Budget 2020

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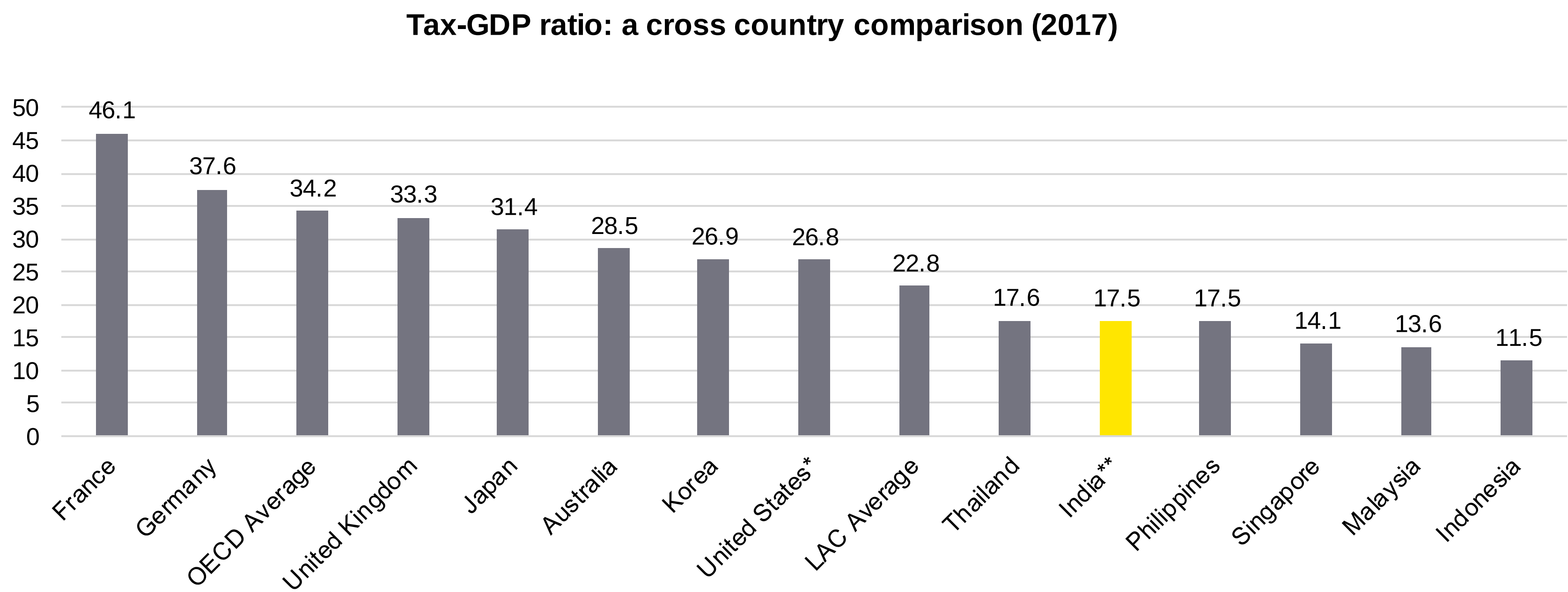
Contents

1 Budget backdrop

Budget backdrop

- Economic slowdown
- Shortfall in tax targets
- Pressure on fiscal deficit
- Lack of consumer demand and investment
- Global environment

