

UNION BUDGET 2020-21



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Broad Themes of Budget: **GOAL: Revival of Economy**



Key Budget Themes:

Sr. No.	Theme	Steps
(1)	Aspirational India	<p>Agriculture, Irrigation & Rural Development</p> <ol style="list-style-type: none">1. Doubling farmer's income by 2022 by various schemes like Paramparagat Krishi Vikas Yojana, Fasal Bima Yojana and Krishi Sinchai Yojana.2. Agriculture credit target for the year 2020-21 has been set at Rs. 15 lakh crore. All eligible beneficiaries of PM-KISAN will be covered under the KCC scheme. NABARD refinance will be further expanded.3. Facilitate doubling of milk processing capacity from 53.5 million MT to 108 million MT by 2025



Key Budget Themes:

Sr. No.	Theme	Steps
(1)	Aspirational India	Education, Skills & Employment <ol style="list-style-type: none">1. To improve employability, about 150 higher educational institutions will start apprenticeship embedded degree/diploma courses by March 2021.2. Announcement of a scheme to attach a medical college to an existing district hospital in PPP mode.3. Allocation to Education Sector increased from Rs. 94,617 Crores in FY 2019-20 to Rs. 99,300 Crores FY 2020-21.



Key Budget Themes:

Sr. No.	Theme	Steps
(2)	Economic Development for all	Industry Commerce & Investment <ol style="list-style-type: none">1. Announcement of 5 new smart cities in collaboration with states in PPP mode.2. National Technical Textiles Mission is proposed with a four-year implementation period from 2020-21 to 2023-24 at an estimated outlay of Rs. 1480 crore to reduce import of technical textiles.3. Unified Procurement System in the country by setting up of Government e-Marketplace (GeM) for procurement of goods, services and works. It is proposed to take its turnover to Rs. 3 lakh crores.



Key Budget Themes:

Sr. No.	Theme	Steps
(2)	Economic Development for all	Infrastructure <ol style="list-style-type: none">1. National Infrastructure Pipeline for a project cost of 103 Lakh Crores.2. Delhi-Mumbai Expressway and two other packages would be completed by 2023 . Chennai-Bengaluru Expressway would also be started.3. Monetization of at least twelve lots of highway bundles of over 6000 Km before 2024.4. Electrification of 27000 Kms of railway line.5. Fiber to the Home (FTTH) connections through Bharatnet will link 100,000 gram panchayats this year.



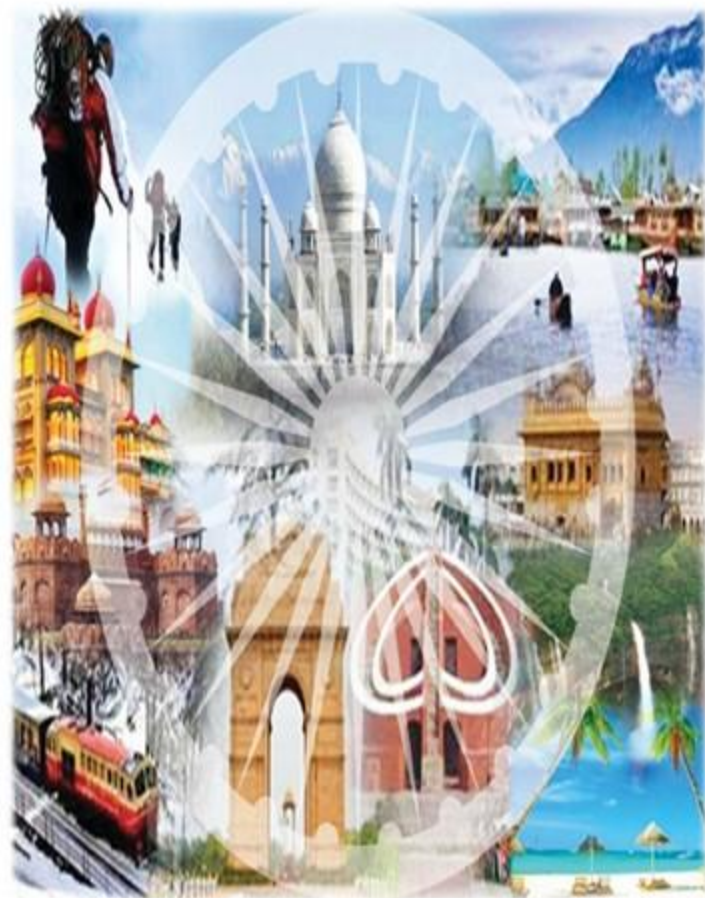
Key Budget Themes:

Sr. No.	Theme	Steps
(3)	Caring Society	Women & Child, Social Welfare <ol style="list-style-type: none">1. This budget provides for allocation of Rs. 28,600 crore to women specific programmes.2. Suitable technology is identified to ensure no manual cleaning of sewer systems or septic tanks. This shall be taken to logical conclusions through legislative and institutional changes



Key Budget Themes:

Sr. No.	Theme	Steps
(3)	Caring Society	Culture & Tourism <ol style="list-style-type: none">1. Establishment of Indian Institute of Heritage and Conservation under Ministry of Culture as a deemed university.2. Five archaeological sites would be developed as iconic sites with on-site Museums.



Budget Profile:

Apart from the broad themes of the budget as highlighted by the Finance Minister in her budget speech, following are the key takeaways on different fronts that demand our attention:-

1. Governance

- Announcement of introduction of "Taxpayer Charter" for improving efficiency of tax administration and addressing the tax terrorism issue.
- Setting up of a National Recruitment Agency (NRA) as an independent, professional, specialist organization for conduct of a computer-based online Common Eligibility Test for recruitment to Non-Gazetted posts.



Budget Profile:

2. Financial Sector

- Public sector banks will be encouraged to approach capital markets to raise additional capital.
- **Deposit Insurance and Credit Guarantee Corporation (DICGC) has been permitted to increase Deposit Insurance Coverage for a depositor, which is now Rs. One lakh to Rs. Five lakh per depositor.**
- Limit of NBFC to be eligible to approach for debt recovery under SARFESI Act 2002 reduced from asset size of Rs. 500 crore to asset size of Rs. 100 crore or loan size from existing Rs. 1 crore to Rs. 50 lakh.
- The limit for Foreign Portfolio Investor (FPI) in corporate bonds, currently at 9% of outstanding stock, will be increased to 15% of the outstanding stock of corporate bonds.
- Formulation of legislation for netting of Financial Contracts will be introduced.

Budget Profile:

2. Financial Sector

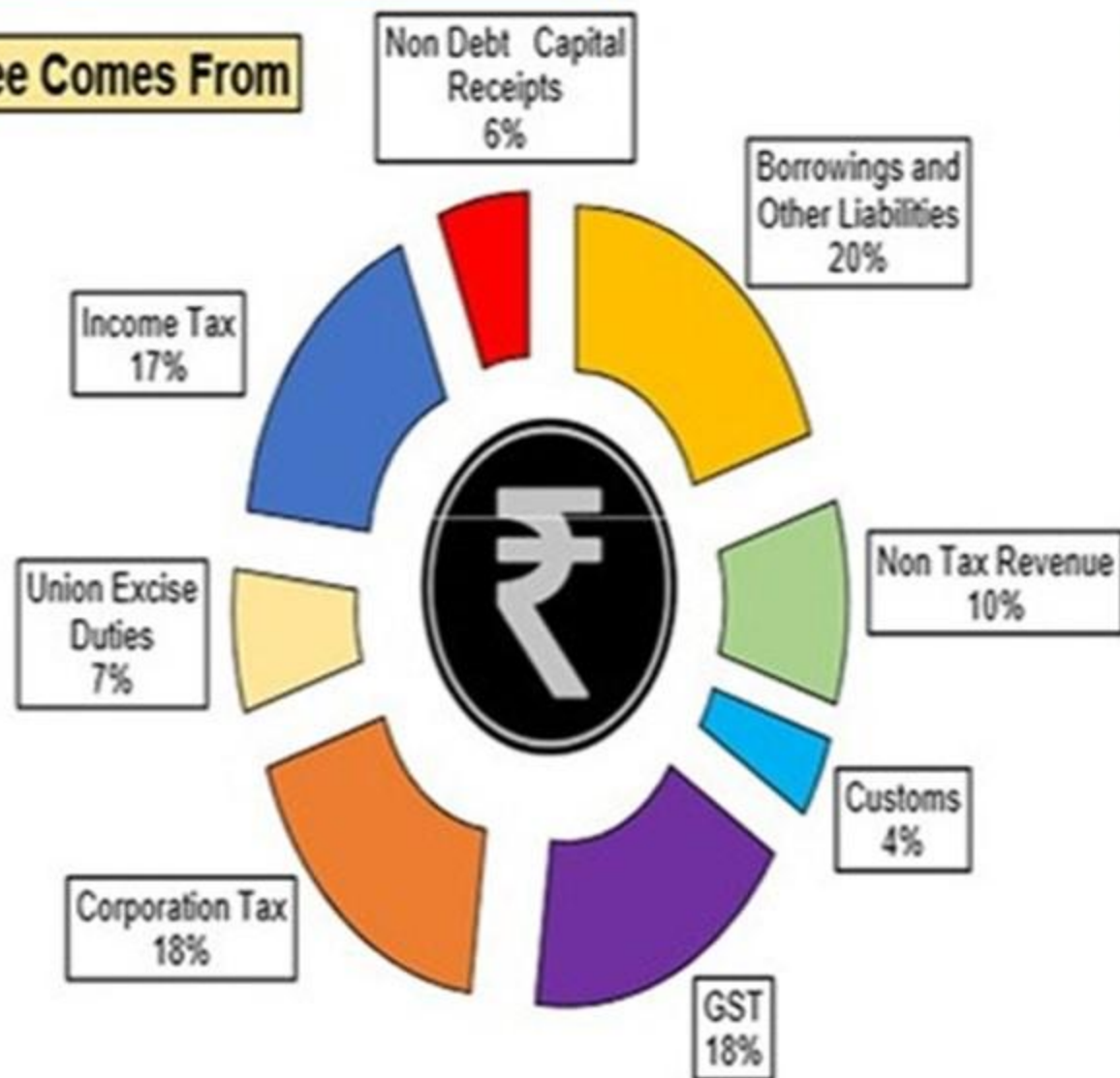
- Introduction of a new **debt based ETF** consisting primarily of government securities. This is to introduce an additional investment product as well as to give retail investors access to government securities.
- International Bullion exchange(s) will be set up in GIFT city as an additional option for trade by Global market participants.
- **Disinvestment of LIC by IPO. – Disinvestment Target fixed at Rs. 2.10 Lac Crores.**

