Gram Sadak Yojana with investment of INR 80,250 crore in upgrading 125,000 km of rural road network. Doubling of farm income is another priority through a range of measures. Improved connectivity will result in rural and farmer economic development. These initiatives will have a positive impact on the commercial vehicles and tractors segment. The Government of India has stated its clear intent to push forward the adoption of EVs. Allocation of INR 10,000 crore to the FAME 2 scheme, import duty exemption on EV components, additional Income tax deduction of INR 1.5 lakhs on interest paid on loans for buying EVs will activate demand for electric vehicles. However, sustained growth of electric vehicles will require several other measures. Import duty increase for selected automotive components will support manufacturing in India. The Indian automotive industry, reeling under the pressure of demand slowdown, was expecting some short-term measures for demand activation. However the Government has chosen to instead focus on structural changes that will benefit the automotive industry in the long-term."

Education Sector

Sahil Gupta, Executive Director - Regulatory, PwC India

The intent of the Government to introduce comprehensive regulatory changes in the education sector is a step in the right direction. Providing greater operational autonomy, linking performance and learning-outcome based assessments, with employability are all critical to the success of the higher education segment. Introducing the culture of research & innovation at school level will provide an impetus to developing India as a global study centre and knowledge hub. The draft National Education Policy 2019, available for public consultation till July 2019, supplements this policy direction. A right and timely implementation will be key.

Start-ups and Innovation

Murali Talasila, Partner and Leader - Start-ups and Innovation, PwC India

"The Budget endeavours to address some major concerns faced by start-ups in India. The announcements are likely to further fuel the entrepreneurial spirit within the country. Easing of angel tax regulations was much needed. However, its enforcement would entail the need for stringent directions and complete transparency. The execution roadmap for the other interventions announced today would also need to be thought through in a speedy and cohesive manner. It would be interesting to see the impact of the exclusive TV channel and how it changes the discourse around the start-up community in India and makes them fit for future. India should look at emulating best practices from other mature start-up and scale-up ecosystems in the world to address challenges around ease of market access and further incentivising the entrepreneurial mindset among India youth."

Civil Aviation

Akash Gupta, Partner and Leader - Regulatory, PwC India

Current policy on civil aviation restricts foreign airlines to 49% equity ownership. The headroom becomes much smaller if a company has other forms of foreign investments (FDI or FPI), since the limit is counted on a cumulative basis. A relaxation on both or either of these conditions will provide the much needed boost to the debt laden sector. The changes would also require necessary changes in Civil Aviation policy & licensing conditions, especially with respect to effective control.

Real Estate

Bhairav Dalal, Partner and Leader - Real Estate Tax, PwC India

“Overall, a forward looking Budget for the real estate sector. Laying down a roadmap for Rental Housing is a step in right direction to align with global trends of co-living spaces, given the changing demographics in the country. The increased thrust on education is likely to boost the Student Housing asset class. Aligning the affordable housing definition with GST and may lead to certain ‘under planning’ project developers to go back to the drawing board.”

Retail

Goldie Dhama, Partner - Regulatory, PwC India

A key objective of SBRT policy is enhancement of exports on account of global supply chain integration and encouragement of economic activity in India with certain sourcing conditions. As long as SBRT players aligns to this fundamental spirit of policy, other additional condition become counter productive, for example relating to what can be sourced, who can source, how to deal with sourced products etc. A simplified regime will encourage more brands coming to India and help achieve policy objectives.



Section 7

Glossary



Glossary



Glossary	Exchange Traded Fund (ETF)	Indian Accounting Standards (Ind AS)	Pradhan Mantri Gram Sadak Yojana (PMGSY)
Income-tax Act, 1961 (Act)	Electrical Vehicle (EV)	Infrastructure Investment Trusts (InvIT)	Periodic Labour Force Survey (PLFS)
Associated Enterprise (AE)	Foreign Direct Investment (FDI)	Internet of Things (IoT)	Public-private Partnership (PPP)
Artificial Intelligence (AI)	Foreign Institutional Investor (FII)	Information Technology (IT)	Public Sector Banks (PSB)
Alternative Investment Funds (AIF)	Fair Market Value (FMV)	Know Your Customer (KYC)	Public Sector Enterprise (PSE)
Alternative Minimum Tax (AMT)	Foreign Portfolio Investor (FPI)	Limited Liability Partnership (LLP)	Public Sector Undertaking (PSU)
Arm's Length Price (ALP)	Fiscal Responsibility and Budget Management (FRBM)	Long-term capital gain (LTCG)	Research and Development (R&D)
Advance Pricing Agreement (APA)	Financial Year (FY)	Mutual Agreement Procedure (MAP)	Reserve Bank of India (RBI)
Alternate Reporting Entity (ARE)	Gross Domestic Product (GDP)	Minimum Alternate Tax (MAT)	Revenue Expenditure (RE)
Assessment Year (AY)	Goods and Services Tax (GST)	Maximum Marginal Rate (MMR)	Real Estate Investment Trust (REIT)
Budget Expenditure (BE)	Gross Value Added (GVA)	Maintenance, Repair and Overhaul (MRO)	Statement of Financial Transactions (SFT)
Base Erosion and Profit Shifting (BEPS)	Higher Education Commission of India (HECI)	Medium, Small and Micro Enterprises (MSME)	Scheme of Fund for Upgradation and Regeneration of Traditional Industries (SFURTI)
Basic Customs Duty (BCD)	High Networth Individual (HNI)	Non-banking Financial Company (NBFC)	Self Help Group (SHG)
Country by Country Reporting (CbCR)	Hindu Undivided Family (HUF)	National Company Law Tribunal (NCLT)	Security Transaction Tax (STT)
Central Board of Direct Taxes (CBDT)	Insolvency and Bankruptcy Code, 2016 (IBC, 2016)	Non-food bank Credit (NFC)	Tax deduction Account Number (TAN)
Central Board of Indirect Taxes and Customs (CBIC)	Infrastructure Debt Fund (IDF)	Non-resident (NR)	Tax Deduction at Source (TDS)
Common Facility Centre (CFC)	Income Declaration Scheme, 2016 (IDS, 2016)	Non-resident Indian (NRI)	Tax Officer (TO)
Central Goods and Services Tax (CGST)	International Financial Services Centre (IFSC)	National Pension System (NPS)	Trade Receivable Discounting System (TReDS)
Central Public Sector Enterprises (CPSE)	Index of Industrial Production (IIP)	New Space India Limited (NSIL)	Income-tax Appellate Tribunal (Tribunal)
Dividend Distribution Tax (DDT)	International Monetary Fund (IMF)	Permanent Account Number (PAN)	Venture Capital Company (VCC)
Equity Linked Savings Scheme (ELSS)	Indian Rupee (INR)	Pradhan Mantri Awas Yojana – Gramin (PMAY–G)	Venture Capital Fund (VCF)

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