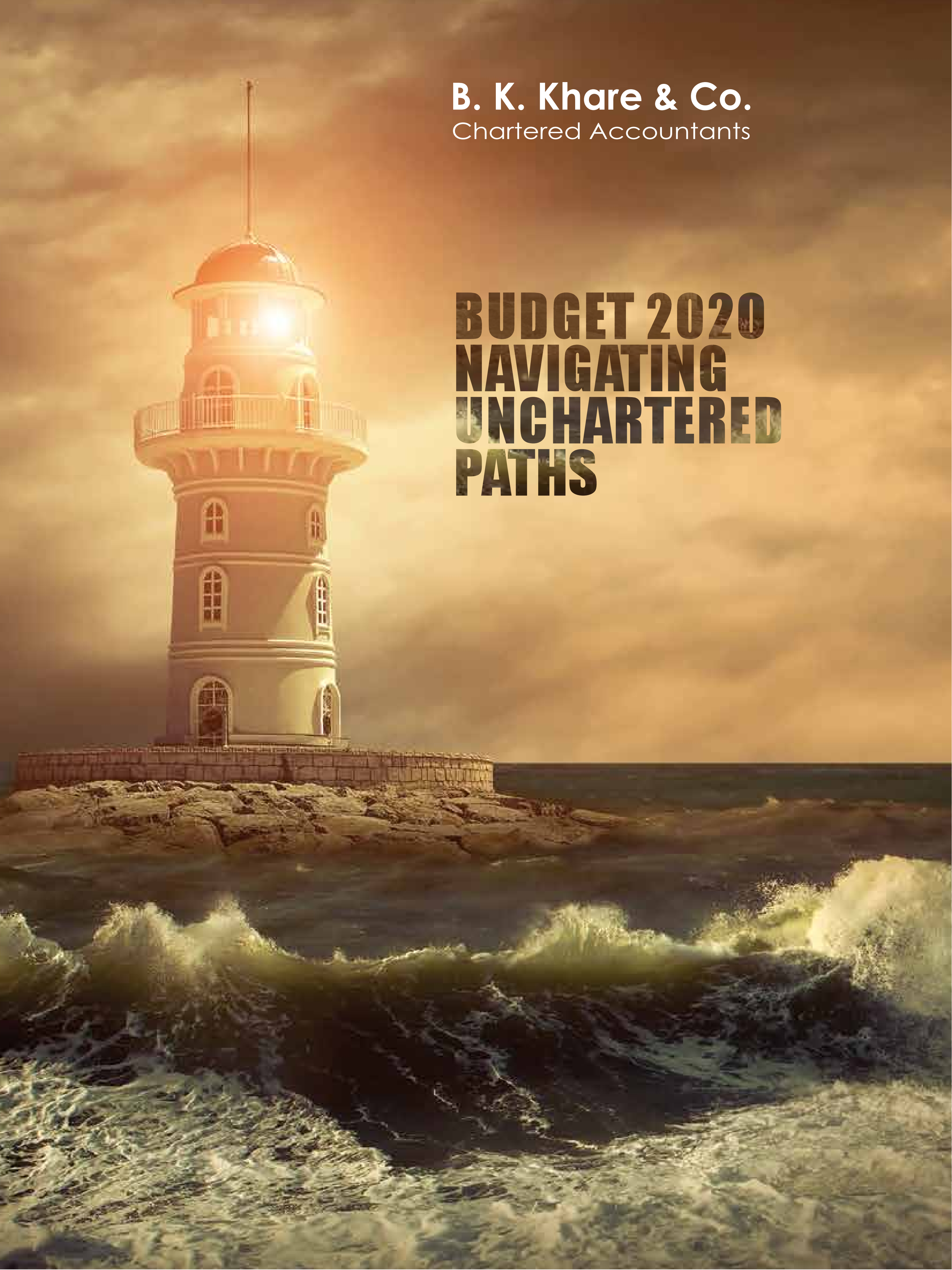
B. K. Khare & Co.
Chartered Accountants

BUDGET 2020 NAVIGATING UNCHARTERED PATHS



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BUDGET ANALYSIS 2020

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Dear Esteemed Readers,

The atmospherics in the run up to and presentation of the Budget 2020 was that of a Shakespearean drama. The Prime Minister's participation in pre-budget meetings with various stakeholders only heightened this drama. The year 2019 started on a tumultuous note witnessing a global economic slowdown wherein the world economy grew at 2.9% and India was no exception in the slowdown story. India's GDP growth for the July - September 2019 period fell to 4.5% (low of 11 years), down from 5% in the previous three months and 7% for the corresponding period of 2018 as consumer spending and private investment weakened and a global slowdown impacted exports growth. And while demand dampened, India's retail inflation accelerated to 7.35% in December on the back of rising food prices, worrying investors about India entering stagflation territory, as predicted by the former Prime Minister Manmohan Singh. Given these fears, markets were looking eagerly at both the Economic Survey and the Union Budget to give direction to the economy and allay some, if not all, concerns.

The tension between United States and Iraq, briefly spiked oil prices and spooked global markets. The latter part of the last month has seen the world on the brink of a global pandemic, which begun in China but has now spread to over 30 countries, prompting the World Health Organization to declare a global health emergency and countries to issue travel warnings and tighten their borders. Separately, but as importantly, the International Monetary Fund has cut its GDP growth projection for the world economy by 0.2%. In toto, bleakness seems to be spread across the world.

In this backdrop, all eyes were on the Budget to offer succour and much needed positive sentiment and environment to unleash the animal spirits required to achieve the dream of becoming a 5 trillion economy by 2025. The Finance Minister made a valiant attempt to address matters at hand in all earnest and it was no wonder then that the speech was the longest one ever given and left the Finance Minister speechless at the end.

The tone for the Budget was set by the Economic Survey whose leitmotif was 'wealth creation' through policies that drive behavioral change to make it sustainable and ethical. The Survey stressed on Pro business policies and the Budget has recognised this by moving away from the Socialist charter. Some of the key highlights of the Survey include:

- **GDP growth and predictions:** Amidst a weak environment for global manufacturing, trade and demand, the Indian economy slowed down with GDP growth moderating to 4.8% in H1 of 2019-20. Based on the CSO's first advance estimates, the GDP is expected to grow 5% in FY2019-20. For FY 2020-21, the real GDP growth projections are pegged between 6-6.5%.
- **Industry and Infrastructure:**
  - The industrial sector as per the Index of Industrial Production registered a growth of 0.6% in 2019-20 (April-November) as compared to 5% during 2018-19 (April-November).
  - The steel sector achieved a growth of 5.2% during 2019-20 (April-November) as compared to 3.6% during 2018-19 (April-November).
  - The installed capacity of power generation has increased to 3,64,960 MW as on October 31, 2019 from 3,56,100 MW as on March 31, 2019.
- **Wealth creation through markets and trust:** The Economic Survey alluded to India's rich economic history and borrowed wisdom from the Kautilya's Arthashastra on the

role of prices in the economy. It spoke of the importance of a market regime, while simultaneously ensuring trust in an economy, thereby spurring economic activity. The Survey postulated trust as a public good, and suggested policies to enable trust such as increased transparency and effective enforcement through data and technology.

- Entrepreneurship and wealth creation at the grassroots: The document pointed to entrepreneurship as a strategy to create wealth at the bottom of the pyramid. It quoted statistics that showed the creation of 1.24 lac firms in 2018. It suggested the need for enhancing ease of doing business and implementing flexible labour laws at the district level, to promote entrepreneurship and thereby increase money inflows into these regions.
- Pro-business (crony) vs pro-market policies: The CEA pointed to the benefits of moving from a pro-crony regime, which existed prior to 2011 to a pro-market regime, which has spurred economic growth by competitive allocation of resources. The Survey admonished practices such as preferred lending that led to wilful defaults and rent-seeking that caused inefficiencies.
- Minimal Government intervention in markets: The Economic Survey rightly pointed to the overarching hand of government, which often ends up undermining the ability of the markets to support wealth creation and leads to outcomes opposite to those intended. It sought for amendments to the following government policies: The Essential Commodities Act (ECA) of 1955, Drug Price Control under the ECA, intervention in grain markets, and debt waivers.
- Job Creation and Growth by specializing in network products: Expanding on the last five years of 'Make in India', the Survey suggests integrating 'Assemble in India' into it. It posits that India could follow the Chinese growth model by specializing in labour-intensive sectors in network products and can raise its export market share to 3.5% by 2025 and 6% by 2030.
- Furthering Ease of Doing Business: The Survey recommended that the government further focus on ease of doing business by looking at indicators in which India remains a laggard. The areas include ease of starting business, registering property, paying taxes and enforcing contracts.
- Addressing financial fragility in the NBFC sector: The Survey found that the key drivers of Rollover Risk in the financial system are asset liability management (ALM) risk, interconnectedness risk, financial and operating resilience, and over dependence on short-term wholesale funding. As a remedy, the Survey mulled the creation of a health score, which can form the basis of efficient allocation of capital and liquidity into the system.

While the Economic Survey is not binding, it gives clarity to the market on the thinking of the government, and similarly, gives direction to the bureaucracy to deal with the looming economic challenges. Unfortunately, the market demanded more clarity, once again, putting the pressure on the Finance Minister to deliver big bang announcements to stimulate demand, while balancing the fiscal deficit. The Finance Minister, however, has chosen to stay the course and be fiscally responsible, while still creating room for investment and retail demand growth.

