

Summary of Union Budget 2020-21

New Delhi, 1st February, 2020

PART A

Presenting the first Union Budget of the third decade of the 21st century, Finance Minister Smt. Nirmala Sitharaman, today unveiled a series of far-reaching reforms, aimed at energizing the Indian economy through a combination of short-term, medium-term, and long term measures.

Personal Income Tax and Simplification of Taxation

In order to provide significant relief to the individual taxpayers and to simplify the Income-Tax law, the Finance Minister has proposed to bring a new and simplified personal income tax regime, wherein income tax rates will be significantly reduced for the individual taxpayers who certain deductions and exemptions.

Taxable Income Slab (Rs.)	Existing tax Rate	New Tax Rate
0-2.5 Lakh	Exempt	Exempt
2.5-5 Lakh	5%	Exempt
5-7.5 Lakh	20%	10%
7.5-10 Lakh	20%	15%
10-12.5 Lakh	30%	20%
12.5-15 Lakh	30%	25%
Above 15 Lakh	30%	30%

Dividend Distribution Tax

Currently, companies are required to pay Dividend Distribution Tax (DDT) on the dividend paid to its shareholders at the rate of 15% plus applicable surcharge and cess, in addition to the tax payable by the company on its profits. In order to increase the attractiveness of the Indian Equity Market and to provide relief to a large class of investors, the Finance Minister has proposed to remove DDT, and adopt the classical system of dividend taxation, under which the companies would not be required to pay DDT. The dividend shall be taxed only in the hands of the recipients at their applicable rate.

In order to remove the cascading effect, the Finance Minister has proposed to allow deduction for the dividend received by holding company from its subsidiary. The removal of DDT will lead to estimated annual revenue foregone of Rs. 25,000 crore. This will further make India an attractive destination for investment.

Concessional Tax Rate for Electricity Generation Companies

New provisions were introduced in September 2019, offering a concessional corporate tax rate of 15% to the newly incorporated domestic companies in the manufacturing sector which start manufacturing by 31st March, 2023.

In order to attract investment in the power sector, it has been proposed to extend the concessional corporate tax rate of 15% to new domestic companies engaged in the generation of electricity.

Tax Audit Limit

The FM has proposed that the audit threshold for small traders and MSMEs will be raised from Rs 1 crore to Rs 5 crore. The one caveat here is that this will apply to only those businesses that carry out less than 5% of their transactions in cash

Return Filing Due Date

With the effect from 1 April 2020, the due date of filing return of income for companies and other taxpayers liable to tax audit (other than transfer pricing assessee) will be 31 October instead of 30 September of the following financial year.

Tax Holiday

Tax holiday to developers of affordable housing extended by 1 year.

Tax Concession for Foreign Investments

To incentivize investment by Sovereign Wealth Fund of foreign governments, the Finance Minister has proposed to grant 100% tax exemption to their interest, dividend and capital gains income in respect of the investment made in infrastructure and other notified sectors before 31st March, 2024 and with a minimum lock-in period of 3 years.

Start-ups

The Finance Minister noted that during their formative years, Start-ups generally use Employee Stock Option Plan (ESOP) to attract and retain highly talented employees. Currently, ESOPs are taxable as perquisites at the time of exercise. In order to give a 10 boost to the start-up ecosystem, the Finance Minister has proposed to ease the burden of taxation on the employees by deferring the tax payment for five years or till they leave the company or when they sell their shares, whichever is earliest.

An eligible Start-up having turnover up to 25 crore is allowed deduction of 100% on its profits for three consecutive assessment years out of seven years if the total turnover does not exceed 25 crore rupees. The Finance Minister has proposed to increase this limit to Rs. 100 crore. She has also proposed to extend the period of eligibility for claim of deduction from the existing 7 years to 10 years.

Concessional Tax Rate for Cooperatives

Cooperative societies are currently taxed at a rate of 30% with surcharge and cess. As a major concession, and in order to bring parity between the cooperative societies and corporates, the Finance Minister has proposed to provide an option to cooperative societies to be taxed at 22% plus 10% surcharge and 4% cess with no exemptions/deductions. She has also proposed to exempt these societies from Alternative Minimum Tax (AMT), just like companies under the new tax regime are exempted from the Minimum Alternate Tax (MAT).

Medium, Small and Micro Enterprises

In order to reduce the compliance burden on small retailers, traders, shopkeepers who comprise the MSME sector, the Finance Minister has proposed to raise by five times, the turnover threshold for audit from the existing Rs. 1 crore to Rs. 5 crore. In order to boost less-cash economy, she has

Proposed that the increased limit shall apply only to those businesses which carry out less than 5% of their business transactions in cash.

