



Budget 2020-21



Felix Advisory
Innovating financial solutions

February 2020

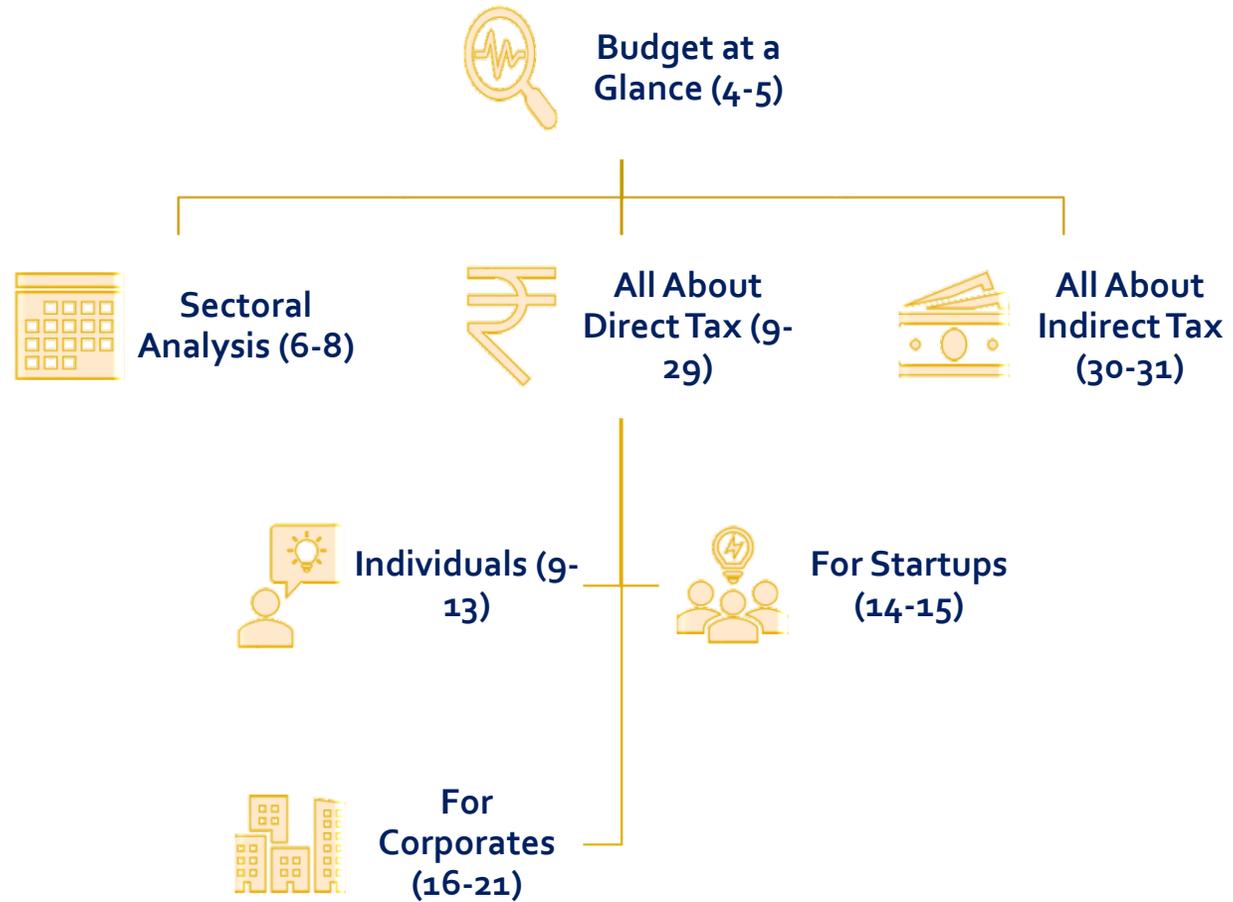
Introducing the Aspirational Budget!



