INDIA BUDGET 2020

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KRESTON SGCO

Ladderup
Engineering Growth

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FOREWORD

Budget 2020 needs to be viewed in the backdrop of the prevailing economic circumstances, the government's policy and economic priorities and the constraints it is operating under.

Economic Survey 2020 pegged India's real GDP growth at 4.9% p.a., with fiscal deficit at 3.8%, overshooting the budgeted number for the year by 0.3%. Given that fiscal responsibility & inflation targeting being the central theme of policy planning in the current regime coupled with tepid economic & government revenue growth in FY 20, the finance ministry had limited elbow room to accommodate an economic booster of sorts in Budget 2020. The budget, though, has been directionally positive to the extent of the government's visible intent of simplifying taxation, as also, making tax administration and resolution business friendly. It also furthers the administration's sharp focus on doubling farm income, incentives for digitizing financial transactions, creating robust physical infrastructure, prioritizing new focus areas like artificial intelligence, while simultaneously sticking to the fiscal road-map & inflation control.

In the current era where critical policy decisions don't wait to be announced at the budget, including some very significant decisions like steep reduction of corporate tax just a few months back, expectations of path breaking announcements with respect to tax cuts were a little over-board. By leaving lower tax slabs for corporates, and making dividends taxable at the hand of the receiver, the government has clearly indicated its intent of leaving higher retained earnings with the corporates for reinvestment, efforts of which might get visible in the medium term.

Budget also reiterated government's intent to thrust ahead with the disinvestment agenda, and has budgeted ₹ 2 lakh crores from disinvestment in the current year, with time-bound deadlines for long pending names like Air India & BPCL, apart from putting SCI, CONCOR & IDBI Bank on the block too.

The biggest takeaway was the call out from the Finance Minister that 'wealth creators will be respected', which goes to allay accumulated fears of unfriendly tax regime, draconian enforcement agencies and Government's alleged 'big-brother' approach.

At the same time, a section of observers, including some of the dispension's vehement supporters, also view the budget as a missed opportunity. It's probably just common sense that in a year of promised disinvestments, the positive impact of capital market incentives like abolishing capital gain tax, rationalizing taxes on dividend etc. would have a much larger impact on target realizations than their contribution to revenue, which is subdued on account of the under-performing broader markets.

Further, root cause of the prevailing economic and liquidity crises can be traced to subdued credit growth and fractured financial institutions. Given limited fiscal headroom, but significant control over the financial system, consumer, corporate & real estate credit through a measured credit policy would have been potent weapon for pump-priming.

Capital markets & credit reforms would have probably been the weapons to unleash back the 'animal spirits' of the private participants, a booster dose which was eagerly anticipated by market participants. The attention now shall be on the post budget policy commentary and announcements, which as shown by empirical evidence, has been the preferred route for the current regime for making critical policy decisions.

Overall, the budget tried its best to manage the dichotomy of slowing growth coupled with low fiscal headroom, but under deliverered against the expectations of a potent booster dose. However, extra budgetary announcements are expected going ahead, addressing most of the niggling concerns which remain unmet.

Like every year we have created our budget analysis in the following pages from a macro and micro perspective. Hope you would find this booklet interesting and useful.

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BUDGET HIGHLIGHTS

Economy

- Fiscal deficit of 3.8% GDP in RE (Revised Estimate) FY 2019-20 and 3.5% BE (Budgeted Estimate) FY 2020-21
- Receipts for 2020-21 are pegged at ₹ 22.46 lakh crore while expenditure at ₹ 30.42 lakh crore
- The revised estimated expenditure for FY 2020-21 has been pegged at ₹ 26.99 lakh crore and receipts at ₹ 19.32 lakh crore
- Estimated growth of GDP for year 2020-21 at 10%

Budgetary Allocations

- ₹ 3,60,000 crores allocated to water sanitation and pipeline project and ₹ 12,300 crores allocated for Swachh Bharat
- ₹ 3,37,000 crores allocated to Defence
- ₹ 1,60,000 crores allocated to Agriculture and Irrigation
- ₹ 1,23,000 crores allocated for Rural Development and Panchayat Raj
- ₹ 99,300 crores allocated for Education Sector
- ₹ 69,000 crores allocated to Healthcare Sector
- ₹ 30,757 crores allocated for Union Territory of J & K and ₹5,958 crore for Union Territory of Ladakh
- ₹ 22,000 crores allocated to Power and Renewable Energy
- ₹ 18,600 crores allocated to Bengaluru Suburban Transport project
- ₹ 8,000 crores allocated over five years for Quantum Technology and its Applications
- ₹ 6,000 crores for Bharat Net programme; Fibre to Home connections under Bharat Net will be provided to 1 lakh gram panchayats this year itself
- ₹ 4,400 crore allocated for Clean Air

- ₹ 3,000 crores allocated for Skill Development
- ₹ 2,500 crores allocated for Tourism Promotion.

Direct Taxes

- New personal income tax regime announced which is optional wherein taxpayers need to forgo exemptions and deductions
- Proposes 5% tax rate for income between ₹ 2.5 lakh to ₹ 5 lakh, 10% tax rate for income between ₹ 5 lakh to ₹ 7.5 lakh; 15% tax rate for income between ₹ 7.5 lakh to ₹ 10 lakh; 20% tax rate for income between ₹ 10 lakh to ₹ 12.5 lakh; 25% for income between ₹ 12.5 lakh to ₹ 15 lakh; 30% for income above ₹ 15 lakh
- Proposes to abolish dividend distribution tax in the hands of companies and tax dividend in the hands of shareholders
- Extend concessional corporate tax rate of 15% to newly established companies engaged in the business of generation of electricity
- For Start-ups, defer ESOP taxation to 5 years or when the employee leaves job or on sale of shares; whichever is earlier as against present tax incidence as perquisite at the time of exercising of ESOP
- For start-ups, turnover limit prescribed for deduction u/s 80IAC increased from ₹ 25 crores to ₹ 100 crores and extended the period from 7 years to 10 years
- Option to co-operative societies for availing reduced tax rate of 22% plus surcharge and cess without exemptions/ deductions; also exemption given from Alternate Minimum Tax
- Turnover threshold for tax audit increased from ₹ 1 crore to ₹ 5 crore subject to certain conditions
- For claiming additional deduction of interest paid on affordable housing loans - loan sanction date extended to 31-Mar-2021
- For claiming profit linked deduction for affordable housing projects, period of approval by competent authority is extended by one year i.e. 31-Mar-2021

- Safe Harbor Limit between Sale Consideration and Stamp Duty Value is increased to 10% from earlier 5%
- Proposes waiver of interest and penalty provided the disputed tax amount is paid by 31-Mar-2020 under 'Vivad se Vishwas Scheme';
- Proposes to enable faceless appeals in line with faceless assessments;
- Due date of filing tax return for companies, assessees subjected to audit and partners of the firm whose accounts are required to be audited extended to 31-Oct of relevant year;
- New section 194-O introduced to levy 1% TDS on e-commerce transactions on sale of goods / services provided.

Indirect Taxes

- Incorporated provision for administering the preferential tariff treatment regime under Trade Agreements;
- A new section to empower the Central Government to apply safeguard measures;
- Health Cess is being imposed on the import of medical devices falling under headings 9018 to 9022;
- To protect the domestic market, rules are framed to strengthen the anti-circumvention measures by making them more comprehensive and wider in scope;
- Delinking the date of issuance of debit note from the date of issuance of underlying invoice for purpose of availing input tax credit;
- Jurisdictional authority empowered to provide additional time in case revocation of cancellation of registration;
- GST Laws and Provisions are being amended for facilitating trade, and improving compliance as per the decisions of the GST Council;
- Punishment introduced under GST Laws for fraudulent availment of input tax credit without invoice or bill by treating the same as cognizable and non-bailable.