The Finance Minister therefore had very little space for increasing spending. Nonetheless, she has announced a number of ambitious schemes to generate employment and revive consumer demand within the economy. The government has proposed the construction of 2,500 kilometers of access control highways, 9,000 kilometers of economic corridors, 2,000 kilometers of coastal and port roads and 2,000 kilometers of strategic highways. Considering that one kilometer of road construction costs about INR 15 crores we are looking at an expenditure of about INR 2.25 lac crores in the near future. The outlay for piped water for all households is INR 3.10 lac crores; and that for agriculture and rural development is INR 1.60 lac crores and INR 1.23 lac crores. Over the next five years, the Government plans on spending INR 103 lac crores on infrastructure-railway stations, safe drinking water, logistics, irrigation projects etc.

The Government has provided for an 18% increase in capital expenditure. A number of economists, however, have pointed out that this provision, as a percentage of GDP, remains unchanged at 1.8% of GDP. Since this is likely to be inadequate for its plans, the Government hopes to attract sovereign wealth funds to invest in this country. Section 10(23FE) seeks to exempt income of such funds from long term capital gains, dividends and interest from investments. Shortfalls, if any, are proposed to be financed by disinvestment of PSUs like LIC and BPCL and commercialization of highways. The Government has plans to monetize twelve lots of highway bundles of about 6,000 kilometers each by 2024.

These are all ambitious plans. Whether they succeed depends on how well they are executed. In the medium-term, the Government seems to be keen to implement infrastructural projects required to take the economy to the next level. The problem is really is the short-term. In the absence of sizable private investment, the current level of governmental spending is unlikely to reverse the current slowdown in the economy. The Government appears to believe that this is cyclical. The green shoots of recovery are, according to it, evidence enough that private investment is reviving. We can only hope that this optimism is not misplaced.

Otherwise, the budget proved disappointing because it has done very little to bolster exports: modern economic history shows that sustained, as opposed to small sporadic spurts, of economic growth, are only possible when a country runs an open economy. Domestic industry thrives when it has to face competition. For the last few years the Government has been raising tariffs on imports to protect domestic industry. This year's budget too has raised import duties. This does not augur well, for the long-term health of the economy; one would certainly have welcomed instead more measures to benefit exporters directly.

The highlights of this year's tax proposals relate to the rate structure. On the face of it, the Government appears to have carried through an important tax reform. It has given the bulk of the taxpayers the option to choose higher (existing) tax rates with deductions and exemptions; or, lower tax rates without exemptions and deductions (5% for income between INR 2.5 lacs and 5 lacs; 10% for income between INR 5 and 7.5 lacs; 15% for incomes between INR 7.5 and 10 lacs; 20% between INR 10 and 12.5 lacs; 25% between INR 12.5 and INR 15 lacs; 30% above INR 15 lacs). This change comes on top of the earlier reform which reduced tax rates of all corporates to 22% without exemptions and deductions and 15% in the case of new manufacturing companies. Altogether, these reforms have the effect of slowly nudging the tax regime away from exemptions and deductions towards lower tax rates. In the interim, however, because of options given to taxpayers, the new tax structure has become very intricate, with the number of tax bands having increased from 3 to 7, without the taxpayers having received any substantial relief.

The abolition of the dividend distribution tax would be welcomed by corporates. The promoters of companies, however, will end up paying a much higher tax on the dividend incomes that accrue to them.

The new faceless assessment scheme was launched in the current fiscal year; since it is still in its infancy, it is perhaps too early to say how effective it is. The same would be true about the faceless appellate procedure. Much would depend on how these schemes pan out in the long run.

The other two notable reforms relate to the formulation of a tax charter which will for the first time, spell out taxpayer rights - the right, for example, not to be harassed and the right to receive a refund of tax in a time bound manner where excess tax has been levied. Significantly, India will be the fourth country in the world - after the U.S., Canada, and Australia- to promulgate such a charter for its taxpayers.

The “Sabka Viswas (Legacy Dispute Resolution Scheme 2019)” scheme was a thumping success in the settlement of cases of indirect taxes. The Finance Minister pointed out that currently 4,83, 000 cases of direct taxes were pending before various appellate forums – CIT(A), ITAT, High Courts and the Supreme Court. The Government is now trying to settle these cases by waiving all penalties and interest, if the taxpayer agrees to pays the principal amount in dispute. The scheme is prima-facie attractive. But many taxpayers may not greet it enthusiastically because the department is itself responsible for initiating litigation in well over 80% of the cases and its success rate is not even 30%! Even so, many may prefer to buy peace rather than engage in litigation that seems to go on forever.

Some of the missed expectations include:

- The challenge around credit growth and the liquidity crisis in the banking and financial sector has not been addressed.
- The real estate industry, which has been struggling, expected more to boost housing demand, which remains subdued.
- The budget was silent on long-term capital gains tax, which was expected to be reduced.

Some needless confusion appears to have been unintentionally created through the changes in taxation of non-resident citizens.

Eventually though, while the short-term reaction of the market has been one of major disappointment, the long-term economic story is not solely dependent on the budget. Sector-wise policies and deregulation can go a long way in spurring investment into the country. Streamlining of bureaucratic processes and changes in India’s export policy can help India compete more effectively in the global economy. The budget has been a step in the right direction, but the economy now needs boosts to start jogging once again.

With this, I commend to you, our detailed analysis of the various direct and indirect tax proposals, as contained in the later pages, for your reading. As always, I look forward to hearing your valuable feedback and comments on the contents of this publication, which it must be said is not a substitute for any professional advice, but a manifestation of our views interlaced with our experiences.

Sincerely,

Padmini Khare Kaicker
Managing Partner

B.K. Khare & Co.
Chartered Accountants

Mumbai, February 2, 2020

ECONOMIC SURVEY

The last year witnessed a global slowdown, which also impacted the Indian growth story. From being the world's fastest growing major economy, India has been overtaken by China. In this context, the yearly Union Budget and its prelude, the Economic Survey, have become vital indicators to the market regarding the future course of policy action to jumpstart the economy.

The Economic Survey 2019-20 was tabled on January 31, 2020 in the Parliament, in an atmosphere of anticipation especially for the Union Budget. The theme of the Survey is 'wealth creation' and though it lays down certain broad thematic areas to work with, it is merely suggestive and is not binding on the government. The Survey was released in three parts, two volumes and a statistical appendix. It utilises both primary data, as well as data from secondary sources, in order to present an extensive snapshot of the Indian economy. Here, we have analysed some of its most important details.

Key Indicators

Presented here is a summary of the key statistical indicators presented in the Economic Survey. These indicators have been only slightly updated from the last budget, which came only six months ago in July 2019. The data has been presented for the last five years in order to facilitate a year-on-year comparative analysis.

Parameter	Unit	2015-16	2016-17	2017-18	2018-19	2019-20
GDP Growth	%	8.0	8.2	7.2	6.8	5
Per Capita Income	INR	94,797	1,04,659	1,14,958	1,26,406	1,35,050
Wholesale Inflation	%	-3.7	1.7	3.0	4.3	1.5
CPI Inflation	%	4.9	4.5	3.6	3.4	4.1
Current Account Balance	% of GDP	-1.1	-0.6	-1.8	-2.1	-1.5
Forex Reserves	USD Billion	360.2	370.0	424.5	412.9	457.5
Average Exchange rate	INR/USD	65.5	67.1	64.5	69.9	70.4
Fiscal Deficit	% of GDP	3.9	3.5	3.5	3.4	3.3
Revenue Deficit	% of GDP	2.5	2.1	2.6	2.2	2.3

Sectoral Performance

For a quick analysis of the sectoral performance, a comparative tabulation of sectoral growth is presented here. Year-on-year data is presented for the last five years, followed by our comments on the Economic Survey.

Sector	2015-16 (in%)	2016-17 (in%)	2017-18 (in%)	2018-19 (in%)	2019-20 (in%)
Agriculture, forestry & fishing	**0.7**	**6.3**	**5.0**	**2.9**	**2.8**
Industry	**8.8**	**7.7**	**5.9**	**6.9**	**2.5**
Mining & quarrying	10.5	9.5	5.1	1.3	1.5
Manufacturing	10.8	7.9	5.9	6.9	2.0
Electricity, gas, water supply & other utility services	5.0	10.0	8.6	7.0	5.4
Construction	5.0	6.1	5.6	8.7	3.2
Services	**9.7**	**8.4**	**8.1**	**7.5**	**6.9**
Trade, hotels & restaurants, transport, and communication	10.5	7.7	7.8	6.9	5.9
Financing, insurance, real estate & business services	10.8	8.7	6.2	7.4	6.4
Community, social & personal services	6.9	9.2	11.9	8.6	9.1
GVA at basic prices	**7.9**	**7.9**	**6.9**	**6.6**	**4.9**

The Invisible Hand

Once more, the Economic Survey heavily borrows from a prevailing economic theory. While the 2018-19 survey started with Dr. Richard Thaler's famous 'nudge' principle to effectively implement policies that drive behavioural change, the 2019-20 survey has shifted focus to Adam Smith's 'invisible hand' for wealth creation. It emphasised the importance of 'Ethical Wealth Creation' as the key to making India a USD 5 trillion economy by 2025.

The Survey stresses on the importance of free markets coupled with a focus on trust as a driving factor. It highlights the need for ensuring that 'pro-business' policies take a market approach and do not result in 'pro-crony' policies. It makes a case for 'privatisation' through the context of systematic trust, in order to prevent the rise of 'crony capitalism'. The focus on free markets and shift away from government intervention is a theme that is consistent throughout the document.

The Survey analyses government interventions, and argues that despite being well-intended, they often do more to undermine the market's ability to support wealth creation, and lead to unintended consequences. To check these overarching interventions, the Survey points to four specific policies, which are anachronistic and must be overhauled: The Essential Commodities Act, which regulates stock limits; Drug Price Control under the ECA; Debt Waivers; and Government intervention in grain markets. To further build the case for disinvestment, the Economic Survey argues that data demonstrates that Central Public Sector Enterprises performed better post-privatisation. It states that privatization results in higher profitability, efficiency, competitiveness and professionalism in CPSEs.