- Announced on Feb 1, 2020 by Hon' FM, Mrs. Nirmala Sitharaman, the budget speech was overwhelming for the masses of the country.
- Indian Economy had been long awaiting such changes in law and order and the government in center finally heard the woes of most sectors of the economy.
- Handful of initiatives in the field of agriculture, education and health along with major tax reforms for both individuals and corporates in the announced budget are welcoming and largely appreciated.
- Presenting before, budget analysis from Tax & Industry Experts of Felix Advisory.

Tailor-Made Budget Analysis

To know the pages for you, below is the structure of the budget analysis:



Budget at a Glance



Key Focus Areas

The budget 2020 presented was woven around 3 themes:

- ◆ **Aspirational India:** All sections of society are taken care of while launching measures for better standards of living.
- ◆ **Economic Development:** 'Sabka Sath, Sabka Vikas, Sabka Vishwas' to give more space to the private sector ensuring greater productivity.
- ◆ **India as a Caring Society:** To develop a compassionate & humane society along with a growing economy.



Highest Budget Allocations

- ◆ **Ministry of Defence:** INR 4,71,378 crores
- ◆ **Ministry of Home Affairs:** INR 1,67,250 crores
- ◆ **Ministry of Agriculture and Farmers' Welfare:** INR 1,42,762 crores
- ◆ **Ministry of Rural Development:** INR 1,22,398 crores
- ◆ **Ministry of Human Resource Development:** INR 99,312 crores
- ◆ **Ministry of Railways:** INR 72,216 crores
- ◆ **Ministry of Health & Family Welfare:** INR 67,112 crores



Budget at a Glance



Major Tax Reforms:

- DDT removed
- Simplified Personal Tax Regime
- Change of Due dates for Return Filing & Tax Audit
- Change of Definition of Not Ordinarily Resident and Resident
- Rationalization of provisions for Startups
- Faceless Appeals
- No Dispute but Trust Scheme



Budget Allocation to Major Schemes

- PM KISAN: BE 20-21- INR 75,000 crores
- Mahatma Gandhi National Rural Employment Guarantee Program: BE 20-21- INR 61,500 crores
- National Education Commission: BE 20-21- INR 39,161 crores
- National Health Commission: BE 20-21- INR 34,115 crores
- Pradhan Mantri Awas Yojana: BE 20-21- INR 27,500 crores
- Pradhan Mantri Swasthya Suraksha Yojana: BE 20-21- INR 6,020 crores

Sectoral Analysis

Agriculture, Irrigation & Rural Development:

- ▶ PM KUSUM to cover 20 lakh farmers for stand-alone solar pumps and further INR 15 lakhs for grid-connected pumps.
- ▶ Viability gap funding for the creation of efficient warehouses on PPP mode.
- ▶ Increasing coverage of artificial insemination to 70%.
- ▶ Kisan Rail” and “Krishi Udaan” to be launched by Indian Railways and Ministry of Civil Aviation respectively for a seamless national cold supply chain for perishables.
- ▶ Agricultural credit target of INR 15 lakh crore for 2020-21.

Wellness, Water & Sanitation:

- ▶ TB Harega Desh Jeetega” campaign launched to end TB (Tuberculosis) by 2025.
- ▶ Expansion of Jan Aushadhi Kendra Scheme to all districts by 2024.
- ▶ Focus on liquid and greywater management along with waste management.
- ▶ More than 20,000 empaneled hospitals under PM Jan Arogya Yojana.



Sectoral Analysis

Financial Sector:

- Deposit Insurance Coverage to increase from INR 1 lakh to INR 5 Lakh per depositor.
- Eligibility limit for NBFCs for debt recovery under SARFAESI Act proposed to be reduced to asset size of INR 100 crore or loan size of INR 50 Lakhs.
- Proposal to sell balance holding of government in IDBI Bank.
- Separation of NPS Trust for government employees from PFRDAI.
- New debt ETF proposed mainly for government securities.