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DIRECT TAX PROPOSALS

(Unless specified, proposals shall take effect from AY 2021-22)

RATES OF TAX / THRESHOLD LIMIT

a. Individual, HUF, AOP or BOI, Artificial Judicial Person

Normal Regime

- No change in tax slabs, basic tax rates. Surcharge @ 10% is applicable where income exceeds ₹ 50 Lakh, @ 15% where income exceeds ₹ 1 crore, @ 25% where income exceeds ₹ 2 crore (excluding income from sale of equity shares, unit of equity oriented fund or unit of business trust) and @ 37% where income exceeds ₹ 5 crores (excluding income from sale of equity shares, unit of equity oriented fund or unit of business trust). In any case, the surcharge on income from sale of equity shares, units of equity oriented mutual fund or unit of business trust shall not exceed 15%.
- No change in Health and Education Cess, which is @ 4%
- No change in Tax rebate for resident individual whose income does not exceed ₹ 5 lakh which is at ₹ 12,500
- Effective tax rate shall be as under:

Taxable Income Slab (₹)	Tax Rates (incl. surcharge & cess)		
	General	Senior Citizen	Very Senior Citizen
Up to 2,50,000	NIL	NIL	NIL
2,50,001 to 3,00,000	5.20%	NIL	NIL
3,00,001 to 5,00,000	5.20%	5.20%	NIL
5,00,001 to 10,00,000	20.80%	20.80%	20.80%
10,00,001 to 50,00,000	31.20%	31.20%	31.20%
50,00,001 to 1,00,00,000	34.32%	34.32%	34.32%
1,00,00,001 to 2,00,00,000	35.88%	35.88%	35.88%
2,00,00,001 to 5,00,00,000	39.00%	39.00%	39.00%
5,00,00,001 and above	42.75%	42.75%	42.75%

New Optional Regime

- A new section 115BAC has been proposed to be introduced wherein Individuals and HUF may, on satisfaction of certain conditions, opt to pay tax on total income at following rates

Taxable Income Slab (₹)	Rate of Tax
Up to 2,50,000	NIL
2,50,001 to 5,00,000	5.20%
5,00,001 to 7,50,000	10.40%
7,50,001 to 10,00,000	15.60%
10,00,001 to 12,50,000	20.80%
12,50,001 to 15,00,000	26.00%
15,00,001 to 50,00,000	31.20%
50,00,001 to 1,00,00,000	34.32%
1,00,00,001 to 2,00,00,000	35.88%
2,00,00,001 to 5,00,00,000	39.00%
Above 5,00,00,000	42.75%

- Following conditions are prescribed to avail the benefit u/s 115BAC:
  - o No exemption of leave travel concession, HRA, allowance u/s 10(14), income of minor child clubbed, profits of SEZ u/s 10AA
  - o No standard deduction of ₹50,000 u/s 16 for salary income
  - o No interest deduction u/s 24(b) for self-occupied house property. Also, loss under head of house property from rented house shall be carried forward and shall not be eligible to be set-off against any other head of income
  - o No claim for additional depreciation u/s 32(1)(iia)
  - o No deduction u/s 32AD, 33AD, 33ABA, 35AD, 35CCC, 35(1)(ii)/(iia)/(iii), 35(2AA), 57(iia), Chapter VI-A except u/s 80CCD(2) and 80JJAA

- o No set-off or carry forward of any loss or depreciation available if they are attributable to any deductions mentioned above

- The option shall be exercised in the return of income every year if there is no income from business. If there is income from business, the option once selected shall apply to subsequent years subject to other conditions.

- An example of comparison of existing and new optional regime is as below:

Particulars	Normal Regime				New Optional Regime
	Scenario 1	Scenario 2	Scenario 3	Scenario 4	
Salary/Business Income	15,00,000	15,00,000	15,00,000	15,00,000	15,00,000
HRA exemption u/s 10(13A)	(1,50,000)	–	–	–	–
Salary/Business Income (Net)	**13,50,000**	**15,00,000**	**15,00,000**	**15,00,000**	**15,00,000**
Interest on Housing Loan	–	(2,00,000)	–	–	–
Gross Total Income	**13,50,000**	**13,00,000**	**15,00,000**	**15,00,000**	**15,00,000**
Std. Deduction	(50,000)	(50,000)	(50,000)	–	–
Ded. u/s 80C	(1,50,000)	(1,50,000)	(1,50,000)	(1,50,000)	–
Ded. u/s 80D	(50,000)	(50,000)	(50,000)	(50,000)	–
Net Taxable Income	**11,00,000**	**10,50,000**	**12,50,000**	**13,00,000**	**15,00,000**
Tax Liability	**1,48,200**	**1,32,600**	**1,95,000**	**2,10,600**	**1,95,000**

b. Firm and LLP

- No change in basic tax rate of 30% and surcharge of 12% for income above ₹1 crore

- No change in Health and Education Cess, which is 4%

- Effective Tax rates shall be as under (subject to AMT)

Taxable Income	Tax Rates (Incl surcharge and cess)
Up to ₹1 Crore	31.20%
Above ₹1 Crore	34.94%

c. Companies:

Normal Regime

- No change in Tax rate of 25% for domestic companies, having total turnover or gross receipts not exceeding ₹ 400 crores in FY 2018-19
- For domestic companies, surcharge of 7% is applicable where income exceeds ₹ 1 crore and 12% where income exceeds ₹10 crores
- For foreign companies, surcharge of 2% is applicable where income exceeds ₹ 1 crore and 5% where income exceeds ₹10 crores
- No change in Health and Education Cess, which is 4%
- Effective tax rates shall be as under (Subject to MAT):

Particulars	Domestic Company	Foreign Company
Turnover/Gross Receipts up to ₹400 crores in FY 2018-19		
Taxable Income upto ₹1 crore	26.00%	41.60%
Taxable Income above ₹1 crore to ₹10 crores	27.82%	42.43%
Taxable Income above ₹10 crores	29.12%	43.68%
Turnover/Gross Receipts above ₹400 Crores in FY 2018-19		
Taxable Income upto ₹1 crore	31.20%	41.60%
Taxable Income above ₹1 crore to ₹10 crores	33.38%	42.43%
Taxable Income above ₹10 Crores	34.94%	43.68%

New Optional Regime (Applicable from AY 2020-21)

- New section 115BAA was inserted vide Taxation Laws Amendment Act, 2019 wherein domestic companies can opt to pay tax @22% subject to certain conditions with additional surcharge @10% and education cess @4%. Effective tax rate will be 25.17%. The provisions of MAT shall not be applicable and MAT credit to be foregone.
- Conditions stipulated are as under: -
  - No deduction u/s 10AA (SEZ units)
  - No additional depreciation @ 20% u/s 32(1)(iia)
  - No deduction u/s 32AD, 33AB, 33ABA, 35AD, 35CCC, 35CCD
  - No deduction for scientific research covered u/s 35 except the amount covered under clause(i) of sub section (1)
  - No deduction under chapter VIA except u/s 80JJAA & 80M
  - No set off or carry forward of loss / unabsorbed depreciation attributable to aforesaid deductions
  - No set off or carry forward of unabsorbed depreciation and losses under section 72A of the Act (relating to loss/depreciation on amalgamation) attributable to aforesaid deductions
  - Depreciation to be allowed in such manner as may be prescribed
  - The option shall become invalid for the year in which the violation of any of the condition takes place and also for the subsequent years. The other provisions of the Act will accordingly apply as if the option was never exercised. Brought forward losses / depreciation and MAT credit foregone will not be available again.
- Another section 115BAB was also inserted vide Taxation Laws Amendment Act, 2019 wherein new domestic companies incorporated on or after 01-Oct-2019 engaged in

manufacturing business can opt to pay tax @ 15% subject to certain conditions with additional surcharge @ 10% and education cess @ 4%. Effective tax rate is 17.16%. The provisions of MAT shall not be applicable.