2. Fiscal Management

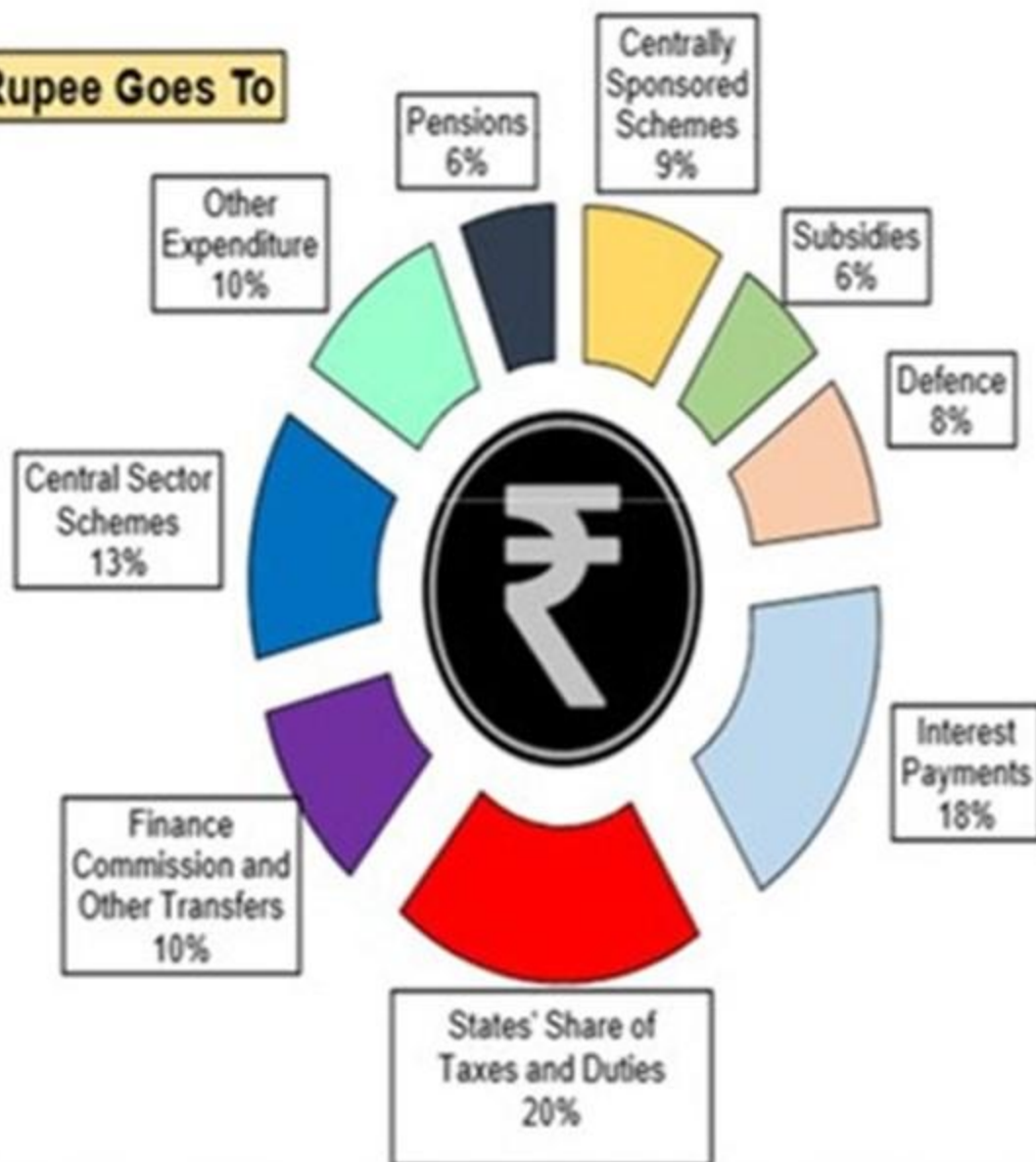
- Central government debt reduced to 48.7% of GDP in March 2019 from 52.2% of GDP in March 2014.
- **Nominal growth of GDP for year 2020-21 estimated at 10% on the basis of trends available.**
- Revised Estimate of Fiscal Deficit for FY 2020 is 3.8% of GDP and Budgeted Estimate for FY 2021 is 3.5% of GDP.

Budget at a Glance:

Rupee Comes From



Rupee Goes To



Major Tax Proposals – Direct Tax:-❖ **Tax Rates****Individuals and HUFs:**

Income (Rs.)	Existing Rates			New Regime
	Age less than 60 years	Age 60 years or more but less than 80 years	Age more than 80 years	
Up to 2,50,000	Nil	Nil	Nil	Nil
2,50,001 to 3,00,000	5%	Nil	Nil	5%
3,00,001 to 5,00,000	5%	5%	Nil	5%
5,00,001 to 7,50,000	20%	20%	20%	10%
7,50,001 to 10,00,000	20%	20%	20%	15%
10,00,001 to 12,50,000	30%	30%	30%	20%
12,50,001 to 15,00,000	30%	30%	30%	25%
Above 15,00,000	30%	30%	30%	30%

Major Tax Proposals – Direct Tax:-

❖ Tax Rates

Individuals and HUFs:

1. Option is provided to Individuals and HUFs for taxation under the New Regime

2. Key conditions to be satisfied to opt for taxation under new regime:

- **No Exemptions or deductions to be allowed such as**
 - Leave Travel Concession
 - House Rent Allowance
 - Standard Deduction & Professional Tax
 - Interest on Housing Loan (For Self- Occupied Property or Vacant Property),
 - Deduction under Chapter VI A (Eg. Life Insurance , PPF Payments, Mediclaim Premium, Donations, etc...)
- Brought forward losses or unabsorbed depreciation pertaining to above deduction would not be available for set off.
- Loss under the head House Property would not be allowed for set off against any other head of income.
- No exemption or deduction to be claimed for any other allowances and perquisites.