Infrastructure:

- INR 103 lakh crore National infrastructure Pipeline projects announced.
- 100 more airports to be developed under UDAAN.
- Efforts to replace conventional energy meters by prepaid smart meters.
- Expand National Gas Grid to 27,000 km.
- National Logistics Policy to be launched soon.



Sectoral Analysis

Education and Skills:

- About 150 higher educational institutions will start apprenticeship embedded courses.
- Internship opportunities to fresh engineers by urban local bodies.
- Special bridge courses to improve skill sets of those seeking employment abroad.
- National Mission on Quantum Technologies and applications with an outlay of INR 8000 crore proposed.

Industry, Commerce & Investment:

- NIRVIK Scheme for higher export credit disbursement launched.
- Setting up of an Investment Clearance Cell to provide end to end facilitation.
- A scheme to provide subordinate debt for entrepreneurs of MSMEs.
- Scheme anchored by EXIM Bank and SIDBI to handhold MSMEs in export markets.



For Individuals:

Following slab rates are applicable to Individuals/HUFs if they opt for concessional tax rate:

Total Income	Rate of Tax (Current)	Rate of Tax (Optional) – Section 115BAC
Upto 2,50,000		Nil
From 2,50,001 to 5,00,000		5
From 5,00,001 to 7,50,000		10
From 7,50,001 to 10,00,000		15
From 10,00,001 to 12,50,000		20
From 12,50,001 to 15,00,000		25
Above 15,00,000		30



For Individuals:

Concessional slab rates are subject to following:

◆ Individual or HUF not having business income (Salary and other incomes):

- ◆ Optional concessional tax slab rates to individuals or HUF is available (Maximum Benefit of INR 78,000 approx.) if they do not opt for any deduction and exemption under chapter-VIA and Section 10 (e.g. 80C, 80D, 80CCD, 80G, HRA, LTA, Standard deduction, Food Vouchers, Interest of housing loan etc.) except Transport Allowance, Conveyance allowance, cost of travel and daily allowance for official purpose.
- ◆ Every year basis, such individuals can choose the option of concessional rate or old tax slab rate with deductions based on their choice.

◆ Individual or HUF having business income :

- ◆ Optional concessional tax slab rates to individuals or HUF is available (Maximum Benefit of INR 78,000) if they do not opt for any deduction and exemption under chapter- VIA and Section 10 (e.g. 80C, 80D, 80CCD, 80G, 10AA, additional depreciation, Interest of housing loan and other prescribed deduction related to business)
- ◆ The concessional rate option cannot be changed by such individual or HUF in next year if opt in first year. If such option is withdrawn than such an Individual or HUF can never claim such concessional rate option.



All about Direct Tax

For Individuals:

Residential Status (Section 6):

- The person would be resident if stays in India 120 day or more instead of 182 or more days.
- The person would be NOR (Not ordinary resident) if non-resident in India in 7 years out of 10 years from earlier 9 years out of 10 years.
- The person of Indian Citizen or Person of Indian Origin shall be deemed to be a resident of India if he is not liable to tax in any other country by reason for his residency or domicile.



All about Direct Tax

For Individuals:

Amendment (Section 9):

- Applicability of 'Significant Economic Presence' (SEP) has been deferred to AY 2022 – 23 since G-20 OECD report is expected by December 2020.
- New explanation for SEP of non-resident is provided which shall mean
 - Any transaction carried by non-resident with any person in India, if the aggregate of payment exceeds such amount as may be prescribed or
 - Soliciting of business activity or interaction with such no. of users in India as may be prescribed.
- New explanation is inserted for Income accrue or arise in India which includes:
 - Income from Advertisement generated from Indian customer,
 - Income from sale of data collected from Indian customer,
 - Sale of goods or services using data collected from Indian customers.



All about Direct Tax

For Individuals:

Other Amendments:

- Sunset clause for interest of loan for affordable housing has been extended to 31st March 2021 for availing deduction under section 80EEA.
- Cash donation for scientific research or rural development under section 80GGA has been reduced to INR 2,000 from INR 10,000.
- Donation under section 80G and 80 GGA shall be allowed only if statement is furnished by the donee in respect of donations received with effect from 1st June 2020.