Economic Slowdown and Data Validity

The past year has witnessed much debate over the validity of data and the nature of the slowdown plaguing the economy. Former Chief Economic Adviser to the Government of India, Arvind Subramanian, published a research paper in 2019 stressing the same and arguing that the GDP data has been wrongly estimated. The Survey seeks to respond to both these claims.

With respect to data validity, it argues that India's GDP growth is not overstated and that concerns regarding the veracity of India's data are unsubstantiated. It dedicates an entire chapter to the question of GDP estimation. It studies the differing GDP growth rates, both under the present method and previous methodology that existed prior to 2011. The Survey states, *"Using a cross-country, generalized difference-in-difference model with fixed effects, the analysis demonstrates the lack of any concrete evidence in favour of a mis-estimated Indian GDP."* It argues that the data regarding the creation of new firms is synergetic with the presented growth numbers, further strengthening the case for its validity,

The Survey also analyses the economic slowdown that led to a downward revision in GDP growth rate for the past financial year. It argues that the slowdown was largely due to global factors and a weak environment for manufacturing, trade, and demand. The deceleration in GDP growth can also be understood within the framework of a slowing cycle of growth within the real estate sector, which has impacted NBFCs focused on real estate. It argues that the slowdown in demand for new vehicles can be attributed to external factors such as the lack of credit, base effect (the fact that the auto sector has grown rapidly in the last few years), and structural changes like the adoption of newer fuel standards from BS-IV to BS-VI from April 2020.

Novelties: 10 New Ideas

The Economic Survey, under its theme of 'wealth creation', introduces ten new ideas for boosting the economy, and creating a 'New India'. These are:

- Focus on wealth creation which benefits everyone.
- Free markets as crucial enablers for wealth creation.
- Focus on systematically building up trust and treating it as a public good.
- Importance of grassroots entrepreneurs who create wealth in their own districts.
- Importance of pro-business policies that give equal opportunity and access.
- Removing anachronistic government intervention and pursuing aggressive disinvestment policies.
- Job creation by "Assemble in India for the world", an imitation of the Chinese growth model.
- Improving ease of doing business. India has risen significantly in the World Bank's Ease of Doing Business rankings. However, India lags in areas such as starting a business, registering property, paying taxes, and enforcing contracts.
- Utilizing fin-tech in the banking sector. The Survey pitched for the use of big data, artificial intelligence by state-owned banks to detect defaults, and use of employee stock ownership across all levels to make lenders more efficient. A diagnostic mechanism, such as the proposed Health Score, can serve as an important monitoring mechanism to prevent future liquidity crisis in the NBFC space.
- Thalinomics, an attempt to quantify what a common person pays for a plate of food, or Thali, across India.

Snapshot of the Economy: Snippets from the Survey

- India needs to grow at 8% per year to be USD5 trillion economy by FY25.
- Services sector now accounts for around 55% of total size of the economy and GVA growth, two-thirds of total FDI inflows into India and about 38% of total exports.
- Amidst a weak environment for global manufacturing, trade and demand, the Indian economy slowed down with GDP growth moderating to 4.8% in H1 of 2019-20, lower than 6.2% in H2 of 2018-19.

- Imports have contracted more sharply than exports in H1 of 2019-20, with easing of crude prices, which has mainly driven the narrowing of Current Account Deficit.
- Agriculture and its allied sectors contribution to national income has gradually declined to 16.5% in 2019-20 from 18.2% in 2014-15.
- It recommends a renewed focus on pushing up exports.
- In order to benefit from economies of scale, the government should foster the growth of large firms instead of focusing on smaller firms.
- Looking beyond the economics of equilibrium, the Survey makes a case for investment-driven "virtuous cycle" to sustain growth at 8%.
- Investment the "key driver" of simultaneous growth in demand, jobs, exports & productivity.
- To make India a USD 5 trillion economy by FY25, India needs to spend about USD 1.4 trillion (INR 100 lac crores) during the period on infrastructure to prevent lack of infrastructure from becoming a constraint to the growth of Indian economy.
- Rural wage growth started increasing since mid-2018.
- Poor enforcement of contracts and dispute resolution is a big hurdle. Faster legal process should be top priority.
- Savings and growth are positively correlated. Savings must increase more than investment.
- Constant recalibration based on real time data. Data must be created as a public good "of the people, by the people, for the people".
- Survey argues that nudging behaviour change is simplest way to solve many social issues.
- Top policymakers must ensure actions are predictable. Policymaking needs a clear vision, a strategic blueprint, and tactical tools for constant recalibration.
- Success of MGNREGA shows government schemes can make a difference on the ground with skilful use of technology
- A minimum wage policy for bottom rung of wage earners to drive up demand - strengthening the middle class.
- Indian MSMEs need to be freed from shackles that convert them into dwarfs. We need to see MSMEs as a source of innovation, growth and job creation. Policy should enable MSMEs to grow, create greater profits for their owners and contribute to job creation and productivity in the economy.
- India needs to increase per capita energy consumption to raise real per capita GDP by USD 5,000 and improve its HDI ranking.
- India will enjoy the "demographic dividend" phase in the next two decades but some states will start transitioning to an ageing society by the 2030s.
- General fiscal deficit seen at 5.8% in FY19 VS 6.4% in FY18.
- Oil prices seen declining in FY20.
- With the implementation of the National Food Security Act from July 2013, the food subsidy bill has increased from INR 1,13,171.2 crores in 2014-15 to INR 1,71,127.5 crores in 2018-19.
- Report of the Task Force on National Infrastructure Pipeline released on December 31, 2019 has projected total infrastructure investment of INR 102 lac crores during the period FY 2020 to 2025 in India.

Conclusion

The Economic Survey had laid out a roadmap focused on growth, markets and wealth creation. The suggested policy measures are not unique but tried and tested methods of growing the economy. In his book, 'Why Nations Fail', Daron Acemoglu too highlighted the positive role of strengthening individual rights, property rights and allowing for market mechanisms to create not only a booming economy, but also a vibrant democracy. While the document itself is not binding on the government, and some of the suggestions put forth will require not only executive action but legislative consent, it details out the necessary hinderances that must be dealt with in order to achieve the government's aim of a USD 5 trillion economy. To conclude, the Chief Economic Advisor has suggested that the government pivot towards classical liberalism, which should be seen as a positive, and has rationalized his argument with both data and tradition. It is left to be seen whether the government will, not only through this budget, but future policy measures, stay the course.

BUDGET ANALYSIS 2020

Introduction

The budget was presented in the background of an economic slowdown that has concerned many in the nation, as well as stakeholders of the global economy. Resultingly, there was a lingering expectation of major announcements that would cause significant changes and revive the economy. The government has chosen to not rely on expansive, reactionary policies and pursue a more conservative approach with regards to economic revival. Through this document, it has attempted to focus on stimulating the economy by nudging consumers towards increasing consumption through a number of policies intended to expand the purchasing power of private players. In order to achieve this, it relaxed its fiscal deficit targets denoting some possibility of deficit financing by the government.

The budget does not present any shocking developments, or significant shifts in economic structures. The Economic Survey alluded to many developments that were witnessed in the budget, however, neither of them proposed any radical changes which has disappointed many and subverted expectations, especially those of the financial markets, as evident by the downtick in the Sensex during and post the budget speech.

An important observation is that there has not been any analysis entirely condemning governmental action, at best the criticism remains that the budget does not provide a strong roadmap for economic recovery. Nonetheless, some new ideas were presented through the budget.

Given the stagnating growth in revenue collections, Finance Minister, Nirmala Sitharaman invoked the escape clause in her budget presentation to give herself and the government a 50-basis points leeway in the fiscal deficit number for 2019-20, taking the revised estimate to 3.8% of the GDP. Sitharaman proposed reducing fiscal deficit by 30 basis points to 3.5% of GDP in 2020-21. The Centre's fiscal deficit recorded a sharp increase in April-December, touching a considerable 132.4% of the budget estimates compared with 112.4% during the same period a year ago. This followed a contraction in net tax revenue and disinvestment receipts, amidst a substantial 32% growth in expenditure in December 2019.

A notable absentee from the budget was that there was no mention of Long-Term Capital Gains. The markets expected some action to ease LTCG taxation as this continues to move foreign capital to similar geographies in South East Asia, which do not tax long-term capital gains. There was also no mention of Security Transactions Tax, which continues to be a major deterrent in making our stock markets robust by adding a significant barrier to frequent transactions and, thus, increasing the impact cost around trading equities.

Key Indicators

Sr. No.	Year	2018-2019	2019-2020	2019-2020	2020-2021
		Actuals (in INR crores)	Budget Estimates (in INR crores)	Revised Estimates (in INR crores)	Budget Estimates (in INR crores)
1	Revenue Receipts	15,52,916	19,62,761	18,50,101	20,20,926
2	Tax Revenue (Net to Centre)	13,17,211	16,49,582	15,04,587	16,35,909
3	Non-Tax Revenue	2,35,705	3,13,179	3,45,514	3,85,017
4	Capital Receipts	7,62,197	8,23,588	8,48,451	10,21,304
5	Recovery of Loans	18,052	14,828	16,605	14,967
6	Other Receipts	94,727	1,05,000	65,000	2,10,000
7	Borrowings and Other Liabilities	6,49,418	7,03,760	7,66,846	7,96,337
8	Total Receipts	23,15,113	27,86,349	26,98,552	30,42,230
9	Total Expenditure	23,15,113	27,86,349	26,98,552	30,42,230
10	Revenue Deficit	4,54,483	4,85,019	4,99,544	6,09,219
11	Effective Revenue Deficit	2,62,702	2,77,686	3,07,807	4,02,719
12	Fiscal Deficit	649418	703760	766846	7,96,337
13	Primary Deficit	66,770	43,289	1,41,741	88,134

Taxation Regime

A key announcement of the budget was a revamped regime for income tax, as well as modifications made or proposed in other areas of taxation.