- Conditions stipulated are as under: -
  - Company has been set up and registered on or after 1-Oct-2019 and commenced manufacturing or production of an article or thing on or before 31-Mar-2023
  - Company is not engaged in any business other than the business of manufacture or production of any article or thing and research in relation to or distribution of, such article or thing manufactured or produced by it.
  - Not incorporated by splitting or reconstruction of existing business.
  - Cannot use machinery previously used for any purpose in India but it can use old machinery the value of which does not exceed 20% of the total value of machinery used by the Company.
  - Does not use building previously used as hotel/ convention center for which deduction under section 80ID of the Act has been claimed and allowed.
  - The option shall become invalid for the year in which the violation of any of the condition takes place and for the subsequent years. The other provisions of the Act will accordingly apply as if the option was never exercised.
  - However, such company may exercise option to be governed under section 115BAA if it satisfies the conditions under the said section.
- It is now proposed to extend the benefit of section 115BAB to business of generation of electricity w.e.f. A.Y. 2020-21.
- Effective rates for companies under both the sections are as under:

Particulars	As per section 115BAA	As per section 115BAB
Effective Tax Rate (Including surcharge and cess)	25.17%	17.16%

d. Co-operative society

Normal Regime

- There is no change in the slab rates for tax. The same are as under

Taxable Income Slab	Effective Rates
Upto ₹ 10,000	10%
₹ 10,001 to ₹20,000	20%
Above ₹20,000	30%

- Surcharge @ 12% shall be levied in case of income exceeding ₹1 crore.

New Optional Regime

- A new section 115BAD has been proposed wherein the co-operative society shall have an option to pay the tax @ 22% plus surcharge @ 10% and cess @ 4% subject to fulfillment of certain conditions prescribed. The effective tax rate shall be 25.17%.

e. Dividend Distribution Tax (DDT)

- It is proposed to abolish DDT and correspondingly tax the dividend income in the hands of recipient at the applicable rates.

f. Minimum Alternative Tax (MAT) & Alternate Minimum Tax (AMT)

- No change in basic MAT @ 15% & AMT rate @ 18.5% and surcharge

- No change in Health and Education Cess, which is 4%

TDS PROVISIONS

a. TDS on fees for technical services (other than professional services) u/s 194J

- It is proposed to reduce the rate of TDS u/s 194J in case of fees for technical services (other than professional services) to 2% from existing 10%. TDS rate in other cases u/s 194J would remain same at 10%.

b. Co-operative Society to deduct TDS on interest other than interest on securities u/s 194A

- It is proposed to amend section 194A(3) and insert proviso to provide that a co-operative society shall be liable to deduct TDS if:-
    - o Total sales, gross receipts or turnover of co-operative society exceeds ₹ 50 crores during financial year immediately preceding the financial year in which interest is credited or paid; and
    - o Total amount of interest or aggregate of amount of interest credited or paid during financial year is more than ₹ 50,000 in case where payee is senior citizen and ₹40,000 in any other case.

c. Scope of definition of "Work" in section 194C widened

- It is proposed to widen the scope of definition of "work" in section 194C to include material purchased from the associate of a customer in a contract manufacturing arrangement. The definition of associate is same as per the provisions of section 40A(2)(b).

d. TDS on dividend / income from units

- TDS @ 10% applicable on payment of dividend / income from units to resident shareholder or unit holder with a threshold limit of Rs. 5,000
- TDS @ 20% applicable on payment of dividend income / income from units to non-resident, foreign companies & FII.

e. TDS on payment of certain sums by e-commerce operator to e-commerce participants -New Section 194-O

- It is proposed that TDS u/s 194-O @ 1% of the gross amount of sales / services be deducted by e-commerce operator (digital platform provider) at the time of payment/ credit; whichever is earlier to e-commerce participant (seller /service provider).

- It is further provided that any payment made by purchaser of goods or recipient of services directly to an e-commerce participant shall be deemed to be the amount credited or paid by e-commerce operator to e-commerce participant and TDS on gross amount shall be deducted on same.

- No TDS shall be deducted from any sum credited/paid to an e-commerce participant, being Individual or HUF, where gross amount of sales/services during previous year does not exceed ₹5 lakh and such e-commerce participant has furnished his PAN or Aadhaar Number to the e-commerce operator.

- In case no PAN is furnished, TDS shall be deducted at the rate of 5%.

f. Extension of period of concessional rate of TDS u/s 194LC

- It is proposed to extend the period of beneficial rate of withholding tax of 5% on the interest payments against borrowing made under a loan agreement, issue of long-term bonds including infrastructure bonds and issue of rupee denominated bonds from 01-Jul-2020 to 01-Jul-2023.

- It is also proposed to insert beneficial rate of withholding tax of 4% on the interest payable to a non-resident, in respect of monies borrowed in foreign currency from a source outside India, by way of issue of any long term bond or rupee denominated bond on or after the 1st day of April,2020 but before the 1st day of July, 2023, which is listed on a recognised stock exchange located in any International Financial Services Centre.

g. Widening the scope of section 206C (TCS)

It is proposed to amend section 206C to include the following:

- Authorised Dealer shall be liable to collect TCS @ 5%, if it receives an amount or aggregate of amounts of ₹ 7 lakh or more in a FY for remittance under LRS of RBI. In non-PAN/ Aadhaar cases, the rate shall be 10%.
- A seller of an overseas tour program package shall be liable to collect TCS @ 5%, who receives any amount from a person who purchases such package. In non-PAN/ Aadhaar cases, the rate shall be 10%.
- A seller of goods is liable to collect TCS @ 0.1% on consideration received from a buyer in a previous year in excess of ₹ 50 lakh. In non-PAN/ Aadhaar cases, the rate shall be 1%. Only those sellers whose total sales/gross receipts/turnover from the business carried on by it exceeds ₹ 10 crores during the immediately preceding FY, shall be liable to collect such TCS.
- No such TCS is to be collected, if the seller is liable to collect TCS under other provision of section 206C or the buyer is liable to deduct TDS under any provision of the Act and has deducted such amount.

SALARIES

a. Deferring TDS or tax payment in respect of income pertaining to Employee Stock Option Plan (ESOP) of start- ups (w.e.f. AY 2020-21)

- In order to ease the burden of payment of taxes by the employees of an eligible start-ups or TDS by the start-up employer, it is proposed to defer deduction or payment, as the case may be, of tax on ESOP income in the nature of perquisite - within 14 days:-

  (i) after the expiry of 48 months from the end of the relevant AY/ 5 years from end of FY in which options have been exercised; or

  (ii) from the date of the sale of such specified security or sweat equity share by the assessee; or

(iii) from the date of which the assessee ceases to be the employee of the person;

whichever is earlier on the basis of rates in force of the FY in which the said specified security or sweat equity share is allotted or transferred.

b. Rationalization of tax treatment of employer's contribution to recognized provident funds, superannuation funds and NPS

- It is proposed to provide that any contribution made by the employer to the account of an employee in a recognized provident fund; in NPS u/s 80CCD(1) and in approved superannuation fund shall be treated as perquisite, if aggregate contribution exceed ₹7.5 lakh in a previous year.
- It is also proposed that any annual accretion by way of interest, dividend or any other amount of similar nature during the previous year to the balance at the credit of the fund or scheme may be treated as perquisite to the extent it relates to the employer's contribution which is included in total income.

BUSINESS INCOME

a. Increase in safe harbor limit u/s 43CA, 50C & 56(2)(x) from 5% to 10%

- In case of transfer of immovable property being land or building, the safe harbor limit (being permissible variation between the stamp duty value and actual sale consideration) of 5% is proposed to be increased to 10%.

b. Amendment in section 35AD providing an option for not availing deduction

- Pursuant to introduction of concessional tax rate u/s 115BAA & 115BAB requiring a domestic company to forego deduction u/s 35AD, amendment is proposed in section 35AD to make the deduction of expenditure u/s 35AD optional and further, to provide clarity that if deduction u/s 35AD is not claimed for an expenditure due to opting of concessional tax rate, then there is no bar on claiming normal depreciation u/s 32.

CAPITAL GAINS

a. Rationalization of provisions of section 55 to compute cost of acquisition

- It is proposed to provide that the fair market value of the capital asset, being land or building, or both as on 01-Apr-2001 shall not exceed the stamp duty value of the asset on that date if available.

OTHER SOURCES

a. Abolishment of Dividend Distribution Tax and taxability in the hands of Shareholders

- In order to tax dividend in the hands of the shareholders / unit holders and to remove the burden from domestic or specified companies / mutual funds, it is proposed to abolish Dividend Distribution Tax (115-O) / Additional Income Tax on income from mutual fund units (115R).