Major Tax Proposals – Direct Tax:-

❖ Tax Rates

Individuals and HUFs:

- The Concessional rate shall not apply if return is not filed within due date under Section 139(1) of the Act. If belated return is filed, then benefit of concessional rate shall not be available.
- Benefit of Additional Depreciation under section 32(iia) shall not be available
- **Exemptions/Deductions – Still Available under New Regime:**
 - Employer Contribution to National Pension Scheme
 - Deduction under section 80JJAA for New Employees
 - Deduction under section 80LA in respect of IFSC unit.
- **Impact & Controversy:**
 - **People will have less incentive to save for future, affecting the overall Savings Rate in the economy – leading to less Capital Formation.**
 - **Whereas Government says that looking to statistical analysis of taxpayers, almost 80% people will switch to new regime, as they don't take full benefit of available exemptions/deductions, most tax experts are skeptical about the claim.**

Major Tax Proposals – Direct Tax:-

❖ Tax Rates

Individuals and HUFs:

3. The Option to be governed under New Regime to be exercised by the Taxpayer as follows:
- In case of Individuals and HUFs having no business income, Option to be exercised annually while filing return of income.
 - In case of Individuals and HUFs having business income, Option to be exercised while filing return of income. The option once exercised shall apply to subsequent years. **Withdrawal from this option is permitted only once. (Ambiguity: What will happen to persons having "Professional" Income? Can they choose the option every year or only once?)**
 - In case any of the conditions specified under the New Regime is not satisfied by the Taxpayer, such taxpayer to be liable to tax as per the existing provisions.
 - Provisions relating to Alternate Minimum Tax will not be applicable to taxpayers under the New Regime.

Major Tax Proposals – Direct Tax:-

❖ Tax Rates

Co-operative Societies:

1. Option is provided to Co-operative societies to opt for taxation under newly inserted section 115BAD of the new Act @ 22%
2. Key conditions to be satisfied under the new regime:
 - Deduction under section 10AA, 32, 32AD, 33AB, 33ABA, 35, 35AD and 35CCC or any provisions of Chapter VI A is not allowable as deduction
 - Brought forward losses or unabsorbed depreciation pertaining to above deduction would not be available for set off
 - The option so exercised cannot be withdrawn
 - The Surcharge applicable to such co-operative society shall be leviable at 10%
 - Provisions related to Alternate Minimum Tax shall not applicable to Co-operative society

Major Tax Proposals – Direct Tax:-

❖ Tax Rates

Companies:

1. Option is provided to Domestic Company to opt for taxation under Section 115BAA (For existing domestic companies) or Section 115BAB (for manufacturing companies set up after 1st October 2019) of the Act on the fulfilment of conditions contained therein.
The Tax rate is 15% in section 115BAB and 22% in section 115BAA. Surcharge is 10% in both the cases.
2. In the case of company other than domestic company, the rates of the same as those specified for the FY 2019-20.



Major Tax Proposals – Direct Tax:-

Residential Status of Individuals and HUFs:

- An Indian Citizen or Person of Indian Origin, who is outside India, to be considered as a resident in India, inter-alia, if his period of stay while on visit to India is 120 days or more during the said FY. (vis-à-vis 182 days or more as per existing provisions) **(Impact: This will have huge impact on NRIs, who were partly staying outside India and partly in India by managing less than 182 days stay in India to avoid Indian taxation on their global income).**
- An Indian citizen deemed to be a resident in India, if such individual is not liable to tax in any other country or territory by reason of his domicile, residence or similar criteria. **(Impact: Indian Citizens gaming with the system to keep their global "Non-Resident" Status and not paying tax in any country will be covered in Indian taxation net).**



Major Tax Proposals – Direct Tax:-

Residential Status of Individuals and HUFs:

- Individual or HUF to be considered as “Not ordinarily Resident”, if such individual or manager of such HUF is a Non-Resident in India for 7 out of 10 preceding years (vis-à-vis 9 out of 10 preceding years as per existing provisions) Alternate conditions of stay in India up to 729 days in preceding 7 years has been deleted.
- Exemption to Non-Residents in filing Return of Income if the Total income consists of Royalty and Fees for Technical Services on which appropriate tax has been deducted (Earlier only Dividend and Interest were covered for exemption from filing Return of Income.