Budget 2020 has proposed a new tax regime for income tax, slashing rates and rejigging income tax slabs to reduce total tax payable by individuals. As per the new regime, 70 tax exemptions will be removed but the income between INR 5 lacs and INR 7.5 lacs will be taxed at 10% down from current 20%, income between INR 7.5 lacs and INR 10 lacs will be taxed at 15% down from current 20%, and income between INR 10 lacs and INR 12.5 lacs will be taxed at 20% down from current 30%. Income between INR 12.5 lacs and INR 15 lacs will be taxed at 25% down from current 30%. Incomes above INR 15 lacs will continue to be taxed at 30%. The unique aspect of the new regime is that it allows taxpayers the option to choose between the existing income tax regime and a new regime with slashed income tax rates and new income tax slabs but no tax exemptions. The new tax regime offers lower tax rates and new tax slabs and simultaneously removes tax exemptions and will result in lower tax outgo for the taxpayer, according to the Finance Minister.

Many items, including cigarettes, tobacco products, medical equipment will become more expensive due to hike in taxes. Simultaneously, items such as raw sugar, agriculture and animal-based products, tuna bait, skimmed milk, certain alcoholic beverages, soya fibre will become cheaper.

Finance Minister Nirmala Sitharaman said that dividend distribution tax has been shifted to individuals instead of companies. She also stated concessional tax rate of 15% for new domestic companies has been extended to power generation companies. The government plans 100% tax concession to sovereign wealth funds on investment in infra projects. The budget also provides tax benefits to Start-ups by way of deducting 100% of their profits, enhanced by increasing turnover limit and period of eligibility.

Fairness in tax administration is the cornerstone of ease of living and ease of doing business. Government has taken steps to eradicate 'tax harassment' by stating that a citizen's charter will be added to the statute. This, along with the faceless assessment scheme introduced last year, is likely to boost taxpayer's confidence and can go a long way in reducing harassment. The government plans to amend the Companies Act to decriminalise civil offences, again aiming to prevent mistreatment of wealth creators, and protect them from any harassment. These measures are likely to improve India's place on the ease of doing business ranking under the head 'Paying Taxes' from the current abysmal 115th position it occupies.

Disinvestment and Privatisation

The Economic Survey heavily hinted towards disinvestment and privatisation as a means of revamping the locus of economic activity in India towards the free market. The budget has fulfilled on that promise to a certain extent, primarily through alluded policies instead of actual concrete action. In the Budget Speech, the Finance Minister stated her intent to sell the government's stake in the Life Insurance Corporation of India through an Initial Public Offering. She also proposed a plan to float a new debt ETF comprising primarily of government securities, which will give retail investors access to government security and provide an attractive investment for pension funds and long-term investors. She also announced that the government will sell its share in IDBI Bank to the private sector.

These plans for disinvestment, along with Air India, BPCL and others, are expected to contribute substantially to the FY21 divestment target. The government has set a INR 2.1 lac crore FY21 target for disinvestment, far above the analyst estimates of INR 1 lac crore. The government has made divestment worth INR 18,094.59 crores this year, falling far short of its disinvestment target of INR 1.05 lac crore for the financial year.

Theme 1: Aspirational India

The budget sets out three themes, the first of which is called 'Aspirational India' and encompasses the bulk of policies regarding agriculture, education, and wellness. There is an extension of the welfare policies that have become integral to the Indian state's interventions in the socio-economic landscape of the country, without any surprises or extraordinary policies being introduced. The idea of doubling farmers income that was first addressed in the last budget finds place in the 2020 Budget as well, with the government proposing a host of possible measures. The list of key developments and policies for this theme is given below.

Agriculture Sector

- The budget has reiterated the government's commitment to doubling farmer income by 2022. To this end, it has requested state governments to implement national laws such as the Contract Farming Act 2018, APMC Act 2017, and Model Agriculture Land Leasing Act, 2016.

- The government remarked that farm markets need to be liberalized, farming needs to be made more competitive, handholding of farm-based activities need to be provided, sustainable cropping patterns and more tech-based approaches are needed.
- The government proposes to provide Gap funding for setting up of warehousing in taluka / village level to promote the development of warehousing, in line with Warehouse Development and Regulatory Authority norms.
- Agriculture credit target for FY21 is set at INR 15 trillion. To achieve this, the NABARD re-finance scheme will be further expanded.
- Farmers who have barren lands will be helped with Solar power generation units that can be shared through the grid. This will help them make a living through sale of solar power.
- To empower efficient transportation of perishable items, Government has announced Kisan Railway, to be implemented through the PPP model.
- There will be a Krishi UDAN scheme along with the Civil Aviation Ministry to help farmers transport grains and produce by air on both national and international routes. Through this scheme, agricultural producers will be able to reach the market with ease and time.
- The government proposes measures to improve situation in 100 water-stressed districts to tackle the issue of water related stress in the country.
- The village Storage Scheme run by self-help groups given a boost as women self-help groups can now get help from NABARD or Mudra.
- The horticulture sector has exceeded the production of food grains by around 311 million metric tons of production. The government will help those states that work for 'one product, one district'.
- Integrated Farming Systems to be developed in rain-fed areas.
- Negotiable Warehousing Receipts Financing has crossed INR 6,000 crore.
- All beneficiaries of PM Kisan scheme will now be covered under the Kisan Credit Card scheme.
- MNREGA will be merged for creating fodder farms.
- Fish production to be raised to 200 lac tonnes by 2022-23.

Wellness, Water and Sanitation

- INR 12,300 crores have been allocated for Swachch Bharat Mission in the Union Budget.
- The "Fit India Movement" has been spoken about in the context of India's fight against the non-communicable diseases.
- The government has made clear its intent to set-up hospitals in Indian Tier-II and Tier-III cities under the PPP model.
- Jan Aushadhi Kendras will be expanded.
- A total allocation of INR 69,000 crores have been made for the Health sector.

Education Sector

- The Union Budget 2020 has proposed foreign direct investment, FDI, and ECB in education.
- 150 higher education institutions will start apprenticeships in 2020-21.
- Urban Local Bodies have been asked to provide internship opportunities for freshers and engineers for a period of one year.
- A degree level online education programme will be launched to provide quality education to students from deprived sections.

- INDSAT exam will be conducted in Asian and African countries under the Study in India programme.
- A "National Police University" and a "National Forensic Science University" are proposed to be set up.
- The government proposes to attach a Medical College to every existing district hospital under the PPP model.
- The Budget allocates INR 99,300 crores for the Education sector and INR 3,000 crores for Skill Development.

Theme 2: Economic Development

The second theme of the budget was quite sweeping in its ambit and titled 'economic development'. It primarily addressed industrial policies relating to the railways and the energy sector. The list of policies can be found below:

- The government proposes to set up an "Investment Clearance Cell" to offer services related to investment advisory, land banks etc. An online portal will be launched for the same.
- The government proposes a National Technical Textiles Mission.
- All ministries have been asked to issue quality standards.
- A new scheme, "NIRVIK", has been announced for fewer duties and taxes on exported products. The scheme will be launched in FY 2020-2021.
- The government seeks to make each district an export hub.
- INR 27,300 crore has been allocated for development of industry and commerce in FY 2020-2021.
- The National Infrastructure Pipeline is expected to create employment opportunities.
- The government will formulate a National Logistics Policy soon.
- The government proposes to build a Chennai-Bengaluru Expressway.

Transportation

- A large solar power capacity has been proposed for the Indian Railways. It will be built along the rail track on the Railways owned lands.
- The Bengaluru Suburban Rail Project has been proposed and the budgetary allocation for the same is INR 18,600 crore.
- By 2024, the Government expects to monetize 12 lots of national highways.
- With the help of UDAN scheme, 100 airports will be built by 2024.
- The number of aircrafts in India is expected to double from 600 to 1,200 by 2024; this is expected to go a long way in building on the success of the UDAN scheme.
- A total of INR 1.7 lac crores have been allocated for transport infrastructure.

Energy Sector

- Prepaid Smart Meters: States will have to replace existing energy meters with prepaid smart meters
- The budgetary allocation for the Power and Renewable Energy Sector is INR 22,000 crores.
- The National gas grid will be expanded from 16,200 Kilometers to 27,000 Kilometers.
- A new policy will be launched for the construction of data centre parks by the private sector.
- Bharat Net will link 1 lac gram panchayats through Fibre to Home connections; an amount of INR 6,000 crores has been earmarked for this.

Theme 3: A Caring Society

The third section of the budget aims to focus on building 'a caring society' including - accessibility of resources to everyone, and fair availability of opportunities for all citizens. Various welfare schemes were continued in this regard, and the success of some like 'Beti Bachao, Beti Padhao' were lauded.

- 'Beti Bachao, Beti Padhao': Enrollment of girls in schools is higher than the boys.
- INR 35,600 crores will be provided for nutrition-related programmes
- Task Force will be constituted to investigate the issue of girls of low age entering motherhood
- It allocates INR 85,000 crores for development of SCs and OBCs
- It allocates INR 53,700 crores for STs development
- It allocates INR 9,000 crores for Senior citizens and persons with disabilities

Art & Culture

- The government will constitute "Indian Institute of Heritage and Conservation" and give it the status of a deemed university.
- The government will build a Tribal Museum in Ranchi.
- The budget allocates INR 3,150 crores for the Ministry of Culture.

Tourism Sector

The Tourism Sector is expected to grow at 7.8% to INR 1.88 lac crores.

Climate

- The Coalition for Disaster Resilient Infrastructure will be implemented from January 2021.
- The government has allocated INR 4,400 crores to promote clean air in cities with a population of over 1 million people.