- Consequently, such dividend / income from units would be taxable in the hands of shareholder or unit holder. Exemption u/s 10(34) & 10(35) is now not available to the taxpayers receiving such dividend income from shares & units.

- No deduction of any expense would be allowed against the dividend income or income from units except for the interest expense u/s 57 upto 20% of gross amount of dividend or income from units.

- Dividend income / Income from units will be taxable as per tax rate applicable to the assessee and current threshold limit of ₹ 10 lakh would no longer be available.

- Dividend will be taxable @ 20% to Non-Residents, Foreign Companies & FII.

DEDUCTIONS

a. Rationalization of Eligible Deductions for start-ups

- Eligible start-ups were eligible to claim deduction from eligible business to the extent of 100% of the profits & gains derived from such business. The assessee had option to avail the said benefit for a period of three years out of seven years from the date of incorporation post 01-Apr-2016. Also, in order to be eligible for claiming such benefit, the turnover of eligible startup had to be less than ₹ 25 crores.

- It is now proposed to further relax the said provisions by providing that the eligible start up can claim the exemption for its profits from eligible business for a period of 3 years out of 10 years in place of 7 years and threshold of turnover has been increased from ₹ 25 crores to ₹ 100 crores.

b. Deductions in respect of profits and gains from housing projects – Section 80-IBA

- Time limit for obtaining approval of affordable housing project extended by 1 year to 31-Mar-2021.

c. Deduction in respect of interest on loan taken for affordable housing – Section 80EEA

- Time limit for sanctioning of loan for affordable housing extended by 1 year to 31-Mar-2021.

d. Deduction u/s 80G & 80GGA - Filing of statement of donation by donee (w.e.f. 01-Jun-2020)

- Deduction u/s 80G/80GGA to a donor shall be allowed upon a statement being furnished by the donee in respect of donations received and on issue of a certificate to the donor. In the event of failure of such compliance, fee and penalty shall be levied.
- Similar to section 80G, cash donation u/s 80GGAA also restricted to ₹2000/-.

EXEMPTIONS / INCENTIVES

a. Rationalizing the process of registration/notification of trusts, institutions and funds (w.e.f. 01-Jun-2020)

- It is proposed to allow entities holding registration u/s 12A/12AA to get notified u/s 10(46). However, their registration u/s 12A/12AA shall become inoperative as only one mode of exemption is available, and that switching back is allowed only once.

- It is proposed that the approval or registration or notification for exemption should be for a limited period not exceeding 5 years at one time.

PROCEDURAL AMENDMENTS

a. Due Date for filing of Income Tax Return u/s 139(1) extended

- It is proposed to extend the due date for companies, persons whose accounts are audited or partner of the firm whose accounts are audited from 30-Sep to 31-Oct of the Assessment Year.
- No distinction between working and non-working partner of the firm. The due date for such partner would also be 31-Oct.

b. Increase in threshold limit for Tax Audit u/s 44AB

- For the purpose of tax audit u/s 44AB, it is proposed to increase the threshold limit of turnover of ₹ 1 crore to ₹ 5 crores for person carrying on business provided aggregate of all receipts / payments in cash does not exceed 5% of such receipt / payment for the year.
- No change in threshold limit of gross receipts of ₹ 50 lakh in case of persons carrying on profession.
- Further, it is proposed that the due date of filing of tax audit report would be 30-Sep i.e. 1 month prior to due date of filing of income tax return which is now proposed to be 31-Oct.
- Liability for TDS / TCS u/s 194A, 194C, 194H, 194I, 194J and 206C will continue to arise if the turnover is exceeding ₹ 1 crore for business and ₹ 50 Lakh for profession.

c. Due date for filing various reports under the Act

- It is proposed that the due date for filing of reports which are required to be filed along with income tax return like report u/s 10A (for SEZ units), 44AB (Tax audit), 80JJAA (deduction for employment), 115JB (MAT), etc. to be 30-September i.e. 1 month prior to due date of filing of income tax return.

d. Modification of e-assessment scheme

- It is proposed to include best judgement assessment in e-assessment scheme.
- It is proposed to extend the deadline for issuance of direction by the Central Government, for giving effect to e-assessment scheme from 31-Mar-2020 to 31-Mar-2022.

e. Amendment in provisions relating to Dispute Resolution Panel (DRP)

- It is proposed that draft assessment order shall be passed by the Assessing Officer, in case of eligible assessee, if there is any variation which is prejudicial to the interest of the assessee.
- It is proposed to extend the definition of eligible assessee by including non-resident, not being a company.

f. Faceless e-appeal and e-penalty

- It is proposed to notify e-appeal scheme for disposal of appeal filed before the CIT(A) and e-penalty scheme for imposing penalty, in line with the present e-assessment scheme.
- It is proposed that the direction to give effect to the said schemes shall be issued on or before 31-Mar-2022.

g. Stay before the ITAT

- It is proposed that stay may be granted by the ITAT for 180 days, if the assessee has deposited 20% of the sum payable or furnished security of equal amount.
- It is also proposed that further stay may be granted, upto a total period of 365 days, on application made by the assessee; if the delay in not disposing the appeal is not attributable to the assessee and 20% of the sum payable is deposited or security of equal amount is furnished.

h. Penalty for fake invoice

- It is proposed that where any false entry or omitted entry is found in the books of accounts, then penalty of a sum equal to the aggregate amount of such false or omitted entry may be imposed.

- It is proposed that equal amount of penalty may also be levied on the person, who causes the assessee to make a false or omitted entry.

i. Insertion of Tax Payer's Charter

- It is proposed to empower CBDT to adopt and declare a Tax Payer's Charter and administer it.

j. Annual Financial Statement - New Section 285BB (w.e.f. 01-Jun-2020)

- It is proposed to insert new section which mandates the prescribed income-tax authority or the person authorized by such authority to upload in the electronic filing account registered by the assessee an Annual Information Statement in such form and manner, within such time and along-with such information which he is in possession as may be prescribed.

- Consequently, provisions of section 203AA of Furnishing of statement of tax deducted (i.e. Form no. 26AS) is proposed to be deleted.

OTHER PROPOSALS

a. 'No Dispute but Trust' Scheme – 'Vivad Se Vishwas' scheme

- In order to reduce the large direct tax litigation cases pending in various appellate forums, it is proposed to bring a scheme similar to Sabka Vishwas scheme in Indirect taxes wherein on payment of disputed taxes before 31-Mar-2020, the taxpayer will get complete waiver from interest and penalty.

- Those who avail this scheme after 31-Mar-2020 will be required to pay additional amount as may be stipulated.

- This scheme will be rolled out soon and will remain open till 30-June-2020.

INTERNATIONAL TAXATION

a. Exempting non-resident from filing of Income-tax return deriving income from Royalty & FTS

- As per the provisions of section 115A(5), non-resident assesses including foreign companies are not required to file their return of income in India in case they have income from dividend or interest and such income is not attributable to the PE of the foreign entity in India.
- The benefit of this provision is proposed to be further extended in respect of income from Royalty or FTS earned by non-resident assesses including foreign companies and which is not attributable to the PE in India.

b. Modifications in Residency Test for Indian Citizens

- For the purpose of determining the residential status of an Individual or an HUF the number of days spent by the Individual during the relevant assessment year and number of days spent by him in the immediately four preceding assessment years is taken into consideration.
- However, a person of Indian origin or an Indian citizen who is visiting India has been given a benefit of staying 182 days instead of 60 days for the purpose of determining his residential status. Also, two other criteria are to be considered for determining as to whether the Individual or HUF can be considered as ordinary resident in India.
- It is proposed to amend the above as under in order to determine the residential status of the individual or HUF:
  - o the period of stay in India should not exceed 120 days from earlier 182 days;
  - o the individual or HUF should be non-resident in seven out of ten years
  - o the Individual or HUF is not liable to tax in any other country or territory;

c. Amendment for providing attribution of profit to PE in Safe Harbour Rules (SHR) u/s 92CB and in Advance Pricing Arrangement (APA) u/s 92CC (w.e.f. AY2020-21)

- It is proposed to amend section 92CB (SHR) and section

92CC (APA) of the Act to cover determination of attribution of income to PE within the scope of SHR and APA.

d. Deferring Significant Economic Presence (SEP) proposal, extending source rule, and rationalising the definition of royalty u/s 9

- It is proposed to defer the applicability of SEP to AY 2022-23 and accordingly current SEP provisions under Explanation 2A to section 9(1)(i) shall be omitted
- It is proposed to amend the source rule u/s 9(1)(i) and insert Explanation 3A whereby it is proposed that the income attributable to the operations carried out in India, as referred to in Explanation 1, shall include income from–
  - i. such advertisement which targets a customer who resides in India or a customer who accesses the advertisement through internet protocol address located in India;
  - ii. sale of data collected from a person who resides in India or from a person who uses internet protocol address located in India; and
  - iii. sale of goods or services using data collected from a person who resides in India or from a person who uses internet protocol address located in India
- It is proposed to amend the definition of royalty under Explanation 2 to section 9(1)(vi) so as not to exclude consideration for the sale, distribution or exhibition of cinematographic films from its meaning.