All about Direct Tax

For Startups:

Existing provision

Section 80-IAC (old)

- 100% tax exemption shall be allowed for 3 consecutive years out of 7 years.
- For the purpose of eligible startup, turnover of entity does not exceed INR 25 crores.

Section 80-IAC (new)

- 100% tax exemption shall be allowed for 3 consecutive years out of 10 years.
- For the purpose of eligible startup, turnover of entity does not exceed INR 100 crores.

New Provision



For Startups:

Deferring TDS or Tax payment in respect of ESOP's from Start-ups:

- As per the current tax regime, TDS is applicable or tax is leviable on Employee Stock Options (ESOP's) at the time of exercise of option as salary income by way of perquisites.
- With amendment in section 192, it is proposed to defer such tax levy within 14 days from the earliest of the following:
 - Expiry of 48 months from the end of the AY in which such ESOPs were allotted to employees;
 - Date of sale of such ESOPs;
 - Date of Employee ceasing to be employee of such start-up.
- Section 191 (Direct payment of tax in case of no TDS) & Section 156 (for notice of demand) have been rationalized to provide effect of the above.



All about Direct Tax

For Corporates:

Abolition of DDT

- **Change:** One of the most awaited amendment in Section 115-O, where Dividend Distribution Tax (DDT) levied on dividends distributed by domestic companies is proposed to be abolished beginning from 1st April, 2020.
- **Consequent Amendments:** Necessary changes are proposed in relevant sections like inclusion of dividend income in investment income of Non-Residents, discontinuance of exemption on dividend income, discontinuance of section 115BBDA to levy tax @10% on dividends received exceeding INR 10 Lakhs. This is in view to let dividend income be taxable in the hands of recipients. TDS will also be applicable on distributed dividends @ 10% paid exceeding INR 5,000. Further, dividend income shall be eligible for deductions for interest expense to a maximum cap of 20% of such income under section 57.
- **Impact on the Industry:**
 - Foreign Investments in Indian equity market will be attracted in higher numbers as abolition of DDT implies dividend income taxable in the hands of foreign investors and credit of such tax can be taken in their own country.
 - Litigation related to disallowances for exempt income regarding dividend income shall stand resolved as deduction has been specified in section 57.



All about Direct Tax

For Corporates:

Abolition of Tax on distributed income of unit- holders

- **Change:** Parallel amendment has been proposed in Section 115-R, where tax on distributed income by mutual funds is proposed to be abolished beginning from 1st April, 2020.
- **Consequent Amendments:** Necessary changes are proposed in relevant sections like discontinuance of exemption on income from mutual funds, business trust, or SPV. This is in view to let income from mutual funds be taxable in the hands of recipients. TDS will also be applicable on such distributed income @ 10% (20% in case of NR). Further, income from mutual funds shall be eligible for deductions for interest expense to a maximum cap of 20% of such income under section 57.
- **Impact on the Industry:**
 - A boost will be provided to investments in Mutual Funds as abolition of tax on distributed income will imply transition to a progressive system of tax from a regressive system of taxation as instead of a flat rate of tax, tax will be payable by recipients at their applicable slab rates.



All about Direct Tax

For Corporates:

Other Amendments:

- Approval for survey under section 133A may be taken from Joint Director or Joint Commissioner for the cases where the information has been received from prescribed authority and for other cases approval from Director or Commissioner to be taken.
- Due date of filing Income tax return for Companies (Other than Transfer Pricing Cases), persons whose accounts are required to be audited and partners of firm whose accounts are required to be audited is extended from to 31st October from 30th Sept of assessment year.
- Return of income for companies and LLP can also be verified by any other person as may be prescribed.
- Application to dispute resolution panel can also be made by non-resident person (e.g. Foreign LLP or Individuals).
- Section 72AA (Allowing carry forward of losses or depreciation in certain amalgamations) has been extended to the amalgamation of:
 - one or more corresponding new bank with any other corresponding new bank;
 - one or more general insurance government company with any other general insurance government company.
- Sunset clause for approval affordable housing project has been extended to 31st March 2021 for availing deduction under section 80IBA.