Banking Sector

- To avoid citizen harassment, a taxpayer charter will be enshrined in the statutes.
- For recruitment in non-gazetted posts in banks, National Recruitment Agency will be constituted for both government and public sector banks.
- It proposes the creation of the New National Policy on Official Statistics
- Deposit insurance cover has increased comprehensively from INR 1 lac to INR 5 lacs.

MSME & Corporate Sector

- The budget proposes a new scheme for MSMEs in the context of subordinate debt.
- The debt recast window of MSME is extended by one year to March 31, 2021.
- Certain categories of government securities will now be opened for Non-Resident Investors
- The FPI Limit in Corporate bond has increased to 15%.

A step in the right direction

The expectations going into this budget were immense. With the aforementioned growth slowdown on the horizon, the expectation was that the government would accede to every market demand. The Finance Minister has, however, presented the country with a carefully crafted budget that walks the path of fiscal prudence. Going against speculation, she decided not to spur demand through a Keynesian expansion but focus on curbing inflation and nudging the citizenry towards consumption. While the market has not taken fondly to the announcements, the government has ample tools in its box to move towards a market-based regime. In conclusion, the Finance Minister may not have given India the big bang budget that it wanted, but she has steered the ship in the right direction.

DIRECT TAXES

INCOME TAX

The clauses in the 'Bill' so far as they relate to direct taxes, when enacted, will operate with effect from AY 2021-22. Where the intention is otherwise, there will be a specific mention of the fact. The readers will notice that when we make our comments on the diverse clauses of the Bill, we have indicated the material clauses in bracket.

Amendments to Tax Rates

For Individuals, HUF, Association of Persons and Body of Individuals.

No change has been proposed in the Income-tax slab and the applicable rates as compared to the Finance (No. 2) Act, 2019.

Existing		Proposed	
Income (INR)	Rate (%) (1)(3)(4)(5)	Income (INR)	Rate (%) (1)(3)(4)(5)
0 – 2,50,000 (2)	Nil	0 – 2,50,000 (2)	Nil
2,50,001 – 5,00,000	5	2,50,001 – 5,00,000	5
5,00,001 – 10,00,000	20	5,00,001 – 10,00,000	20
10,00,001 and above	30	10,00,001 and above	30

A resident individual whose taxable income does not exceed INR 5,00,000 can claim tax rebate under Section 87A. Tax rebate is lower of the amount of income-tax amount and INR 12,500.

Optional Concessional income-tax slab rates for Individuals and HUF (subject to certain conditions)

The TLAA had provided a concessional tax rate for certain domestic companies. It is proposed to provide similar option to Individual and HUF by insertion of Section 115BAC, which provides for the following slab rates:

Income (INR)	Rate (%)(6)
0 – 2,50,000	Nil
2,50,001 – 5,00,000	5
5,00,001 – 7,50,000	10
7,50,001 – 10,00,000	15
10,00,001 – 12,50,000	20
12,50,001 – 15,00,000	25
15,00,001 and above	30

The above income-tax slab rate is optional and *inter-alia*, provides for certain conditions, some of them are as follows:

(a) No Exemption/allowances that are available to Individuals and HUF [viz. LTA [Section 10(5)], HRA [Section 10(13A)], allowances to employees [Section 10(14)], allowances for Income of Minor [Section 10(32)], standard deduction, entertainment allowance and professional tax to the salaried persons [Section 16], interest on self-occupied house and vacant property [Section 24(b)], additional depreciation [Section 32(i)(iia)], scientific research [namely Sections 35(1)(ii), 35(1)(iia), 35(1)(iii) and 35(2AA)], family pension [Section 57(iia)] and deductions under chapter VI-A (except Sections 80CCD(2) (National Pension Scheme) and 80JJAA)].

(b) No carry forward of losses and depreciation attributable to deductions or incentives

(c) No set off of loss for House property

Further, it also provides for:

(a) Full effect of the unabsorbed depreciation not given for prior to AY 2021-22 to be adjusted against the written down value of asset as on April 1, 2020

(b) Continuation of tax benefit under Section 80LA to unit in IFSC

(c) Non applicability of AMT. Accordingly, carry forward and set off of AMT not available going forward

It would appear that the concessional rates would apply to all classes of assessees including senior citizens who would therefore have an exemption limit of INR 2,50,000 under this optional regime.

Since a number of concessions and deductions would have to be foregone for availing this concessional rate regime one would have to do a cost-benefit analysis before opting for the concessional rate.

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Tax Rates applicable to companies (domestic and foreign) for Total Income / Book Profit exceeding INR 10 crores

Description	Existing Rate (%)(7)	Proposed Rate (%)(7)
A) Domestic company		
Regular Tax (i.e. for companies having turnover in excess of INR 400 crore)	34.944	34.944
Where the total turnover or gross receipts in the FY 2017-18 does not exceed INR 400 crores	29.120	–
Where the total turnover or gross receipts in the FY 2018-19 does not exceed INR 400 crores	–	29.120
MAT (of Book Profits)	21.549	21.549
Dividend Received from specified foreign company	17.472	17.472
B) Foreign Company		
Regular Tax	43.680	43.680

IV) Tax Rates applicable to companies (domestic and foreign) for Total Income / Book Profit less than INR 10 crores

Description	Existing Rate (%)		Proposed Rate (%)	
	Range of Income		Range of Income	
	INR 1 crore to INR 10 crores(8)	Less than INR 1 crore(9)	INR 1 crore to INR 10 crores(8)	Less than INR 1 crore(9)
A) Domestic company				
Regular Tax (i.e. for companies having turnover in excess of INR 400 crore)	33.384	31.200	33.384	31.200
Where the total turnover or gross receipts in the FY 2017-18 does not exceed INR 400 crores	27.820	26.000	–	–
Where the total turnover or gross receipts in the FY 2018-19 does not exceed INR 400 crores	–	–	27.820	26.000
MAT (on Book Profits)	20.587	19.240	20.587	19.240
Dividend Received from specified foreign company	20.587	19.240	20.587	19.240
B) Foreign Company				
Regular Tax	42.432	41.600	42.432	41.600

Optional Concessional tax rates for Domestic companies (subject to certain conditions)

Concessional tax rates have been provided for the following domestic companies (vide Sections 115BAA and 115BAB of the Act). The companies have an option to avail to such a consequential rate, subject to fulfilment of certain conditions.

Description	Existing Rate (%)[10]	Proposed Rate (%)[10]
Companies (not availing deductions / exemptions as prescribed therein) (Section 115BAA)	25.168	25.168
Manufacturing companies set up and registered on or after October 1, 2019 but before March 31, 2023 (without claiming any deductions / exemptions) (Section 115BAB)	17.160	17.160
Companies in the business of generation of electricity set up and registered on or after October 1, 2019 but before March 31, 2023 (without claiming any deductions / exemptions) (Section 115BAB) This amendment is proposed to take effect from April 1, 2020 (AY 2020-21).	–	17.160

Tax Rates applicable to Firm / LLP / Local Authority for Total Income exceeding INR 1 Crore

Description	Existing Rate (%)[11]	Proposed Rate (%)[11]
Regular Tax	34.944	34.944
AMT	21.549	21.549

Tax Rates applicable to Firm / LLP / Local Authority for Total Income less than INR 1 crore

Description	Existing Rate (%)[9]	Proposed Rate (%)[9]
Regular Tax	31.200	31.200
AMT	19.240	19.240

Optional and Concessional tax rate for Resident co-operative societies (subject to certain conditions)

The Co-operative societies are taxed as per the slab rates and the total income exceeding INR 20,000 is taxable at 34.944%[12]

The TLAA sought to provide additional fiscal stimulus to attract investment, generate employment and boost the economy. For this purpose, concessional tax rates were prescribed for certain domestic companies. It is proposed to extend similar benefits to resident co-operative societies by introducing new Section 115BAD, which provides for concessional lower rate of 25.826%[12], subject to not availing certain deductions / exemptions (like additional depreciation [Section 32(i)(iia)], investment in notified areas [Section 32AD], tea, coffee and rubber Development [Section 33AB], site restoration fund [Section 33ABA], scientific research [namely Sections 35(1)(ii), 35(1)(iia), 35(1)(iii), 35(2AA)], specified business [Section 35AD], agriculture extension project [Section 35CCC] and deductions under chapter VI-A]. The taxpayer has an option to take this benefit. However, once the option is so exercised, the same cannot be withdrawn.

This amendment is proposed to take effect from April 1, 2021 (AY 2021-22).

Reference notes:

(1) Health and Education Cess shall be levied at the rate of 4% on income-tax, including surcharge wherever applicable.

(2) The basic exemption limit is INR 2,50,000 in the case of every individual below the age of 60 years, INR 3,00,000 in the case of resident individuals of the age of 60 years or more and INR 5,00,000 for 'Very Senior Citizen' in the case of resident individuals of the age 80 years and above.

(3) Surcharge at the rate of 10% of income-tax is applicable in the case of a person having a total income (including income chargeable under the head 'Capital Gains') exceeding INR 50 lacs, but not exceeding INR 1 crore and 15% in the case of a person having a total income (including income chargeable under the head 'Capital Gains') exceeding INR 1 crore.

(4) Surcharge at the rate of 25% of such income-tax is applicable in the case of a person having a total income (excluding income chargeable under the head 'Capital Gains') exceeding INR 2 crores, but not exceeding INR 5 crores and 37% in the case of a person having a total income (excluding income chargeable under the head 'Capital Gains') exceeding INR 5 crores.

(5) Surcharge at the rate of 15% of income-tax for person having a total income (including income chargeable under the head 'Capital Gains') exceeding INR 2 crores

(6) Surcharge will be same as applicable to the normal slab rates for Individuals and HUF.