Impact on Salaried Persons:

- **Employers' contribution to NPS, Superannuation Fund and Recognized Provident fund in excess of INR 7,50,000 in aggregate to be taxable as perquisite.**
- Annual accretion of Interest, Dividend or any other similar amounts to be taxable as perquisite to the extent it relates to the above taxable contribution.

Major Tax Proposals – Direct Tax:-

Tax on Dividends:

- **DDT payable by a domestic company on any amount declared, distributed or paid by way of dividends is abolished with effect from April 1, 2020. (Impact: This will help foreign investors, who were not getting double taxation relief for DDT paid by Indian Companies)**
- **Dividend income received from domestic company/equity oriented mutual funds shall be taxable in the hands of shareholders at the normal applicable tax rates**

Implications:-

- Current regime of taxing dividends, in excess of INR 10,00,000 at 10% in the hands of specified resident shareholders, is abolished with effect from April 1, 2020
- Individual resident shareholders to pay tax as per the applicable slabs on the dividend received. **(Impact: This will lead to huge increase in taxation impact of HNIs/Promoter families holding controlling interests in Indian Companies)**
- Only Interest expense allowed as deduction up to 20% of the dividend income
- No set off is available for dividend received from Foreign Companies

Major Tax Proposals – Direct Tax:-

Tax on Dividends:

Implication:-

- Domestic companies, LLPs, Trusts etc. to pay tax on dividends received as per the tax rate applicable to such entities.
- However, if the recipient domestic company distributes dividend to another domestic company on or before 1 month prior to the due date of furnishing the return of income, then such recipient company will get deduction to the extent of dividend distributed by it.
- Foreign Shareholders to pay tax at 20% under the Act (Subject to availability of treaty benefits) No Interest deductions available.



Major Tax Proposals – Direct Tax:-

Widening of Tax Base/Plugging the loopholes:

➤ **Rationalization of Provisions relating to trust, institution and fund:**

- With view to make the process of registration electronic and simple, New procedure for tax exemption introduced from June 1, 2020. Application to be made within specified time for respective cases. **(Impact: Even the existing trusts registered under Section 12A/12AA will have to apply for fresh electronic registrations).**
- All registrations (renewal and new) to be limited to a period of 5 years (hitherto granted for perpetuity)
- New charitable institution which are yet to commence their charitable activities to be granted a provisional registration valid for 3 years.

Major Tax Proposals – Direct Tax:-

Widening of TDS/TCS Provisions:

- For removal of controversy under Section 194J , **Withholding Tax on Fees for technical services(Other than Professional Services) reduced to 2%.**
- Withholding Tax provisions under Section 194C extended to Contract Manufacturing arrangement where material is purchased from Associate of Customer.
- Following other inclusions and new levy has been introduced;

Section No	Particular	Detailed Provision
194-K	Dividend paid or distributed/ Credited by Domestic Company /Mutual Fund	<p>Deductor : Domestic Company/Mutual Fund</p> <p>Deductee : Resident</p> <p>Time of Deduction: At the time of Credit or payment, whichever is earlier</p> <p>Rate of TDS: 10%</p> <p>Notes:</p> <ul style="list-style-type: none"> • Threshold for deduction is INR 5,000 for dividend paid in any mode.