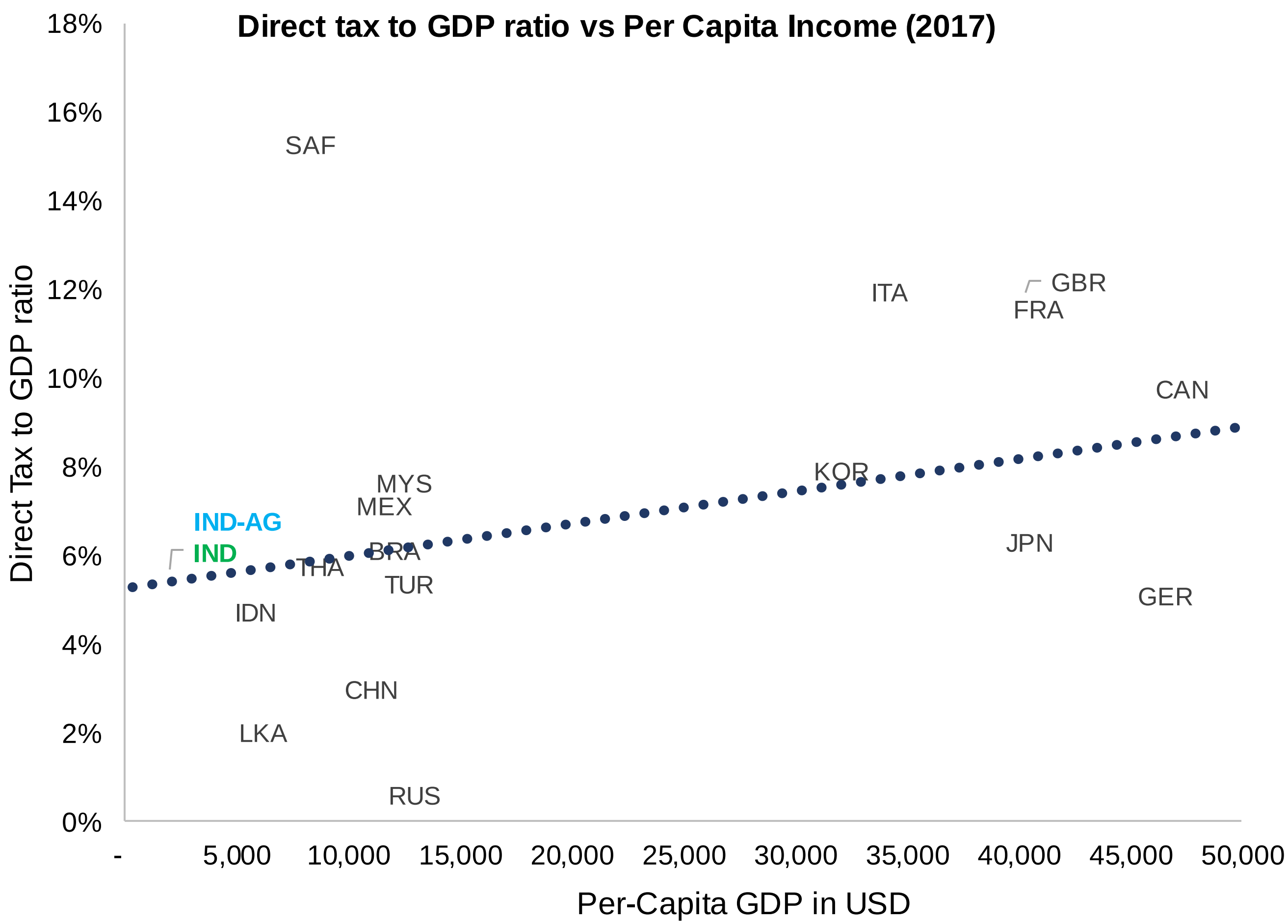
Tax-GDP Ratio



Source: OECD Revenue Statistics, 2018 and 2019 ** Post TCJA, Tax-GDP Ratio for US declined by 2.5% in 2018*

*** Centre and States combined*

Adjusted Tax-GDP Ratio



India **(IND)**, with a DT-GDP ratio of 5.7% does better than its peer group of countries at same per capita GDP level

If the DT-GDP ratio is adjusted by removing agricultural income, which is not taxed, then the ratio improves to 6.8 % **(IND-AG)**