(7) Inclusive of surcharge of 12% (5% for foreign company) and health & education cess of 4%.

(8) Inclusive of surcharge of 7% (2% for foreign company) and health and education cess of 4%.

(9) Inclusive of health and education cess of 4%.

(10) Inclusive of surcharge of 10% and health & education cess of 4%.

(11) Inclusive of surcharge of 12% and health & education cess of 4%.

(12) Inclusive of surcharge of 12% in case of income exceeding INR 1 Crore and health & education cess of 4%.

Removal of Dividend Distribution Tax

DDT payable by companies and Mutual Funds on the dividend distributed by them has been a sore point for long. It was first introduced by the Finance Act, 1997. The present version of the Section was enacted by the Finance Act, 2003. It shifted the incidence of tax on dividend from the shareholder to the paying company. Over the years, rate of DDT has also been raised as part of the resource mobilization measure.

It is now proposed to remove DDT. Accordingly, no DDT will be payable by companies on dividend distributed or paid or declared after March 31, 2020. In turn, dividend would now be taxable in the hands of recipient taxpayers, at the rates of tax applicable in their case.

The following consequential amendments are proposed:

- Sections 115-O & 115R imposing DDT, would not apply to dividend declared, distributed or paid on or after April 1, 2020;

- Sections 10(34) & 10(35), providing for exemption to such dividend in the hands of the recipient, would not apply to such dividend received on or after April 1, 2020;
- Sections 10(23FC) & 10(23FD) to omit reference therein to Section 115-O(7) in the case of business trusts and unit holders, respectively;
- Section 115UA(3) to delete reference to Sections 10(23FC) & 10(23FD) so as to make dividend income, distributed by a special purpose vehicle to a business trust, taxable in the hands of unit holder. Section 194LBA to provide for tax deduction, by the business trust, on dividend income paid to unit holder, at the rate of 10% for resident and, for non-resident, at 5% for interest and 10% for dividend;
- Remove reference of Section 115-O in various Sections, like Section 57, Section 115A, Section 115AC, Section 115ACA, Section 115AD and Section 115C;
- Remove reference in Section 10(23D) to Chapter XII-E, consequential to amendment of Section 115R;
- Insert a new Section 80M (similar to what it existed before its removal by the Finance Act, 2003) to remove the cascading effect of tax on dividend received, by allowing set off for dividend received from another domestic company against the dividend distributed by the recipient domestic company. For this purpose, the set off is to be restricted to the dividend distributed by the recipient, on or before one month prior to the due date for filing of the return of income Section 139(1) of the Act;
- To restrict applicability of Section 115BBDA, which taxes dividend income in excess of INR 10 Lacs in the hands of the shareholder at 10%, to only dividend declared, distributed or paid by a domestic company on or before the March 31, 2020;
- Section 57(i) is proposed to be amended to provide that no deduction shall be allowed from dividend income, or income in respect of units of mutual fund or specified company, except for interest expense and that too restricted to 20% of the income by way dividend etc. included in the total income for that year. Section 57(i) presently provides for deduction of any reasonable amount paid by way of commission or remuneration to a banker or any other person for the purpose of realizing such dividend or for interest;
    - Section 57(iii) providing for deduction for any other expenditure laid out or expended wholly and exclusively for the purpose of making or earning income chargeable under the head Income from Other Sources, however remains unchanged;
- Section 194 is proposed to be amended to provide for tax deduction from dividend now made taxable. No such deduction would be required where the amount of dividend is paid by any mode other than cash and the amount of dividend does not exceed INR 5000;
- A new Section 194K is proposed to be introduced to provide for deduction of tax at source at the rate of 10% where the income in respect of units of Mutual funds, of specified undertaking and units from specified company exceeds INR 5000. Definitions of "Administrator", "specified company" and "specified undertaking" are also proposed:
- Amend Section 195 to delete exemption from withholding tax from dividend, referred to in Section 115-O, paid to non-resident;

- Amend Section 196A to revive TDS on income of units payable to a non-resident;
- Amend Section 196C to revive TDS on dividend paid to non-resident; and,
- Amend Section 196D to revive TDS dividend paid to Foreign Institutional Investors

The proposed amendment will apply to dividend declared or distributed or paid on or after April 1, 2020 (AY 2021-22)

With dividend becoming taxable, litigation on disallowance Section 14A should abate though the proposed amendment to Section 57(i) could result in some more.

The incidence of tax on dividend for different taxpayers, would now depend on the various provisions of the Act dealing with computation of total income and of tax thereon, as applicable in each case.

Non-resident taxpayers can now claim credit, in their home country, for the tax paid by them on dividend income, which was not possible in the case of DDT, in the absence of a provision therefor in the DTAA.

[Clauses 7,30,40,47,48,49,50,54,55,59, 60,62,74,80,81,85,86,87 and 88]

Residential status in India – Section 6

The existing provisions of Section 6(1) provides for situations in which an individual is treated as a resident in India, in a previous year under the Act. Clause (c) thereof provides that the individual shall be Indian resident in a year, if

(i) he has been in India for an overall period of 365 days or more within the four years preceding that year; and

(ii) he is in India for an overall period of 60 days or more in that year.

Clause (b) of Explanation 1 of said sub-section provides that an Indian citizen or a person of Indian origin shall be an Indian resident, if he is in India for 182 days. The clause (b) of the explanation relaxes the period from 60 days to 182 days in the year, to allow an Indian citizen or a person of Indian origin within the meaning of Explanation to Clause (e) of Section 115C to visit India and stay in India for longer duration without becoming Indian resident.

Instances have come to notice of the Revenue, where the aforesaid relaxation was found to have been used by citizens or persons of Indian origin visiting India to plan their stay in India in such a manner so as to remain non-resident and not declare and offer their global income to tax in India, even though the substantial economic activities had been carried out by them from India.

Further, the existing provisions of Section 6(6) provides for situations in which a person is treated as RNOR in a relevant previous year. Clause (a) thereof provides that if the person is an individual who has been a non-resident in nine out of the ten previous years preceding that year, or has during the seven previous years preceding that year been in India for an overall period of 729 days or less, he is treated as RNOR. Clause (b) thereof contains similar provision for HUF. The carve out was intended to ensure that a non-resident individual or HUF was not suddenly faced with the compliance requirements of a resident in India, merely because he spent more than specified number of days in India during a particular year. The said conditions specified for RNOR in the present law have been subject matter of disputes, amendments and further disputes.

The Revenue authorities have observed that some high net-worth citizens of India had avoided subjecting themselves to any tax jurisdiction either in India or abroad due to the criteria of domicile, residence or any other criteria of similar nature and avoided payment of any tax in any country / territory.

Therefore, it is now proposed as follows:

(i) curtail the period of 182 days to 120 days by amending the said clause (b) of Explanation 1 to Section 6(1). This proposed threshold of 120 days appears to be in line with the limit adopted by some of the countries, e.g. USA regarding the period of stay of its citizen.

(ii) Only one condition in Section 6(6) to treat an individual or HUF to be RNOR, if the individual or manager of HUF has been non-resident in seven out of ten years preceding the relevant previous year.

Additionally, clause 1A is proposed to be inserted in Section 6 to provide that in cases where an individual, being citizen of India is not liable to tax in any country or territory by reason of his domicile, residence or any criteria of similar nature, then the individual would be deemed to be resident in India. This could have a far reaching impact, especially to those persons who have during recent times migrated out of India due to tax consequences and are not liable to pay tax in that country. The CBDT vide press release dated February 2, 2020 has clarified that this provision is not intended to include in tax, those Indian citizens who are bonafide workers in other countries, including in middle east and who are not liable to tax in these countries, The CBDT has further clarified that in case of an Indian citizen who became deemed resident of India, income earned outside India by him shall not be taxed in India, unless it is derived from an Indian business or profession.

The aforesaid amendments appear to be a part of the OECD global initiative undertaken by a group of countries as an anti-abusive measure to curb BEPS.

These amendments are proposed to take effect from April 1, 2021 (AY 2021-22).

[Clause 4]

Concessional withholding tax rate on foreign funds- Section 194LC

Under the existing provisions, a concessional rate of 5% is provided for withholding by Indian companies or business trusts on interest payment to non-residents, on certain forms of borrowings made in foreign currency from sources outside India (including borrowings through long term bond and rupee denominated bond). Further, the said benefit of concessional rate was subject to the condition that the borrowings should be made before July 1, 2020. In order to attract further investments, it is proposed to extend the period of borrowings upto June 30, 2023.

Additionally, it is also proposed that a concessional withholding tax rate of 4% will apply 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 RDB on or after April 1, 2020 but before July 1, 2023 and which is listed only on a recognised stock exchange located in any IFSC.

This amendment is proposed to take effect from April 1, 2020

[Clause 82]

Concessional withholding tax rate on interest payable to FII and QFI – Section 194LD

Under the existing provisions, the concessional rate of 5% is provided for withholding tax on interest payments to FIIs and QFIs on their investment in Government securities and RDB of an Indian company, subject to the condition that the rate of interest does not exceed the rate notified by the Central Government. The section further provides that the interest should be payable at any time on or after June 1, 2013 but before July 1, 2020.

In order to attract investments, it is proposed:

❖ To extend the period of said concessional rate of TDS of 5% to July 1, 2023 from July 1, 2020;

❖ To provide that the concessional rate of TDS of 5% shall also apply to interest payable, on or after April 1, 2020 but before July 1, 2023, to a FII or QFI in respect of the investment made in municipal debt securities.

This amendment is proposed to take effect from April 1, 2020.