Major Tax Proposals – Direct Tax:-**Widening of TDS Provisions:**

Section No	Particular	Detailed Provision
194-A	Interest other than Interest on securities (Extended the scope of this section to Interest paid by Large Co-operative society)	<p>Deductor: Co-operative Society (Having Turnover exceeds 50 Cr during the Financial year immediately preceding the financial year)</p> <p>Deductee: Resident</p> <p>Time of Deduction: At the time of Credit or payment, whichever is earlier</p> <p>Rate of TDS: 10%</p> <p>Notes: The amount of Interest or the aggregate of the amount paid during the financial year is more than INR 50,000 in case of Payee being senior citizen and INR 40,000 in any other cases.</p>
194-O	Any sum paid to E-commerce participant	<p>Deductor: E-commerce Operator</p> <p>Deductee: E-commerce Participant</p> <p>Time of Deduction: At the time of Credit or payment, whichever is earlier</p> <p>Rate of TDS: 1%</p> <p>Notes: Sum credited or paid to E-commerce Participant (Being an Individual or HUF) shall not subject to this section if gross amount does not exceed 5,00,000 and furnished PAN.</p>

Major Tax Proposals – Direct Tax:-**Widening of TDS Provisions:**

Section No	Particular	Detailed Provision
196-A	<p>Income in respect of units of Non-Residents</p> <p>Revised and its applicability has been extended to TDS on Income in respect of units of Mutual Fund</p>	<p>Deductor: Any Person</p> <p>Deductee: Non-Resident</p> <p>Time of Deduction: At the time of Credit or payment, whichever is earlier</p> <p>Rate of TDS: 20%</p>

Major Tax Proposals – Direct Tax:-**Widening of TCS Provisions:**

Section No	Particular	Detailed Provision
206-C	TCS on foreign remittance through Liberalized Remittance Scheme(LRS)	<p>Person responsible for collecting tax: An Authorized dealer receiving an amount in excess of INR 7,00,000 in a Financial Year for remittance out of India under LRS of RBI.</p> <p>Collectee: Every Person</p> <p>Time of Collection: At the time of Debit or Receipt, whichever is earlier</p> <p>Rate of TCS: 5% (In Non-PAN/Aadhar cases the rate shall be 10%)</p>
206-C	TCS on selling of overseas tour package	<p>Person responsible for collecting tax: A Seller of an Overseas Tour Program Package</p> <p>Collectee: Every Person</p> <p>Time of Collection: At the time of Debit or Receipt, whichever is earlier</p> <p>Rate of TCS: 5% (In Non-PAN/Aadhar cases the rate shall be 10%)</p>

Major Tax Proposals – Direct Tax:-**Widening of TCS Provisions:**

Section No	Particular	Detailed Provision
206-C	TCS on sale of goods over a limit.	<p>Person responsible for collecting tax: Every Person (Having turnover from Business exceeds 10Cr during the Financial year)</p> <p>Collectee: Every Person (Buyer)</p> <p>Time of Collection: At the time of Debit or Receipt, whichever is earlier</p> <p>Rate of TCS: 0.1% (In Non-PAN/Aadhar cases the rate shall be 1%)</p> <p>Notes: A Seller of goods is liable to collect TCS if consideration received in previous year exceeds INR 50,00,000</p>

Major Tax Proposals – Direct Tax:-

Tax incentives to Start-ups:

- **Turnover threshold for claiming tax holiday increased from INR 25 Crores to INR 100 Crores.**
- **The Time limit within which the 3 years tax holiday can be claimed is increased from 7 years to 10 years.**
- **Tax on ESOPs**
 - Payment of tax/withholding of tax on ESOPs/Sweat Equity to employees of Eligible Start-ups deferred from the date of exercise to the earliest of the Following:
 - a) Expiry of 48 months from the end of AY in which the ESOPs /Sweat Equity Shares were allotted.
 - b) Sale of said shares/Securities by the Employees.
 - c) Cessation of Employment in such a Start-up.
 - The Perquisite income from ESOPs/Sweat Equity will continue to be taxable at the tax rates applicable in the year of allotment of Shares/Securities.

Major Tax Proposals – Direct Tax:-

Incentives to Affordable Housing:

- Extension of time limit for approval of affordable housing project for availing deduction under Section 80IB of the Act to 31st March, 2021.
- Extension of time limit for sanctioning of Loan for affordable housing for availing deduction under Section 80EEA of the act to 31st March, 2021



Major Tax Proposals – Direct Tax:-

Rationalizing Tax Audit and Tax Return Filing:

Threshold limit for tax audit increased as under:

Particulars	Existing Threshold (Rs.)	Proposed threshold (Rs.)
Total sales, Turnover or Gross receipts from the Business	>1 Cr	>5 Cr
Gross receipts in case of Profession	>50 Lacs	>50 Lacs

- The increase is subject to a condition that Cash transaction are less than 5%.
- Tax Audit report to be furnished at least one month prior to the due date of Filing Return of Income to enable Pre-filled income tax return.
- Tax return filing due date for assesses covered under tax audit extended from September 30 to October 31.
- Due date for Transfer Pricing Audit preponed to October 31.