For Corporates:

Other Amendments:

- New TCS provision is included for the recovery of tax,
 - @ 5% for payment made through authorized dealer under LRS (if the amount remitted is INR 7 Lakhs or more) or
 - @ 5% for payment made to seller of International tour package,
 - @0.1% by seller (whose total turnover exceeds INR 10 crores in previous year) of goods (other than goods covered under existing TCS provisions) for the value exceeding INR 50 lakhs in a year.
- Similar to e-assessment mechanism, a new scheme will be launched for e-appeal.
- A new penalty provision is inserted for making a false entry in the books of account, thereby a penalty equivalent to value of false entry shall be levied. False entry includes false invoice, or invoice issued to/by a person who does not exist.
- Companies availing concessional tax rates under section 115BAA and 115BAB can now claim deduction under new section 80M i.e. Deduction for dividends distributed by the Company.
- Concessional tax rates of 15% for new manufacturing domestic companies under section 115BAB has been extended to companies engaged in the business of generation of Electricity.



For Corporates:

Other Amendments:

- Exemption to Non- resident or Foreign company having income of Royalty or Technical services for filling return of income if:
 - It does not have a permanent establishment in India or does not perform professional services through a fixed place of profession in India;
 - TDS has been deducted on such income and rate of TDS is not less than rate of tax provided under section 115A(1)(a)/(b).
- Aligning the Income Tax Act, 1961 with the Multilateral Instrument (MLI) signed by India with representatives of other countries, section 90/90A has been amended to prevent non-taxation or reduced tax evasion or avoidance.
- Provisions of Safe Harbour Rules and Advance Transfer Pricing Agreement extended to provide for attribution of income in case of a non-resident to the Permanent Establishment.
- For Transfer Pricing provisions the specified date has been amended to mean the date one month prior to the due date of furnishing of return of income i.e. Transfer pricing forms are required to be filed by 31st October every year.



All about Direct Tax

For Corporates:

Other Amendments:

- Now assessee can view the annual information statement on his registered account on portal uploaded by prescribed income tax authority or registered person.
- With the abolishment of dividend distribution tax, referred to section 115-O, now TDS will also be deducted on dividend distributed to non-resident, which were previously exempted under following sections-
 - 196A @ 20% on any income respect of units of a Mutual Funds,
 - 196C @ 10% for dividend on Global Depository Receipts,
 - 196D @ 20% for specified income for Foreign institutional investors.
- Amendment has been proposed in section 35AD to make said deduction optional for the assessee so that the taxpayer opting for concessional tax rate of 22 percent can claim normal depreciation under section 32.



All about Direct Tax

Applicable to all Assesseees:

Tax Audit (Section 44AB)

- **Change:** The requirement of getting the books of accounts audited has been relaxed for persons having business turnover up to 5 crores whose:-
 - Aggregate of all amount received in cash does not exceed 5 percent of such amount; and
 - Aggregate of all payments made in cash does not exceed 5 percent of such amount.

Now tax audit has to be done **one month prior to** the due date of filing return of income (i.e. 30th Sept) and due date for filing tax return is extended by one month (i.e. 31st Oct) for other than Transfer Pricing cases

- **Consequent Amendments:** The consequential amendment has been proposed in all the sections in which certificates from accountants were required to be filled at the time of filing tax return.
- **Impact on the Industry:** *Mismatch in the value under tax audit report and tax return will be avoided. Time to prepare tax return extended after tax audit.*

Applicable to all Assesseees:

Safe harbour limit of deviation in sales consideration of land or building increased to 10%:

- It is proposed that in case of capital asset, being land or building or both acquired before April 1, 2001, the fair market value of such asset on April 1, 2001 shall not exceeds the stamp duty value of such assets on said date.
- Now difference in transaction value and value adopted by specified authority up to 10% is acceptable and no addition in the income shall be made, this will provide the benefit for the transactions of land and building or both. Accordingly, consequential amendments in section 43CA, 50C and Section 56(2)(x) of the Act.
- Amendment has been proposed in section 35AD to make said deduction optional for the assessee so that the taxpayer opting for concessional tax rate of 22 percent can claim normal depreciation under section 32.