[Clause 83]

Exemption for certain incomes of sovereign wealth fund and Indian Strategic Petroleum Reserves Ltd – Sections 10(23FE), (48C) and (45)

In order to incentivise investment of sovereign wealth fund of foreign Governments, it is proposed to insert a new clause (23FE) in Section 10 to provide exemption to any income in the nature of dividend, interest or long-term capital gains arising from an investment made by it in India, whether in the form of debt or equity, in a company or enterprise as defined in Explanation to clause (i) of Section 80-IA(4) or such other business as may be notified by the Central Government in this behalf.

This amendment is proposed to take effect from April 1, 2021 (AY 2021-22).

Also, it is proposed to insert new clause (48C) under Section 10 to provide exemption to income accruing or arising to Indian Strategic Petroleum Reserves Limited for replenishment of crude oil, stored in its storage facility with certain conditions as mentioned in the Section.

This amendment is proposed to take retrospective effect from April 1, 2020 (AY 2020-21).

The exemption on any allowances or perquisites received by serving or retired Chairman or Members of Union Public Services Commission is now removed. Hence, the provisions of Section 10(45) are now deleted.

These amendments are proposed to take effect from April 1, 2021 (AY 2021-22).

[Clause 7]

Interest payable to PE of a non-resident Bank – Thin capitalisation rules – Section 94B

In order to implement the measures recommended in the final report on Action Plan 4 of the BEPS project, the Finance Act, 2017 introduced Section 94B, which provided that the deduction for interest or similar expenses exceeding INR 1 crore in the case of an Indian company, or a PE of a foreign company, for debts borrowed from the AE (defined in Section 92A) shall be restricted to 30% of EBITDA or interest paid / payable to AE, whichever is less. Further, a loan was deemed to be from an AE, if the AE provided an implicit or explicit guarantee for that loan.

Further, under the existing provisions, an Indian branch of a foreign banking company is considered as a non-resident in India, falling under the definition of an AE in terms of Section 92A, which inter-alia, deems two enterprises to be AE, if during the previous year a loan advanced by one enterprise to the other enterprise is at 50% or more of the book value of the total assets of the other enterprise. Thus, the interest paid or payable for loan from the branch of a foreign bank would attract provisions of Section 94B.

It is proposed to insert a new clause (1A) to exclude a transaction of interest paid on debts issued by a PE of a non-resident, being a person engaged in the business of banking in India. Thus, these provisions of Section 94B shall not apply to the Indian branch of a foreign bank.

This amendment is proposed to take effect from April 1, 2021 (AY 2021-22).

[Clause 46]

Deferment in Significant Economic Presence test – Section 9

The existing provisions of Section 9 of the Act contain provisions dealing with income, which is deemed to accrue or arise in India. sub-section (1) thereof creates a legal fiction that certain incomes shall be deemed to accrue or arise in India.

The Finance Act, 2018, inter alia, inserted Explanation 2A to Section 9(1) to clarify that the SEP of a non-resident in India shall constitute a 'business connection' in India. For this purpose, SEP shall mean:

(a) Transaction in respect of any goods, services or property carried out by a non-resident in India, including provision of download of data or software in India, if the aggregate of payments arising from such transaction or transactions during the previous year exceeds such amount as may be prescribed; or

(b) Systematic and continuous soliciting of business activities or engaging in interaction with such number of users as may be prescribed, in India through digital means.

The said Explanation further provided that the transactions or activities shall constitute SEP in India, whether or not, the agreement for such transactions or activities is entered in India; or the non-resident has a residence or place of business in India; or the non-resident renders services in India. It was also provided that only so much of income as is attributable to the transactions or activities mentioned at (a) and (b) above, shall be deemed to accrue or arise in India.

The said Explanation provided that for the purposes of determining SEP of a non-resident in India, threshold for the aggregate amount of payments arising from the specified transactions and for the number of users would be prescribed in the Rules. However, due to the on-going discussions in Group of 20-OECD BEPS project, these numbers have not been notified. G20-OECD report is expected by the end of December 2020. In the circumstances, it is proposed to defer the applicability of SEP and make it applicable from the AY 2022-23. Certain drafting changes have also been made while deferring the proposal.

Thus, the current SEP provisions are proposed to be omitted from the AY 2021-22 and the new provisions will take effect from April 1, 2022 (AY 2022-23).

[Clause 5]

SHR and APA for attribution of profit to PE – Sections 92CB & 92CC

The existing provisions of Section 92CB empower the CBDT to frame SHR for determination of the ALP of international transactions under Section 92C or Section 92CA of the Act. The Explanation to Section 92CB defines the term 'safe harbour' to mean circumstances in which the tax authority shall accept the transfer price declared by the taxpayer. The SHR prescribe with certainty outcome for specific foreseeable cases.

The existing provisions of Section 92CC empower the CBDT to enter into an APA with any person, determining the ALP or specifying the manner in which the ALP is to be determined, in relation to an international transaction to be entered into by that person. APA provides tax certainty in determination of ALP for five future years as well as four preceding years (roll back).

These provisions were inserted to reduce the number of transfer pricing audits and prolonged litigation and bring certainty.

In order to provide advance outcome with certainty for specific foreseeable cases relating to the vexatious issue of profit attribution to PE, in the absence of specific prescription, to reduce litigation, it is now proposed to amend Sections 92CB & 92CC to cover determination of attribution of profits to the PE of a non-resident under SHR and APA. The proposed amendment would also cover profit attribution to the PE of a non-resident under clause (i) of Section 9(1) in accordance with rule 10 of the Rules.

The amendment to Section 92CB is proposed to take retrospective effect from April 1, 2020 (AY 2020-21). The proposed amendment to Section 92CC shall be applicable to an APA entered into on or after April 1, 2020 (AY 2021-22)

[Clauses 43 and 44]

Exemption of FPI Category I and II from Indirect transfer provisions – Section 9

The Finance Act, 2012, inserted the Explanation 5 to Section 9(1) to clarify that a share or interest in a offshore company or entity, shall be deemed to be and shall always be deemed to have been situated in India, if the share or interest derives, directly or indirectly, its value substantially from the assets located in India. The Second proviso to said Explanation, inserted through the Finance Act, 2017, provides that the Explanation shall not apply to an asset or capital asset, which is held by a non-resident by way of investment, directly or indirectly, in Category-I or Category-II FPI under the SEBI (FPI) Regulations, 2014.

Vide Gazette Notification No. SEBI/LAD-NRO/GN/2019/36, the SEBI has notified FPI Regulations 2019 and repealed the SEBI (FPI) Regulations, . The upshot of the new SEBI regulations is that the categories of FPIs has been reduced from three to two and the exemption in respect of indirect transfer of assets, which hitherto was available to non-residents having investment in share in FPI Category II is withdrawn.

It is therefore proposed that the investment in shares held by a non-resident in erstwhile Category I and II FPIs under the SEBI (FPI) Regulations would be grandfathered. Further, the exemption to investment in shares held by non-resident in FPI Category II under the (FPI) Regulations would not enjoy the indirect transfer exemption. Thus, investment in Category-I FPI under the FPI Regulations, 2019 would enjoy the exemption from indirect transfer of shares or interest.

This amendment is proposed to take retrospective effect from April 1, 2020 (AY 2020-21).

[Clause 5]

Rationalisation of definition of Royalty – Section 9

The clause (vi) of Section 9(1) deems certain income by way of royalty to accrue or arise in India. Explanation 2 of said clause defines the term "royalty" to mean transfer of all or any rights (including the granting of a licence) in respect of any copyright, literary, artistic or scientific work including films or video tapes for use in connection with television or tapes for use in connection with radio broadcasting, but not including consideration for the sale, distribution or exhibition of cinematographic films.

Due to exclusion of consideration for the sale, distribution or exhibition of cinematographic films from the definition of royalty, such amount has stood excluded from taxability in India, inspite of the enabling provision in the DTAA to tax the amount as royalty. Such a situation is discriminatory against Indian residents. Therefore, the definition of royalty is proposed to be expanded to rope in within it meaning the aforesaid consideration.

The amendment is proposed to take effect from April 1, 2021 (AY 2021-22).

[Clause 5]

Business connection- Widening scope of Attribution of income to Indian Operations – Section 9

As per the discussions going on in international forums, countries generally agree that income from advertisement that targets Indian customers or income from sale of data collected from India or income from sale of goods and services using such data collected from India, needs to be accounted for as Indian revenue. Amendment is proposed on the basis of the source rule of taxation to clarify the said position.

It is proposed to introduce new Explanation 3A to Section 9(1)(i) to declare that income attributable to operations carried out in India, shall include income from-

- Advertisements targeting customers in India or customer who accesses advertisement through internet protocol address located in India;
- Sale of goods and services using data collected from a person who resides in India or from a person who uses internet protocol address located in India.

This amendment is proposed to take effect from April 1, 2021 (AY 2021-22). However, for attribution of income related to SEP transaction or activities, the amendment will take effect from April 1, 2022 (AY 2022-23).

[Clause 5]

Relaxation in conditions of special taxation regime for offshore funds – Section 9A

The existing provisions of Section 9A provide that an eligible fund manager carrying out an activity for an eligible offshore investment fund would not constitute a 'business connection' in India of the said fund. Further, the eligible investment fund will not be considered to be resident in India, merely since the eligible fund manager undertaking the fund management activities on its behalf is located in India. The benefit under Section 9A is subject to meeting of conditions provided in sub-sections 3, 4, and 5 thereof.

One of the conditions for eligibility, as provided under Section 9A(3)(c) requires that the aggregate participation or investment in the fund, directly or indirectly, by the persons resident in India should not exceed 5% of the corpus of the fund. However, this leads to difficulty in complying with this condition, since in the initial years, the eligible fund manager has to invest his own money to attract investment and create reputation. Accordingly, it is proposed to amend the Section to the extent that the total contribution by the eligible fund manager in the first 3 years up to INR 25 crores shall not be considered while computing the threshold of 5%.