Affordable Housing

In the last budget, the Finance Minister had announced an additional deduction of upto one lakh, fifty thousand rupees for interest paid on loans taken for purchase of an affordable house. The date of loan sanction for availing this additional deduction is proposed to be extended by one year, beyond 31st March, 2020.

Faceless Appeals

In order to impart greater efficiency, transparency and accountability to the assessment process, a new faceless assessment scheme has already been introduced. It is proposed to amend the Income Tax Act so as to enable Faceless appeal on the lines of Faceless assessment.

Instant PAN through Aadhaar

In order to further ease the process of allotment of PAN, a system will be launched under which PAN shall be instantly allotted online on the basis of Aadhaar, without any requirement for filling up of detailed application form.

New penalty for fake or omitted entry in books of accounts

The Government has detected several arrangements used by taxpayers to falsely reduce Goods and Services Tax (GST) liability by claiming input tax credit from fake invoices in books of accounts. The GST charged in such fake invoices is neither paid nor intended to be paid to the Government. A new penalty will be levied under ITL to deal with such fraudulent arrangements.

The new penalty will be levied on taxpayers required to maintain books of accounts and such books contain a false entry or an omission of entry relevant for computation of total income, to evade tax liability. Penalty will be equal to a sum of such false or omitted entry.

Penalty will be levied on taxpayer making such false or omitted entry or any other person who causes such taxpayer to make the false or omitted entry.

Indirect Tax

GST

A simplified GST return shall be implemented from the 1st April, 2020. It will make return filing simple with features like SMS based filing for nil return, return pre-filing, improved input tax credit flow and overall simplification. Dynamic QR-code is proposed for consumer invoices. GST parameters will be captured when payment for purchases is made through the QR-code.

Punishment for offences will be extended to also cover a person who causes to commit the offence and retains benefit arising from such offence.

Fraudulent availment of Input Tax Credit (ITC) without invoice will be made cognizable and non-bailable offence.

Penalty provisions are extended to cover persons who retain the benefits and at whose instance the following offences are committed:

Supplies made without issuing invoice or on issuing false invoice

Issue of invoice without actual supply in violation of the provisions of the GST law

Availing or utilizing ITC without actual receipt of goods or services

Taking or distributing ITC in contravention of provisions of input service distributor (ISD)

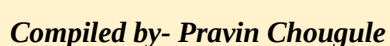
Customs

On the Customs side, India has taken a quantum leap in the “Trading across Border” parameter of Ease of Doing Business rankings by the World Bank. India’s rank has improved from 146 to 68. Imports under Free Trade Agreements are on the rise. Undue claims of FTA benefits have posed threat to domestic industry. In the coming months, Rules of Origin requirements shall be reviewed, particularly for certain sensitive items, so as to ensure that FTAs are aligned to the conscious direction of our policy.

Health cess of 5% will be levied and collected as duty of customs on import value of medical devices.

Punishment for offences in GST has been extended to person who causes to commit offence and retains the benefit arising from such offence.

Penalty provisions in GST will be extended to cover persons who retain the benefit and at whose instance the specified offences are committed.



PART B

Agriculture, Irrigation and Rural Development

The Finance Minister said that more than Rs 2.83 lakh crore would be spent on Agriculture, Rural Development, Irrigation and allied activities as farmers and rural poor continue to remain the key focus of the Government. Reiterating the commitment of doubling farmers' income by 2022, She said, Government has already provided resilience for 6.11 crore farmers insured under PM Fasal Bima Yojana. Agriculture credit target for the year 2020-21 has been set at Rs 15 lakh crore. All eligible beneficiaries of PM-KISAN will be covered under the KCC scheme.

Education and Skills

On Education and Skill front, the Finance Minister said Rs 99,300 crore is being allocated in 2020-21 and Rs 3000 crores for skill development. New Education Policy will be announced soon. About 150 higher educational institutions will start apprenticeship embedded degree/diploma courses by March 2021. Degree level full-fledged online education programme to be started. Under its "Study in India" programme, an Ind-SAT is proposed to be held in Asian and African countries. A National Police University and a National Forensic Science University are being proposed in the domain of policing science, forensic science, cyber-forensics etc. It is proposed that special bridge courses be designed by the Ministries of Health, Skill Development.