Tax growth and buoyancy

Year	Direct tax	Corporation tax	Personal income tax	Total Indirect taxes (incl. customs)	Gross tax revenue
Growth (%)					
2014-15	9.0	8.7	9.4	9.8	9.3
2015-16	6.6	5.7	8.2	30.0	16.9
2016-17	14.5	7.0	26.8	21.4	17.9
2017-18	17.9	17.8	18.1	5.9	11.8
2018-19	**13.4**	**16.2**	**9.8**	**2.9**	**8.4**
2019-20 (RE)	**2.9**	**-8.0**	**18.3**	**5.3**	**4.0**
2020-21 (BE)	**12.7**	**11.5**	**14.0**	**11.1**	**12.0**
Buoyancy					
2014-15	0.8	0.8	0.9	0.9	0.8
2015-16	0.6	0.5	0.8	2.9	1.6
2016-17	1.2	0.6	2.3	1.8	1.5
2017-18	1.6	1.6	1.6	0.5	1.1
2018-19	**1.2**	**1.5**	**0.9**	**0.3**	**0.8**
2019-20 (RE)	**0.4**	**-1.0**	**2.4**	**0.7**	**0.5**
2020-21 (BE)	**1.3**	**1.2**	**1.4**	**1.1**	**1.2**

- CIT growth in FY20 is negative at (-) 8.0% as compared to the budgeted growth of 15.4% in July 2019. This is due to both CIT reforms and continuing economic slowdown.
- Growth in total IDT and PIT revenues in FY20 has fallen due to the economic slowdown reflected in a fall in real and nominal GDP growth rates.
- Tax buoyancies reflect the underperformance of tax revenues in FY20.
- Buoyancy for PIT at 2.4 in FY20 is much higher than that in the last two years.
- This may be due to the gains expected on account of Vivad Se Vishwas scheme for reducing direct tax litigations.

Source (Basic data) : Union Budget documents; Central Statistical Organisation, MoSPI

2 Direct tax proposals

Personal Tax Rates – Present regime vs proposed regime

Present regime

Income slab (INR)	Rate
Upto 250,000	NIL
250,001 – 500,000	5.20%
500,001 – 10,00,000	20.80%
10,00,001 – 50,00,000	31.20%
50,00,001 – 1,00,00,000	34.32%
1,00,00,001 – 2,00,00,000	35.88%
2,00,00,001 – 5,00,00,000	39.00%
Above 5,00,00,000	42.74%

Proposed regime

Income slab (INR)	Rate
Upto 250,000	NIL
250,001 – 500,000	5.20%
500,001 – 750,000	10.40%
750,001 – 10,00,000	15.60%
10,00,001 – 12,50,000	20.80%
12,50,001 – 15,00,000	28.50%
15,00,001 – 50,00,000	31.20%
50,00,001 – 1,00,00,000	34.32%
1,00,00,000 – 2,00,00,000	35.88%
2,00,00,000 – 5,00,00,000	39.00%
Above 5,00,00,000	42.74%

Individual tax proposals

- New Simplified Personal Tax Regime – for taxpayers who forego deductions and exemptions such as:-
  - Standard Deduction
  - Leave Travel Allowance
  - House Rent Allowance
  - Interest and principal repayment in respect of self-occupied property
  - PPF, insurance premium, mediclaim premium, NPS contribution
- Loss of benefit for subsequent years in event of failure to satisfy conditions laid down in new regime
- Optional for tax payers

Individual tax proposals

- Residency
  - Threshold of residency for individuals visiting India reduced from 182 days to 120 days
  - Any Indian citizen who is not liable to tax in any other country due to his domicile, residence or any other criteria of similar nature shall be deemed to be resident of India
  - Definition of 'Not ordinarily resident' modified

- Tax event for ESOPs held by employees of start-ups deferred – 3 events specified ie. 5 years, date of leaving the company or date of sale of shares whichever is earlier – corresponding changes made for TDS
- Aggregate contributions by employer towards recognized provident fund, NPS, approved superannuation fund exceeding INR 750,000 is now taxable. Interest accretion on contribution included as income is also taxable
- Authorized dealer to collect tax at 5 per cent on remittance exceeding INR 700,000 made under Liberalized Remittance Scheme from the remitter

Measures to stimulate growth

Dividend taxation

In the hands of the payer

- Now, DDT abolished and dividend payment will be subject to withholding tax at applicable rates
- To remove cascading effect, set-off will be available in case of holding-subsidiary companies