All about Direct Tax

Applicable to all Assessees:

'Vivad se Vishwas' scheme

A scheme similar to the indirect tax Sabka Vishwas scheme for reducing litigation in direct taxes

- Taxpayer whose appeal is pending at any level
- Taxpayer required to pay only the amount of disputed tax
- Complete waiver of interest and penalty if payment is made before 31st March 2020
- On availing scheme after 31st March 2020 will have to pay some additional amount
- Scheme will remain open till 30th June 2020
- Scheme shall be notified soon



Foreign Investments:

Exemption for Sovereign Wealth Fund and Wholly owned subsidiary of Abu Dhabi Investment Authority (ADIA) :

- Any income in the nature of dividend, interest or long – term capital gains arising from an investment made by specified person in India whether debt or equity will be exempt, provided that the investment
 - is made before March 31, 2024;
 - Is held for a period of at least 3 years; and
 - In an infrastructure entity as defined in Explanation to clause (i) of subsection (4) of section 80 – IA or other notified business.
- Meaning of specified person:
 - Wholly owned subsidiary of ADIA which is a resident of United Arab Emirates (UAE) and makes investment out of the fund owned by Government of UAE.
 - Sovereign wealth fund which satisfies following condition:-
 - Wholly owned and controlled by Government of foreign country;
 - Set up and regulated under the law of such country;
 - Earning of the said fund are not credited to any private person;
 - Assets of said fund vest with foreign government upon dissolution and it does not undertake any commercial activity within or outside India;
 - Specified by central government in official gazette.



All about Direct Tax

Other Amendments:

- Under the finance bill, 2020 the meaning of perquisite under section 17(2)(vii) shall further be extended to a recognized provident fund, National Pension Scheme and approved superannuation fund to the extent it does not exceed INR 7,50,000.
- No TDS on dividend shall be deducted if it is being paid in any mode other than cash and if the amount of dividend does not exceed INR 5,000 – Section 194
- A co-operative society (other than a co-operative bank) shall be liable to deduct TDS while paying interest under section 10(23FC), if its total sales exceed INR 50 crores and if the amount of interest being credited exceeds INR 40,000 (INR 50,000 in case of a senior citizen)
- The term “work” under section 194C shall now include manufacturing and supplying of a product according to the requirement or specification of a customer by using material purchased from such customer or its associate (Under contract manufacturing).
- TDS under section 194J shall be deducted at 2% in case of fee for technical services (other than professional services) and at 10% in all the other cases.
- TDS @4% shall also be deducted on interest received by a non-resident from a long term debt or a rupee dominated bond which is listed on a recognized stock exchange located on any International Financial Service Center under section 194LC.



All about Direct Tax

Other Amendments:

- For determining the period of holding in case of unit or units in Segregated portfolio, the period of holding in main portfolio will also be included – Section 2(42A).
- Definition of business trust has been amended to include Real Estate Investment Trusts which are not required to be listed on recognized stock exchange as per the SEBI (Real Estate Investment Trusts) Regulations, 2014 – Section 2(13A).
- A business trust shall while distributing income, to a non-resident or a foreign company, being in the nature defined under section 10(23FC)(a) – Interest to Special Purpose Vehicle (SPV) and section 10(23FC)(b) – Dividend Income, deduct TDS at 5% and 10% respectively.
- TDS@5% on Income by way of interest under section 194LD shall also include interest received between 1st April 2020 and 1st July 2023 in respect of municipal debt securities and also under the said section time period in respect of interest received on rupee dominated bond of an Indian company or a government security has been extended to 1st July 2023.
- The concessional rate of 22% introduced in The Taxation Laws (Amendment) Act, 2019 has been extended to Co-operative societies if the society complies with the conditions mentioned in the aforesaid Act.
- CBDT will introduce Taxpayer's Charter shortly.