Economic Development

Industry, Commerce and Investment

Referring to the theme of Economic Development, the Finance Minister said that Rs 27300 crore would be allocated for development and promotion of Industry and Commerce for the year 2020-21. An Investment Clearance Cell will be set up to provide "end to end" facilitation. It is proposed to develop five new smart cities in collaboration with States in PPP mode. A scheme to encourage manufacture of mobile phones, electronic equipment and semi-conductor packaging is also proposed.

Infrastructure

On Infrastructure sector as highlighted by the Prime Minister that Rs 100 lakh crore would be invested over the next 5 years, National Infrastructure Pipeline was launched on 31st December 2019 of Rs 103 lakh crore. It consists of more than 6500 projects across sectors and are classified as per their size and stage of development. She said that about Rs 22,000 crore has already been provided as support to Infrastructure Pipeline. Accelerated development of highways will be undertaken. This will include development of 2500 Km access control highways, 9000 Km of

economic corridors, 2000 Km of coastal and land port roads and 2000 Km of strategic highways. Delhi-Mumbai Expressway and two other packages to be completed by

2023. Chennai-Bengaluru Expressway also be started. It is proposed to monetise at least 12 lots of highway bundles of over 6000 Km before 2024. Indian Railways aims to achieve electrification of 27000 Km of tracks. She said that within 100 days of assumption of this government, it has commissioned 550 Wi-Fi facilities in as many stations.

Women and Child, Social Welfare

Harping on the theme of Caring Society, the Finance Minister said that Rs 35,600 crore proposed for nutrition-related programmes for the financial year 2020-21. Rs 28,600 crore proposed for programs that are specific to women. Moreover, Rs 85000 crore would be allocated towards the welfare of Scheduled Castes and Other Backward classes for 2020-21. Similarly, for furthering development and welfare of Scheduled tribes, Rs 53,700 crore is proposed for 2020-21. She said, the government is mindful of the concerns of senior citizens and Divyang. Accordingly, an enhanced allocation of Rs 9,500 crore is being provided for 2020-21.

Financial Sector

The Finance Minister said that In the last few years, Government of India has infused about Rs 3,50,000 crore by way of capital into Public Sector Banks for regulatory and growth purposes. Governance reforms would be carried out in these banks, so that they become more competitive. Government has already approved consolidation of 10 banks into four. Further, the Deposit Insurance and Credit Guarantee Corporation (DICGC) has been permitted to increase Deposit Insurance Coverage for a depositor, which is now Rs one lakh to Rs five lakh per depositor. The limit for NBFCs to be eligible for debt recovery under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act 2002 is proposed to be reduced from Rs. 500 crore to asset size of Rs 100 crore or loan size from existing Rs 1 crore to Rs 50 lakh. To meet the need for greater private capital, it is proposed to sell the balance holding of Government of India IDBI Bank to private, retail and institutional investors through the stock exchange. To help easy mobility while in jobs, we wish to infuse into the Universal Pension coverage with auto enrolment. More than five lakh MSMEs have benefitted from restructuring of debt permitted by RBI in the last year. The restructuring window was to end on March 31, 2020. Government has asked RBI to consider extending this window till March 31, 2021. For selected sectors such as pharmaceuticals, auto components and others, it is proposed to extend handholding support – for technology up gradations, R&D, business strategy etc. A scheme of Rs 1000 crore will be anchored by EXIM Bank together with SIDBI.

Financial Markets

On Financial Markets, about deepening of the bond market, certain specified categories of Government securities would be opened fully for non-resident investors, apart from being available to domestic investors as well.

Fiscal Management

On Fiscal Management, the Finance Minister said that XV Finance Commission has given its first report pertaining to Financial Year 2020-21. In the spirit of co-operative federalism, Government in substantial measure, accepted the recommendations of the Commission. The commission would submit its final report to the President during the latter part of the year, for five years beginning 2021-22. She also announced to transfer to the GST Compensation Fund balances due out of collection of the years 2016-17 and 2017-18, in two instalments. Hereinafter, transfers to the fund would be limited only to collection by way of GST compensation cess. The Revised Estimates of Expenditure for the Financial Year 2019-20 are at a level of Rs 26.99 lakh Crore and the receipts are estimated at Rs.19.32 lakh crore.

She said, Government has estimated nominal growth of GDP for year 2020-21, on the basis of trends available, at 10%. Accordingly, receipts for the year 2020-21 are estimated at Rs. 22.46 lakh cr and, keeping in mind commitment of the Government towards various schemes and need for improvement in quality of life, level of expenditure has been kept at Rs 30.42 lakh cr. A good part of the borrowings for the financial year 2020-21 would go towards Capital expenditure of the Government that has been scaled up by more than 21%. She said that the measures would spur growth impulses in the economy.

Thank You!!