TRANSFER PRICING AMENDMENTS

a. Change in the due date of filing of Transfer Pricing Audit report

- It is proposed to amend the due date of furnishing of Transfer Pricing Audit Report to 31-Oct. i.e. one month prior to the due date for furnishing the return of income u/s 139(1).

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INDIRECT TAX PROPOSALS

Customs

a. Rate related changes

(Changes to come into effect immediately from 2-Feb-2020)

Sr	CTH	Description of Goods	Old	New
A.	**Footwear and related products**			
1	6401, 6402,6403, 6404,6405	Waterproof footwear and footwear with outer soles of rubber plastics leather or composition leather	20%	35%
2	6406	Parts of footwear	15%	20%
B.	**Publishing and Printing Industries**			
1	48	Newsprint uncoated paper, light weight used for printing of newspapers and magazines	Nil	10%
2	49011010 49019100 49019900	Printed books (including covers for printed books)	Nil	5%
C.	**Tableware, Kitchenware & other household articles**			
1	6911 10 11 6911 10 19 6911 10 21 6911 10 29 6911 90 20 6911 90 90 6912 00 10 6912 00 20 6912 00 40 6912 00 90	Tableware, kitchenware, other household articles of porcelain or china and ceramic materials	10%	20%
D.	**Glass and Glassware**			
1	7013	Glassware of a kind used for table, kitchen, toilet, office, indoor decoration	10%	20%
2	7018 10 20	Beads	10%	20%
E.	**Precious Metals**			
1	7118	Coin	10%	12.5%

Sr	CTH	Description of Goods	Old	New
F.	**Miscellaneous Articles of base metal**			
1	8301 10 00 8301 30 00 8301 40 10 8301 40 90	Padlocks, locks of a kind used for furniture and combination locks	10%	20%
G.	**Machinery & Mechanical Appliances; Electrical Equipment**			
1	84742010	Stone crushing (cone type) plants for construction of roads	-	7.5%
2	8414 51 10 8414 51 20 8414 51 30	Table fans, Ceiling fans, Pedestal fans	10%	20%
3	8414 51 40 8414 51 90 8414 59 10 8414 59 10 8414 59 90 8414 59 20	Railway carriage fans, Air circulator, Industrial fans and blowers, Blowers, portable	7.5%	10%
4	8414 80 11	Gas compressors: of a kind used in air-conditioning equipment	10%	12.5%
5	8418 10 10	Combined refrigerator-freezers, fitted with separate external doors	7.5%	15%
6	8421 39 20	Air purifiers or cleaners	7.5%	15%
H.	**Electrical Machinery & Equipment and Parts thereof;**			
1	8504 40 10	Electric inverter	15%	20%
2	8504 40 30	Battery charges	15%	20%
3	8509 40 10	Food grinders	10%	20%
4	8510 10 00	Shavers	10%	20%
5	8510 20 00	Hair clippers	10%	20%
6	8510 30 00	Hair-removing appliances	10%	20%
7	8515 11 00	Soldering irons and guns	7.5%	10%
8	8515 21 10 8515 21 20	Automatic spot and butt welding machinery	7.5%	10%
9	8515 39 20 8515 80 10 8515 80 90	Argon arc welding machinery and High-frequency plastic welding machine	7.5%	10%

Sr	CTH	Description of Goods	Old	New
10	8516 10 00 8516 21 00 8516 31 00 8516 33 00 8516 40 00 8516 71 00 8516 72 00 8516 79 10 8516 79 20	Electric instantaneous or storage water heaters and immersion heaters, storage heating radiators, hair dryers, coffee or tea maker, toasters and other electrical and electronic devices	10%	20%
I.	**Miscellaneous Manufactured Articles**			
1	9404	Mattress supports; articles of bedding and similar furnishing	20%	25%
2	9405	Lamps and lighting fittings including searchlights and spotlights and parts thereof	20%	25%
J.	**Toys, Games and Sports Requisites; Parts and Accessories thereof**			
1	9503	Tricycles, scooters, pedal cars and similar wheeled toys; dolls' carriages; dolls; other toys; reduced-size ("scale") models and similar recreational models, working or not; puzzles of all kinds	20%	60%
2	9603	Brooms, brushes, handoperated mechanical floor sweepers, not motorised, mops and feather dusters; prepared knots and tufts for broom or brush making;	10%	20%
3	9604	Hand sieves and hand riddles	10%	20%
4	9615	Combs, hair-slides and the like, hairpins, curling pins, curling grips, hair-curlers	10%	20%
5	9617	Vacuum flasks and other vacuum vessels, complete with cases; parts thereof other than glass inners	10%	20%

Sr	CTH	Description of Goods	Old	New
K.	**New entries added to the first schedule**			
1	8414 51 50	Wall fans	7.5%	20%
2	8529 90 30	Open cell for television set	10%	15%
3	8541 40 11	Solar cells, not assembled	-	15%
4	8541 40 12	Solar cells assembled in modules or made up into panels	-	20%
L.	**Levy of Health Cess**			
1	9018 9019 9020 9021 9022	Medical Equipment and instruments covered under Custom Tariff Heading 9018, 9019, 9020, 9021 & 9022 of the First schedule to The Custom Tariff Act, 1975	10%	15% (BCD 10%+ 5% Health cess)

b. Others

- **Power on importation or exportation of goods**

  Clause (f) of sub-section (2) in section 11 of The Customs Act, 1962 has been amended so as to include any other goods along with Gold or Silver to enable the Central Government to prohibit either absolutely or conditionally the import or export of such goods to prevent injury to the economy on account of uncontrolled import or export of such goods.

- **Recovery of [duties not levied or not paid or short levied or short paid] or erroneously refunded**

  Explanation 4 to the section 28 of The Customs Act, 1962 has been substituted with retrospective effect from 29-Mar-2018, being the date of commencement of the Finance Act, 2018 to provide that notwithstanding anything to the contrary contained in any judgment, decree or order of the Appellate Tribunal or any Court or in any other provisions of this Act or the rules or regulations made thereunder or in any other law for the time being in force, in cases where notice has been issued for non-levy, short-levy, non-payment, short-payment or erroneous refund prior to the 29-Mar-2018, being the date of commencement of the Finance Act, 2018, such notice shall continue to be governed by the provisions of section 28 as it stood immediately before such date.

- **Recovery of duties in certain cases**

  The amendment to section 28AAA of The Customs Act, 1962 seeks to expand the scope of the term "instrument" to include duty credit issued under section 51(b) so as to empower recovery of duties from a person against utilization of instruments issued under any law or under any scheme under central government in addition to Foreign Trade (Development and Regulation) Act, 1992

- **Inserted CHAPTER VAA – Administration of Rules of Origin Under Trade Agreement**

  A new section 28DA has been inserted in The Custom Act, 1962 to provide for administration of rules of origin under trade agreement and to lay down procedure regarding the claim of preferential rate of duty on goods imported under trade agreement entered into between Government of India and the Government of foreign country or Economic Union. The amended section empowers the Proper Officer,

  (i) To seek information in respect of certificate of origin,

  (ii) To verify whether the criteria has been met,

  (iii) If not cause further verification pending temporarily suspend the preferential tariff statement to such goods,

  (iv) During suspension, release the goods subject to furnishing by the importer a security amount equal to the difference between the duty provisionally assessed u/s 18 and the preferential duty claimed.