All about Direct Tax

Other Amendments:

Section 12AB

- Effective from June 1, 2020 for online registration of trust for claiming deduction 11 and 12 of Income Tax Act, 1961.
- Registration under the said section will be valid for 5 years only.

Section 80M

- Deduction shall be available in the hands of domestic company for dividend received from other domestic company subject to the amount of dividend distributed by it.



All about Direct Tax

Other Amendments:

Section 194K

- Any person while making payment to a resident shall deduct TDS at 10% if such payment is in respect of-
 - units of a mutual fund specified under section 10(23D); or
 - units from the Administrator of the specified undertaking; or
 - units from the specified company
- No TDS is required to be deducted if the payment does not exceed INR 5,000.

Section 194-O

- An E-Commerce operator shall at the time of credit of the amount for sale of goods or provision of service to an E-Commerce participant deduct TDS at 1%.
- No TDS shall be deducted of an E-Commerce participant, being an individual or HUF, if the amount of such sale of goods or provision of service does not exceed INR 5,00,000.
- TDS shall also not be deducted if the amount relates to hosting advertisements and does not relate to provision of services.



All about Indirect Tax

Major Amendments in Indirect Tax Laws:

Amendments in Goods and Services Tax (GST):

- Simplified return with features like SMS based filing for nil return and improved input tax credit flow to be implemented from 1 April 2020 as a pilot run.
- Dynamic QR-code proposed for consumer invoices. GST parameters will be captured when payment for purchases is made through the QR-code.
- Electronic invoices to capture critical information in a centralized system to be implemented in a phased manner.
- AADHAAR based verification of taxpayers being introduced to weed out dummy or non-existent units.



Major Amendments in Indirect Tax Laws:

Amendments in Custom Duties:

- Customs duty raised on footwear to 35% from 25% and on furniture goods to 25% from 20%.
- Higher customs duty on certain goods like auto-parts, chemicals, etc. which are also being made domestically.
- Customs duty rates revised on electric vehicles and parts of mobiles.
- 5% health cess to be imposed on the imports of medical devices, except those exempt from BCD.
- Lower customs duty on certain inputs and raw materials like fuse, chemicals, and plastics.
- Basic customs duty on imports of newsprint and light-weight coated paper reduced from 10% to 5%.

Amendments in Excise Duty:

- Excise duty to be raised on Cigarettes and other tobacco products.



Tax Team

Amit Jindal

Partner - Tax Structuring

Email – aj@felixadvisory.com

Anurag Mittal

Partner- Corporate & International Tax

Email – anurag.mittal@felixadvisory.com

Anchal N. Arora

Director - Indirect Tax

Email – anchal@felixadvisory.com

Corporate Finance

Swetabh Pareek

Partner – Investment Banking

Email – Swetabh.pareek@felixadvisory.com



Felix Advisory

Innovating financial solutions

ACCOUNTING | ADVISORY | TRANSACTION | VALUATION

INDIA | MIDDLE EAST | EUROPE

For more information contact –

Contact us

 info@felixadvisory.com

 +91 124 42 52 720

 Felix Advisory Private Limited
45, Arjun Marg, DLF Phase – I
Gurgaon – 122002,
Haryana, India

Felix Advisory

Felix Advisory is one of the leading providers of tax & regulatory services, transaction advisory, risk, financial & business advisory, accounting, valuation, internal audit, and corporate governance services in India. Our commitment to quality and innovation has helped us in establishing a long-lasting relationship with our clients. Constant dialogue with the clients helps us to understand their needs and wants and offer them customized solutions.

For more information about our organization, please visit www.felixadvisory.com.

Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Felix Advisory holds no responsibility for any loss arising from any action taken or not taken by anyone using this material.