In the hands of the recipient

- Incidence of taxation shifted to recipients
- Only interest expense will be allowable as deduction against dividend income; maximum deduction capped at 20% of the dividend income

This amendment is applicable to dividend declared, distributed or paid after 1 April 2020

Measures to stimulate growth

Exemption for sovereign wealth funds

- Dividends, interest and long-term capital gains from investments in specified infrastructure entities earned by sovereign wealth funds will be exempt from tax
- The investment is required to be made before 31 March 2024 and held for at least 3 years

Measures to stimulate growth

Extension of concessional tax rate for borrowings from outside India

- Concessional tax rate of 5% under Section 194LC on interest paid to non-residents on loan agreements, long-term bonds or rupee denominated bonds extended from 1 July 2020 to 1 July 2023
  - Lower tax rate of 4% will be applicable on interest on long-term bonds or rupee denominated bonds listed on any IFSC

- Concessional tax rate of 5% under Section 194LD on interest paid to Foreign Portfolio Investors on investments in G-secs and rupee denominated bonds issued by an Indian company extended till 1 July 2023

Rationalisation measures

TDS on e-commerce transactions

- E-commerce operator, whether resident or non-resident of India now liable to deduct tax at source at the rate of 1% on payments made to e-commerce participant being a resident in India, for sale of goods or services, including digital products
- Amount directly paid by purchaser of goods or services to e-commerce participant deemed to be included in the gross amount
- Where e-commerce participant does not have PAN or Aadhar, tax deduction would apply at the rate of 5%
- Once tax has been deducted by e-commerce operator on the gross amount, no further liability to deduct tax exists under any other provisions. However, certain specified services not connected with sale of goods and services not covered by the exclusion

Rationalisation measures

Rationalisation of provisions of start-ups

- Currently, start-ups with turnover less than or equal to INR 25 crores, are eligible to claim 100% tax deduction in 3 consecutive years out of 7 for start-ups incorporated between 1 April 2016 and 1 April 2021
- The turnover limit has been enhanced to INR 100 crores
- The 7 year limit has been extended to 10 years

Rationalisation measures

Deferral of ‘significant economic presence’ (SEP) provisions

- Applicability of the SEP provisions deferred to AY 2022-23 since OECD is expected to finalise the BEPS 2.0 report by end of 2020

Expansion of source rules under Section 9 of the Act

- Clarificatory explanation inserted to include following income as accruing or arising in India:
  - Income from advertisements targeting Indian customers
  - Income from sale of data collected from India
  - Income from sale of goods and services using data collected from India
- This explanation shall take effect from AY 2022-23 for SEP cases and from AY 2021-22 for all other cases

Rationalisation measures

Extending benefit of carry forward of losses or depreciation to certain amalgamations

- Benefit of carry forward of accumulated losses and unabsorbed depreciation extended to amalgamations of public sector banks and public sector General Insurance Companies

Aligning exemption for Foreign Portfolio Investors from indirect transfer provisions

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

Exclusion for disallowance of interest

- Provisions of interest limitation of 30% EBITDA not applicable to interest paid to branches of non-resident banks

Ease of compliance

Assessments/ Appeals

- Faceless e-assessment will apply even to best judgment assessment
- DRP route will cover all non-residents as against existing coverage of only foreign companies
- Central government empowered to introduce e-appeal and e-penalty scheme to eliminate interface between the tax payer and income-tax authorities
- Tax payer to deposit at least 20% of the demand or furnish security of equivalent amount in order to seek stay proceedings before the Income-tax Appellate Tribunal
- Tax audit threshold limit increased to INR 5 crores as against INR 1 crores for person carrying on business
  - Return filing due date extended to 31 October from 30 September of the assessment year
  - In order to enable pre-filing of tax returns for persons earning business/ professional income, tax audit report/ other accountant certificates to be submitted 1 month prior to the return filing due date

Ease of compliance

Dispute resolution scheme (to be notified) to clear litigation

- To avail scheme prior to 31 March 2020 – Pay taxes under dispute with complete waiver of interest and penalty
- To avail scheme prior to 30 June 2020 – Pay taxes under dispute and additional amount, as would be notified