  (v) Informed the issuing authority of certificate of origin reasons for suspension of preferential tariff statement and seek specific information (within a period of 5 years from the date of claim by an importer) as may be necessary to determine the origin of goods within such time and in such manner as may be provided by the rules

(vi) On being satisfied with the information received from issuing authority or exporter or producer restore preferential tariff statement.

- **Confiscation of Goods and Conveyances and Imposition of Penalties**

  Clause (q) has been inserted after clause (p) to section 111 of The Customs Act, 1962 to empower the Proper Officer to confiscate any goods imported on a claim of preferential rates of duty which contravenes any provision of Chapter VAA or any rules made thereunder.

- **General Powers to Make Rules**

  Clause(i) has been inserted in sub-section(2) of section 156 of The Customs Act, 1962 so as to empower the Central Government to make rules providing for the form, time limit, manner, circumstances, conditions, restrictions and such other matters for carrying out the provisions of Chapter VAA.

- **Heading of Chapter VII A to The Custom Act, 1962 is amended.**

  The amended heading after insertion is as under:

  "PAYMENTS THROUGH ELECTRONIC CASH LEDGER AND ELECTRONIC DUTY CREDIT LEDGER"

- **General Powers to Make Regulations**

  Clause(ja) is inserted in sub-section (2) of section 157 of The Customs Act, 1962 so as to empower the board to make regulations for the manner of maintaining electronic duty ledger, making of payment from that ledger, transfer of duty credit from ledger of one person to another and the conditions, restrictions and the same time limit relating thereto.

- **New section 51B inserted**

  A new section 51B inserted in The Customs Act, 1962, which provides for creation of an electronic duty ledger in the customs automated system and manner of utilization. The duty credit available in the duty credit ledger may be used by the person to whom it is issued or the person to whom it is transferred, towards making payments of duties payable under The Custom Tariff Act, 1975.

CUSTOMS TARIFF ACT, 1975

- **Power of Central Government to Impose Safeguard Duty**

  Section 8B of The Customs Tariff Act, 1975 is substituted so as to empower the Central Government to apply safeguard measures including tariff-rate quota to curb increased quantity of imports of an article to prevent serious injury to domestic industry.

Social Welfare Surcharge (SWS)

- Social welfare surcharge being exempted on some specified products. To give effect notification No. 11/2018-custom amended.
- All commercial vehicles including electric vehicles if imported all completely built unit (CBU) falling under chapter 8702 or 8704 will be exempt from levy of SWS with effect from 1-Apr-2020.
- On certain items benefits of exemption from levy of SWS has been withdrawn by amendment or omission in the relevant entries in notification no. 11/2018-custom.

Goods and Services Tax (GST)

(To be effective by way of issuance of notification by Government)

- Alignment of definition "Union territory" considering:
  - o Jammu and Kashmir Re-organisation Act, 2019 whereby Jammu and Kashmir is considered as Union Territory instead of state and Ladakh is considered as a union territory separate from Jammu and Kashmir; and
  - o Dadra and Nagar Haveli and Daman and Diu (Merger of Union Territories), Act, 2019 whereby Union Territory "Dadra and Nagar Haveli and Daman and Diu" was created by merger of existing Union Territories;
- Harmonize the conditions for eligibility for options to apply under Composition Scheme;
- Delinking the date of issuance of debit note from the date of issuance of underlying invoice for purpose of availing input tax credit;

- Provides for cancellation of registration obtained voluntarily;
- Empowers jurisdictional tax authorities, to extend period, of 30 days allowed to file an application for revocation of cancellation of registration, for reasons to be recorded in writing,
    - o by another 30 days to be granted by Additional or Joint Commissioner; and
    - o further extension of another 30 days period to be granted by Commissioner.
- Empowers Government to notify categories of services or supplies in respect of which tax invoice shall be issued and to make rules regarding time and manner of its issuance;
- Empowers Government to make rules to provide for forms and manner in which a certificate of tax deduction at source shall be issued;
- Penalty proposed to be levied on the beneficiary of certain transactions at whose instance such transactions are conducted such as supply of goods or services without invoice, or issue of invoice without supply of goods or services, avails or utilize input tax credit without receipt of goods or services, or input service distributor contravenes provision to take and distribute input tax credit;
- Making the offence of fraudulent availment of input tax credit without invoice or bill cognizable and non-bailable and to make any person who retains the benefit of certain transactions and at whose instance such transactions are conducted liable for punishment;
- Amendment relating to transitional arrangements for input tax credit, so as to prescribe time limit and manner for availing input tax credit against certain unavailed credit under the existing law (to be effective retrospectively from 1-Jul-2017);
- Seeks to extend time limit provided for removal of difficulties thereunder from three years to five years, with effect from the date of commencement of the said Act;

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KEY POLICY CHANGES IN 2019-20

FEMA / RBI

- The Government of India has issued Non Debt Instrument Rules (NDI Rules) under FEMA, which supersedes the extant FEMA 20R and 21R. In this regard, RBI issued Foreign Exchange Management (Mode of Payment and Reporting of Non-Debt Instruments) Regulations, 2019 which provides for the manner of payment & remittance of sale proceeds and reporting thereof to be made in India.

  [Notification No. FEMA. 395/2019-RB dated 17-Oct-2019]

- With the objective to enhance the security-level in data submission and further improve data quality, the email-based reporting system for submission of the FLA return has been replaced by the web-based system online reporting portal i.e. Foreign Liabilities and Assets Information Reporting (FLAIR) system.

  [A.P. (DIR Series) Circular No. 37 dated 28-Jun-2019]

- RBI has rationalized the end-use provisions prescribed under External Commercial Borrowings (ECB) Policy. Eligible borrowers are now permitted to raise ECBs for the following purposes from recognised lenders, except foreign branches / overseas subsidiaries of Indian banks:

  ✓ ECBs with a Minimum Average Maturity Period (MAMP) of 10 years for working capital purposes and general corporate purposes. Borrowing by NBFCs for the above maturity for on-lending for the above purposes is also permitted.

  ✓ ECBs with a MAMP of 7 years can be availed by eligible borrowers for repayment of Rupee loans availed domestically for capital expenditure as also by NBFCs for on-lending for the same purpose. For repayment of Rupee loans availed domestically for purposes other than capital expenditure and for on-lending by NBFCs for the same, the MAMP of the ECB is required to be 10 years.

[RBI/2019-20/20 A.P. (DIR Series) Circular No. 04 dated 30-Jul-2019]

- As per Master Direction - Deposits and Accounts, as amended from time to time, any person resident outside India, having a business interest in India, can open a Special Non-Resident Rupee Account (SNRR account) with an authorised dealer for the purpose of putting through bona fide transactions in rupees. With a view to promote usage of INR products by persons resident outside India, it has been decided by the RBI, to expand the scope of SNRR account by permitting person resident outside India to open such account for:

  ✓ ECB in INR;

  ✓ Trade Credits in INR;

  ✓ Trade (Export/ Import) Invoicing in INR; and

  [RBI/2019-20/102 A.P. (DIR Series) Circular No. 09 dated 22-Nov-2019].

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CAPITAL MARKET

The year 2019-20 has witnessed a significant increase in resource mobilisation through capital market instruments such as initial public offers, rights issue and public issue (debt), according to the Economic Survey.

The total money raised by public and rights issue increased to ₹ 73,896 crore in the year 2019-20 (up to 31-Dec-2019) from ₹ 44,355 crore in the corresponding period last year.

The resource mobilisation through public issue (equity) decreased in April-December 2019 compared to the similar period for previous year, continuing with the declining trend of last year. During April-December 2019, 47 companies mobilized ₹ 10,895 crore through public equity issuance compared to 103 companies raising ₹ 13,947 crore in April-December 2018, indicating a decrease of 21.9% over the period.

On the other hand, resource mobilization through rights issues (equity) during April-December 2019 increased sharply with resource mobilization of ₹ 51,255 crore, as compared to ₹ 1,843 crore in the corresponding period of last year.