Major Tax Proposals – Direct Tax:-

Capital Gains:

- Variance allowed between Stamp Duty value and Actual sale consideration on sale of a land and building increased from 5% to 10%. **(Section 50C, Section 43CA & Section 56(2)(x))**
- In case of a capital asset, being land or building or both, the Fair Market Value of such asset on 1st April, 2001 shall not exceed the Stamp Duty Value of such asset as on 1st April, 2001 where such stamp duty value is available. **(Section 55)**

Penalty Provisions:

- If it is found that a 'False Entry' is made in books of accounts or there is an omission of any entry which is relevant in computation of total income, the AO has been given power to levy penalty equal to aggregate amount of such false or omitted entry.
- False entry includes use of Forged or Falsified documents, Bogus invoices or invoices from a person who does not exist.
- Penalty also leviable on the person who directs the taxpayer to make false entries or omissions.

Major Tax Proposals – Direct Tax:-

Assessment/Appeal Procedures & Electronic Data Processing:

- Faceless appeal will be introduced to eliminate human interface during appeals.
- “Vivad se Vishvas Scheme” will be introduced to reduce litigations in direct taxes.
- Taxpayers’ Charter will be institutionalized in statute to avoid any harassment for taxpayers.
- There is an introduction of process for instant allotment of PAN based on Aadhar.
- DRP forums to be allowed to Non-Resident for all disputes and not just Transfer Pricing issues.
- Form 26AS to be replaced with a comprehensive Annual Information Statement (including Share transactions, Property Transactions, etc.) which will be uploaded by the tax authorities (in a prescribed form) in the designated e-filing portal of taxpayer.

Major Tax Proposals – Indirect Tax:-

Goods and Service Tax:

- The definition of Union Territory is amended to bring into force the Jammu and Kashmir Reorganization Act, 2019 and the Dadra and Nagar Haveli and Daman and Diu (Merger of Union Territories) Act, 2019.
- Proposal of implementing a system of cash reward to incentivize consumer seeking invoice.
- E-invoicing regime proposed to be implemented in a phased manner.
 - Retrospective amendment for extension of personal penalty provisions to persons “Causing and Benefitting” from fraudulent input tax credit
- Claiming of ITC without invoice becomes non-bailable offence.
- Scope of Composition Levy restricted.
- Imposition of penalty of an amount equivalent to the tax evaded or input tax credit availed on availing fraudulent input tax credit.

Major Tax Proposals – Indirect Tax:-

Customs Act:

- Amendments made in safeguard provisions related to protection against bulk import of any article that causes serious injury to the domestic industry
 - Measures to now include application of a tariff rate quota, in addition to imposition of a safeguard duty.
 - Tariff rate quota measures, where used, shall not be fixed below the average level of imports in last 3 representative years unless deemed necessary.
- Anti-dumping rules made more comprehensive and wider in scope to strengthen the anti-circumvention measures.
- Rules related to countervailing duty on subsidized articles to enable investigation into cases of circumvention of such duties amended.
- **Health cess of 5% imposed with effect from 2 February 2020 on import of various medical devices. Cess to be computed on the same value on which customs duty is calculated under Section 14 of Customs Act. Cess may not be allowed to be paid using export promotion scrips.**

Major Tax Proposals – Indirect Tax:-

Customs Act:

➤ Increase in Duty

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

➤ Reduction in BCD

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

**Disclaimer:**

This note contains proposals which may be modified before they are enacted.

This note is prepared on the basis of material available in public domain such as budget documents extracted from the website of Finance Ministry. Even though every care is excised to present this note in error free manner, we assume no responsibility for any error / Omissions or otherwise for any loss which may be sustained by anyone by relying upon the same.

Ahmedabad

6th February 2020