Transfer pricing

Attribution to Permanent Establishment (‘PE’)

- To reduce controversy and provide certainty, scope of safe harbour rules and Advance Pricing Agreement expanded to determine attribution of profits to PE
  - This amendment will apply for APAs signed after 1 April 2020 and safe harbour applications for AY 2020-21 and subsequent AYs

Due Date for filing of transfer pricing report in Form 3CEB

- Due date for filing of Form 3CEB advanced by one month to 31 October of the relevant AY

3 Indirect tax proposals

Customs

Stricter global trade governance

- Detailed process laid down to test compliance with Rules of Origin (ROO) under Preferential Trade Agreements
  - Reliance on certificate of origin issued by notified authorities in exporting country no longer sufficient; importer to provide declaration of compliance, maintain proper records, and provide data to prove compliance with ROO
  - Preferential trade benefits may be disallowed or temporarily suspended in case importer fails to provide requisite information for verification
  - In case of suspension, goods may be released subject to furnishing of security or payment of differential duty in prescribed manner
- Power to prohibit import or export of goods for "prevention of injury to the economy of the country" was previously restricted to gold and silver; now extended to 'all goods'

Customs

Stricter global trade governance (contd.)

- Amendments made in safeguard provisions related to protection against surge in quantity of import of any article or under such conditions that causes serious injury to the domestic industry
  - Measures to now include application of a tariff rate quota, in addition to imposition of a safeguard duty
  - Tariff rate quota measures, where used, shall not be fixed below the average level of imports in last 3 representative years unless deemed necessary
- Anti-dumping rules made more comprehensive and wider in scope to strengthen the anti-circumvention measures
- Amendments made to rules related to countervailing duty on subsidized articles to enable investigation into cases of circumvention of such duties

Customs

Incentivising 'Make in India' for medical devices

- Health cess of 5% imposed with effect from 2 February 2020 on import of various medical devices falling under CTH 9018, 9019, 9020, 9021 and 9022
  - Examples of goods covered - dialysis equipment, diagnostic equipment, ECG equipment, breathing appliances, orthopaedic appliances, artificial limbs, x-ray equipment etc
- Exemption from cess provided on specified products, including those exempted from BCD, and inputs/ parts for manufacture of medical devices
- Cess to be computed on same value on which customs duty is calculated under Section 14 of Customs Act
- Cess may not be allowed to be paid using export promotion scrips
- Amount of Health cess collected to be used for financing health infrastructure and services

Customs duty changes

Increase in effective duty

- Exemptions withdrawn/ rates revised for parts and components of products, including for mobile phones, refrigerators, air conditioners, printers etc
- Electric motor vehicles to attract higher duties for CBU, SKD and CKD wef 1 April 2020
- Imposition of 5% BCD on naphtha for generation of electrical energy by generating company; and higher duties on specified goods used for power transmission projects
- BCD imposed on specified goods for construction of roads
- BCD increased on dairy products
- Imported toys, dolls to attract 60% BCD
- Furniture from 20% to 25%

Customs duty changes

Reduction in BCD

- Calcined petroleum coke from 10% to 7.5%
- Newsprint and specified paper used for printing of newspaper and magazine
- Specified part of microphones
- Bunker fuel from 10% to NIL

Rationalization of Social Welfare Surcharge (SWS)

- Certain exemptions withdrawn and others introduced

Customs

Other amendments

- Facility of electronic duty credit ledger to be introduced in lieu of
  - Remission of any duty or tax or levy in lieu of exports or such other financial benefits as may be notified
  - The duty credit may be used towards making payment of duties payable under Customs Act

GST Proposals

GST compliances

- Introduction of new return regime with effect from 1 April 2020, reiterated
- E-invoicing regime proposed to be implemented in a phased manner

Retrospective amendments

- Refund of compensation cess due to inverted duty structure on tobacco products retracted (1 July 2017 to 30 September 2019)
- Provision for transition of input tax credits amended to prescribe time limit

Other amendments

- Personal penalty provisions extended to persons ‘causing and benefitting’ fraudulent input tax credit

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Questions

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