Resource mobilization through issuance of debt securities to public declined significantly to ₹ 11,746 crore raised through 27 issues during April-December 2019, as compared to ₹ 28,565 crore through 15 issues in the corresponding period of the previous year.

Issue Type	No of Issues	₹ in Crores
Public Issue (Equity)	47	10,895
Right Issue (Equity)	11	51,255
Public Issue (Debt)	27	11,746
Total	**85**	**73,896**

During 2019-20 (up to 31-Dec-2019), Indian corporates preferred private placement route to gear up the capital in the corresponding period in previous year. ₹ 6.29 lakh crore was raised through 1,520 issues in April-December 2019 through private placements, as compared to ₹ 5.3 lakh crore through 2,006 issues in the corresponding period of previous year.

There were 225 issues which raised ₹ 1.79 lakh crore through private placement of equity securities in April-December 2019, compared to 335 issues which raised ₹ 1.57 lakh crore in April-December 2018. Out of the 225 issues, there were 9 qualified institutional placement (QIP) allotments and 216 preferential allotments which raised ₹ 34,029 crore and ₹ 1.45 lakh crore, respectively, during April-December 2019, as compared to 11 QIPs allotments and 324 preferential allotments which raised ₹6,958 crore and ₹1.50 lakh crore, respectively, in April-December 2018.

Further, the resource mobilization through private placement of corporate bonds stood at ₹ 4.50 lakh crore during April December 2019, as compared to ₹ 3.73 lakh crore during April-December 2018.

There was a net inflow of ₹ 1.9 lakh crore into the mutual funds industry during April-December 2019 as compared to a net inflow of ₹ 0.8 lakh crore for the corresponding period in last year. The net Assets Under Management (AUM) of all mutual funds increased by 18.4% to ₹ 26.3 lakh crore as at 31-Dec-2019 from ₹ 22.2 lakh crore as at 31-Dec-2018.

There were net inflows to the tune of ₹ 0.81 lakh crore on account of the FPIs in the Indian capital market during April-December 2019, as compared to net outflows of ₹ 0.94 lakh crore during April-December 2018. The total cumulative investment by FPIs (at the acquisition cost) increased by 7.8% to US$ 259.5 billion as on 31-Dec-2019 from US$ 240.1 billion as on 31-Dec-2018.

India's benchmark indices, namely, Nifty50 and S&P BSE Sensex, reached record highs during 2019-20 (upto 16-Jan-2020). The S&P BSE Sensex, the benchmark index of Bombay Stock Exchange (BSE), reached an all-time high closing of 41,952 on 14-Jan-2020, witnessing an increase of 7.9% from 38,871 level on 1-Apr-2019. Nifty 50 index reached an all time high closing at 12,355 on 16-Jan-2020.

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ECONOMIC OUTLOOK

OVERVIEW

Global headwinds and challenges in the domestic financial sector moderated the growth of Indian economy in 2019-20. The real GDP growth moderated to 5% in 2019-20 as compared to 6.8% in 2018-19. Despite a temporary moderation in the GDP growth in 2019-20, the fundamentals of Indian economy remain strong and GDP growth is expected to rebound from the first quarter of 2020-21. Fiscal situation remained close to the consolidation path and consumer price inflation was within the targeted limits set by the monetary policy committee of Reserve Bank of India (RBI). Despite continuing sluggishness in global demand the Current Account Deficit (CAD) narrowed to 1.5% of GDP in first half (H1) of 2019-20 from 2.1% in 2018-19. Global confidence in the Indian economy improved as reflected in growing inflows of net Foreign Direct Investment (FDI) and an all-time high accumulation of foreign exchange reserves of US$457.5 billion as on end of December, 2019. India moving up by 14 positions to 63rd rank in 2019 World Bank's Ease of Doing Business 2020 Report, has among others, contributed to the increase in global confidence in Indian economy.

India has emerged as an important player in the world on the back of high GDP growth and announcement / implementation of critical measures in the current year and last few years.

The measures announced/implemented in 2019-20 include- hike in minimum support price of agricultural crops for 2019-20; reduction in corporate tax rate; policy initiatives for development of textiles & handicrafts and electric vehicles; outreach programme for growth, expansion and facilitation of micro, small and medium enterprises; incentives for start-ups in India; scheme to provide a one-time partial credit guarantee to public sector banks (PSBs) for purchase of pooled assets of financially sound non-banking financial companies (NBFCs); recapitalization of public sector banks; relaxation of external commercial borrowing guidelines for affordable housing; realty fund worth ₹ 25,000 crore for stalled housing projects; additional tax deduction of interest for affordable housing; merger of 10 public sector banks into four entities; revised Priority Sector Lending (PSL) norms for exports; and streamlining of many labour laws at the central government level. Apart from this, various steps were taken to boost manufacturing; employment generation; financial inclusion; digital payments; improving ease of doing business via schemes such as Make in India, Skill India and Direct Benefit Transfer. Government has also announced the National Infrastructure Pipeline (NIP) of projects worth ₹ 103 lakh crore, which will commence in phases from 2020-21 to 2024-25.

GDP Growth

As per the first advance estimates of annual national income, the real GDP growth is estimated at 5% in 2019-20, as compared to the provisional estimates of 6.8% in 2018-19. Correspondingly, the real growth of gross value added (GVA) is estimated at 4.9% in 2019-20 as compared to 6.6% in 2018-19. This moderation in GVA growth in 2019-20 (AE) as compared to 2018-19 is attributed to all sectors on the supply side save public administration, defence and other services. From the demand side private final consumption expenditure, public final consumption expenditure and net exports have driven the growth of GDP in 2019-20 as compared to 2018-19. Gross fixed capital formation on the other hand has slowed the growth of GDP.

Fiscal Developments

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

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

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

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

Prices

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

Inflation measured in terms of Wholesale Price Index (WPI) stood at 4.3% in 2018-19 as compared to 3% in 2017-18 and 1.7% in 2016-17. It averaged 1.5% in 2019-20 (April to December) and stood at 2.6% in December 2019. Government has taken various measures from time to time to stabilize prices of essential food items through, inter-alia, trade and fiscal policy instruments like import duty, minimum export price, export restrictions, imposition of stock limits besides advising states for effective action against hoarders & black marketeers to regulate domestic availability and moderate prices. For increasing productivity and production in key segments of agriculture towards moderating prices, Government has been incentivizing farmers by announcing minimum support prices and implementing schemes such as

Mission for Integrated Development of Horticulture (MIDH) and National Mission on Oilseeds and Oil Palm (NMOOP), among others. Government is also implementing Price Stabilization Fund (PSF) to help moderate the volatility in prices of agri-horticultural commodities like pulses, onion and potato.

Monetary Management and Financial Intermediation

Monetary policy remained accommodative during 2019-20. Five meetings of the Monetary Policy Committee (MPC) have been held so far in financial year 2019-20. In the first four meetings the MPC decided to cut the policy repo rate. The repo rate was reduced by 110 basis points (bps) from 6.25% in April 2019 to 5.15% in October 2019. In its fifth bi-monthly monetary policy statement in December 2019, the MPC decided to keep the repo rate unchanged at 5.15%.

The growth of reserve money as on 27-Dec-2019 was 10.2% over 17% on 27-Dec-2018. The expansion in reserve money was led by Currency in Circulation (CIC). Broad money (M3) growth has been on declining trend since 2009. However, since 2018-19 growth of M3 has picked up and was marginally higher, mainly driven by the growth in aggregate deposits. The growth of M3 was 10.4% as on 20-Dec-2019 over 10.2% on 20-Dec-2018. The expansion in M3 so far during the year is attributable to aggregate deposits, which recorded a growth of 10.1% as on 20-Dec-2019 over 9.2% in 20-Dec-2018.

Foreign Exchange Reserves

Merchandise exports (customs basis) during 2019-20 (April-December), were US$ 239.3 billion, which declined by 2.0% over the level of US$ 244.1 billion in the corresponding period of the previous year.

During 2019-20 (April-December), merchandise imports were US$ 357.4 billion, registering a decline of 8.9% over the level of US$ 392.3 billion in corresponding period of the previous year. Oil imports declined from US$ 108.5 billion in 2018-19 (April-December) to US$ 95.7 billion in 2019-20 (April-December). Merchandise trade deficit improved from US$ 148.2 billion in 2018-19 (April-December) to US$ 118.1 billion in 2019-20 (April-December).

Following a rise in vulnerabilities in 2018-19, India's external sector has regained some stability in the first half of 2019-20, with improvement in Balance of Payments (BoP) position anchored in narrowing of current account deficit from 2.1% in 2018-19 to 1.5% in H1 of 2019-20, growing inflows of foreign direct investment (FDI), rebounding of portfolio flows from net outflow to net inflow and receipt of robust remittances, all showing up in higher accretion of foreign exchange reserves, which as on end December, 2019 stood at US$ 457.5 billion.

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

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

SECTORAL DEVELOPMENTS

Banking Sector

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

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

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

Agriculture

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

India continues to be the largest producer of milk in the world. The milk production in the country was 187.7 million tonnes in 2018-19 growing 6.5% over the previous year. The egg production in the country also increased from 95217 million in 2017-18 to 103318 million in 2018-19. Fish production in India has registered an average annual growth rate of more than 7% in the recent years. Total fish production in the country stood at 13.4 million metric tonnes during 2018-19. Of this, the marine fisheries contributed 3.7 million metric tonnes and the inland fisheries 9.7 million metric tonnes. Under agriculture credit a sum of ₹ 9.08 lakhs crore has been disbursed in 2019-20 as on 30-Nov-2019.

Industry

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

The eight core infrastructure supportive industries, viz. coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity that have a total weight of nearly 40% in the Index of Industrial Production (IIP) remained stagnant during April-November 2019 as compared to a growth of 4.4% in 2018-19. The production of fertilizers, steel and electricity increased by 4%, 5.2%, 0.7% respectively during April-November 2019 while the production of coal, crude oil, natural gas, refinery products and cement contracted by 5.3%, 5.9%, 3.1%, 1.1% and 0.02% respectively during the same period.

Prospects

The growth of the economy appears to have bottomed out and is expected to pick up in 2020-21. The prospects for Indian economy for the year 2020-21 need to be assessed in the light of emerging global and domestic challenges and opportunities. Major challenges for the economy arising from the external front are geo-political tensions in Middle East and rising crude oil prices due to supply disruption which may decelerate growth and increase inflation. Challenges in the domestic front are revival of investments and savings. The positive prospects for the economy are continuation of structural reforms that will revive growth and expected normalization of credit flow as investment picks up induced by a cut in the corporate tax rate and anticipated transmission of repo rate cuts earlier implemented by the Monetary Policy Committee. Global economic growth is expected to pick up in 2020 which could also support India's growth. In view of a positive outlook on economic rebound the nominal growth of the economy is expected to be 10% in the financial year 2020-21.

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SECTORAL ANALYSIS

Financial Services Sector — Positive

Budget Proposal

- The FM proposed enhancement of credit guarantee scheme for NBFCs and amendment in Factoring Regulation Act to cover NBFCs
- FPI limit in corporate bonds to be raised to 15% from 9%
- The Banking Regulation Act to be amended to strengthen co-operative banks
- Bank deposit insurance cover hiked to ₹ 5 lakh from ₹ 1 lakh
- Governance reforms to be carried out in PSU banks. Also, they are encouraged to approach the capital market for fund raising
- It is proposed to divest LIC via IPO and to sell the government stake in IDBI Bank to private investors

Impact

- These credit guarantee schemes will enhance the liquidity avenues for NBFCs.
- The increase in FPI limit will lead to an increase in foreign investment in the corporate bond market for easier credit access.
- The enhanced bank deposit insurance cover will help secure the interest of all bank account holders and improve trust and confidence amongst them
- The reforms will lead to better accountability which would drive performance and efficiency
- The divestments, made in line with the Government's ₹ 2 lakh crore target for FY 2021 will lead to reduced government intervention

Infrastructure and Real Estate — Positive

Budget Proposal

- 100% exemption to Foreign Sovereign Wealth Funds in the Infrastructure sector, for investment made till 31-Mar-2024 with a lock-in of 3 years
- Plan project preparation facility for infrastructure pipeline amounting to ₹ 103 lakh crore
- Plan five new smart cities via PPP mode
- Proposal of ₹ 1.7 trillion for transport infrastructure by FY 2021
- Proposal to develop 100 more airports by 2024 to support UDAAN scheme
- Discussion on planning more Tejas-type trains to connect tourist destinations
- Proposal to actively pursue Mumbai-Ahmedabad high-speed train
- Aim to achieve 27,000 km electrification for railway tracks
- To monetize over 12 lots of highway bundles of 6000 km before FY 2024
- Delhi-Mumbai expressway to be completed by FY 2023

Impact

- This 100% exemption given to sovereign wealth funds will help the infrastructure companies to garner foreign funds at more economic cost
- The new smart cities and airports will increase last mile connectivity, drive job creation and attract foreign investments
- The Bengaluru suburban rail network should reduce travelling time and enhance urban mobility
- Introduction of electrification for railway tracks is aimed to reduce India's dependency on fossil fuels and lead to a cleaner and greener society
- Monetization of highway bundles will lead to revenue generation for the government & higher trade gateways

Agriculture

Positive

Budget Proposal

- Total allocation towards agriculture sector – ₹ 2.83 lakh crore, out of which ₹ 1.23 lakh crore is allocated towards rural development and ₹ 1.6 lakh crore towards agriculture
- Government stated commitment to doubling farmers' income by 2022
- Expansion of KUSUM scheme to 2 million farmers for solar powered pumps
- Railways to form Kisan Rail for perishable cold supply chain through PPP model
- Aim to raise fish output to 20 million tonnes by FY 2023 and double milk processing capacity to 108 million tonnes by FY 2025
- Agriculture credit target for FY 2021 set at ₹ 15 trillion
- Under the PM Fasal Bima Yojana 6.11 crore farmers have been insured

Impact

- Increase in farmer's income will directly result in an uptick in rural consumption
- Expansion of KUSUM scheme will provide the double benefit of better access to water, at a lower energy cost
- Kisan Rail will lead to a larger distribution network for perishable products
- Agriculture credit should make capital investments accessible and thereby increase crop yield
- Fasal Bima Yojana protects farmers in case of unfavorable weather conditions

Capital Goods Positive

Budget Proposal

- A major part of government borrowing to be used for capital expenditure
- Scheme announced to focus on encouraging manufacture of mobile phones, electronic equipment and semi-conductor packaging
- Launched a National Technical Textile Mission with a proposed outlay of ₹ 1,480 crore for 2020-21 to increase technical textile exports
- Setup of solar power capacity near tracks on land owned by Railways

Impact

- India's demographics and the rapid surge in use of technology should lead to loads of job opportunities in this sector
- Setting up solar power capacity near tracks should lead to monetization of rail assets and should reduce carbon footprints

Energy – Power, Oil and Gas Neutral

Budget Proposal

- Expanding national gas grid to reach 27,000 km from 16,200 km
- Initiate more reforms for transparent price discovery in gas
- To take more steps to reform power distribution companies
- Shut down of thermal power units, if emission is above permissible limit
- New power companies will attract 15% corporate tax
- Abolished anti-dumping duty on PTA

Impact

- Increased connectivity of gas grids will make by-products cheaper and accessible to more parts of India
- Price discovery process should lead to lower prices
- Reforms would provide better realization of the dues which have been long outstanding, hence improving the situation in the power industry
- Emission Norms will provide stronger control and better efficiency
- Lower tax rate will provide attractive investment opportunity in this sector

Automobile — Neutral

Budget Proposal

- Purchase of farm produce and logistics will need copious investment
- National Logistics Policy (NLP) will be introduced. Focus would be laid on e-Logistics, which will have a single window. This would help in increasing employment for MSME
- Customs duty increased for electric vehicles between 5-15% on completely built units, semi knocked down kits and completely knocked down kits.

Impact

- The increase in disposable income should directly have an impact on the 2 wheeler and entry level passenger cars
- The proposed capital investments in agriculture will lead to increase in purchase of farm equipment

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This document summarizes the proposals of the Union Budget 2020 and the recent key policy announcements
Expert guidance may be sought before acting upon the proposals

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