Another condition for eligibility as provided under Section 9A(3)(j) requires that the monthly average of the corpus of the fund shall not be less than INR 100 crores, except where the fund has been established or incorporated in the said previous year, in which case, the corpus of the fund shall not be less than INR 100 crores at the end of a period of six months from the last day of the month of its establishment or incorporation, or at the end of such previous year, whichever is later. This resulted in an anomaly, due to different dates of establishment or incorporation of the fund. Accordingly, it is proposed to amend the Section to the extent that the condition of INR 100 crores should be fulfilled within 12 months from the last day of the month of establishment or incorporation of the fund.

The amendment is proposed to take retrospective effect from April 1, 2020 (AY 2020-21).

[Clause 6]

Rationalisation of Provision – Aligning DTAA with MLI

Section 90 of the Act empowers the Central Government to enter into DTAA with foreign countries or specified territories for,-

- granting relief in respect of —
  - income on which tax has been paid both, in India and the foreign country or territory, or
  - income-tax chargeable under the laws of both, India and the foreign country or territory, to promote mutual economic relations, trade and investment.
- avoidance of double taxation of income under the laws of both, India and the foreign country of territory,
- exchange of information for prevention of evasion or avoidance of income-tax chargeable under the laws of both India and the foreign country or territory, or investigation of cases of such evasion or avoidance, or
- recovery of income-tax under the laws of both India and the foreign country or territory.

Section 90A of the Act empowers the Central Government to adopt and implement an agreement between a specified association in India and a specified association in specified territory outside India for granting relief, avoidance of double taxation, exchange of information and recovery of income-tax.

India has signed the Multilateral Convention to Implement Tax Treaty related measures to prevent BEPS along with representatives of many countries, which has since been ratified. India has since deposited the Instrument of Ratification to OECD, Paris along with its Final Position in terms of CTAs, Reservations, Options and Notifications under the MLI, as a result of which MLI has entered into force for India on October 1, 2019 and its provisions will be applicable on India's DTAAs from FY 2020-21 onwards.

The MLI is an outcome of the Group 20 (G 20) - OECD project to curb treaty abuse and prevent BEPS Project, i.e. tax planning strategies that exploit gaps and mismatches in tax rules and treaty shopping to artificially shift profits to low tax nil tax jurisdiction where there is very little or no economic activity.

Article 6 of MLI provides for modification of the Covered Tax Agreement (DTAA) to include the following preamble text:

"Intending to eliminate double taxation with respect to the taxes covered by this agreement without creating opportunities for non-taxation or reduced taxation through tax evasion or avoidance (including through treaty-shopping arrangements aimed at obtaining reliefs provided in this agreement for the indirect benefit of residents of third jurisdictions)"

Amendment is proposed to incorporate and give effect to the preamble of MLI in the domestic law.

Clause (b) of Section 90(1) is proposed to be amended to provide that the Central Government may enter into an agreement with the Government of any foreign country or specified territory outside India for the avoidance of double taxation of income under the Act and under the corresponding law in force in that country or specified territory, as the case may be, without creating opportunities for non-taxation or reduced taxation through tax evasion or avoidance including through treaty-shopping arrangements aimed at obtaining reliefs provided in this agreement for the indirect benefit of residents of any other country or territory.

It is also proposed to make similar amendment in clause (b) of Section 90A(1) of the Act.

These amendments are proposed to take effect from April 1, 2021 (AY 2021-22).

[Clause 41 and 42]

Exemption from filing of return of income by non-residents – Section 115A

The existing provisions of Section 115A provides for determination of tax on interest, dividends, royalty and fees for technical services in the hands of a non-resident (including foreign company). The provisions currently exempt the non-resident from filing of return of income, if its total income consists only of dividend and interest income, provided tax has been deducted on the same. Similar exemption is not available to income in the nature of royalty and fees for technical services earned by the non-resident.

It is proposed to extend the exemption to royalty and fees for technical services, on which tax has been deducted.

This amendment is proposed to take retrospective effect from April 1, 2020 (AY 2020-21).

[Clause 47]

Extension of special tax regime to unlisted InvIT and REIT– Section 115UA r.w.s. Section 2(13A)

Under the existing provisions, the total income of the InvIT and REIT ('business trust'), excluding capital gains income, is charged to tax at the maximum marginal rate. Further, income by way of interest and rent, received by the business trust from a SPV is accorded pass-through treatment, i.e. there is no taxation of such interest or rental income in the hands of the business trust and no withholding tax at the level of SPV.

However, under the existing provisions of Section 2(13A), the business trust should be registered under the relevant regulations made under the SEBI Act, 1992 and the units should be listed on a recognised stock exchange. The SEBI (InvIT) Regulations have done away with the mandatory listing requirement and therefore, in order to align the definition with the amended SEBI Regulations, the provisions of Section 2(13A) are proposed to be amended to do away with the requirements of listed units of business trust. Thus, the private unlisted business trust would also get the benefit of special tax regime as provided under Section 115UA.

This amendment is proposed to take effect from April 1, 2021 (AY 2021-22).

[Clause 62]

Deferring deduction of tax at source or direct tax payment on perquisite value in case of ESOP issued by start-up companies – Sections 140A, 156, 191 and 192

Under the existing provisions, the perquisite value on ESOP is taxed in the hands of the employee at the time of exercise of the options and tax on such income is deducted by the employer or paid by the employee in the same year.

Since the perquisite value paid to the employee under ESOP is in kind, the current tax regime leads to tricky cash-flow situations for the employees and employers, especially start-up companies. In order to relax the cash-flow burden on the eligible start-up companies, as defined in Section 80IAC, it is proposed to insert new Section 192(1C) (TDS on salary), Section 191(2) (Direct payment of tax in case no tax is deducted), new clause (vi) in Section 140A(1)(c) (self-assessment tax) and new Section 156(2), which clarifies that tax on perquisite income shall be deducted by the employer or paid by the employee, as the case may be, within 14 days -

- after the expiry of 48 months from the end of the relevant AY; or
- from the date of the sale of such specified security or sweat equity share by the taxpayer; or
- from the date of which the taxpayer ceases to be the employee of the start-up;

whichever is earlier, on the basis of tax rates in force of the FY in which such shares were transferred / allotted.

One may note that perquisite income is taxed in the same year, i.e. in the year when the option is exercised. There is no amendment proposed by the Finance Bill, 2020 under Section 17(2)(vi). However, tax on such income will be paid on the later date, as clarified above.

In order to track such tax payments which are due to be paid, one may expect corresponding changes in the income tax return forms, TDS return forms and demand notice. Also, one may expect corresponding amendments / clarifications in the relevant sections pertaining to levy of interest and penalty.

These amendments are proposed to be take effect from April 1, 2020.

[Clauses 68, 71, 72 and 73]

Tax Holiday for start-ups – Section 80IAC

Under the existing provisions, deduction for 100% of business profits is provided to an eligible start-up for 3 consecutive AYs out of 7 years, at the option of the taxpayer, subject to the condition that the eligible start-up is incorporated on or after April 1, 2016 but before April 1, 2021 and the total turnover of its business does not exceed INR 25 crores.

In order to incentivize and rationalise the provisions, it is proposed that the deduction shall be available for 3 consecutive AYs out of 10 years beginning from the year of incorporation. Further, the deduction shall be available, if the total turnover does not exceed INR 100 crores in any of the previous years beginning from the year of incorporation.

This is a substantial benefit provided to the existing eligible start-ups, considering the fact that there could be a higher gestation period in some businesses to start earning profits.

This amendment is proposed to take effect from April 1, 2021 (AY 2021-22).

[Clause 36]

Tax Holiday for affordable housing project – Section 80IBA

The existing provisions, inter alia, provides for deduction of 100% of business profits derived from the business of developing and building affordable housing projects, subject to the fulfilment of certain conditions. The conditions contained in the Section, inter alia, prescribe that the project is approved by the competent authority during the period from June 1, 2016 to March 31, 2020.

In order to incentivise building affordable housing to boost the supply of such houses, the period of approval of the project by the competent authority is proposed to be extended to March 31, 2021.

This amendment is proposed to take effect from April 1, 2021 (AY 2021-22).

[Clause 38]

Deduction of interest for affordable housing project – Section 80EEA

In order to promote affordable housing, the Finance Act (No. 2), 2019, inserted Section 80EEA to allow deduction of INR 1.5 lacs for interest on loan taken from any financial institution for acquisition of an affordable residential house property, subject to fulfilment of certain conditions. One of the conditions was that the loan has been sanctioned by the financial institution during the period April 1, 2019 to March 31, 2020.

In order to continue promoting the first-time buyers to invest in an affordable residential house property, the period of sanctioning of loan is proposed to be extended to March 31, 2021.

This amendment is proposed to take effect from April 1, 2021 (AY 2021-22).

[Clause 32]

Capital gains on segregated portfolios (introduced by SEBI) – Sections 49 and 2(42A)

SEBI has, vide Circular no. SEBI/HO/IMD/DF2/CIR/P/2018/160 dated December 28, 2018, permitted creation of segregated portfolio of debt and money market instruments by mutual fund schemes. In order to ensure fair treatment to the investors, the AMCs', at their discretion, are permitted to create segregated portfolios, comprising of debt or money market instruments affected by a credit event, in a mutual fund scheme. The same is adopted where the values of the underlying securities of the schemes are affected by the credit event provided by a credit rating agency, which is subject to the conditions mentioned in the Circular.

In such a scheme being opted for, the unitholders would be allotted equal number of units in the segregated portfolio, i.e. the unitholders would then hold the same number of units in two schemes, i.e. the main scheme and the segregated scheme.

In order to provide clarity towards computing the capital gains on sale of units of the two schemes, it is proposed to insert clause (2AG) to Section 49 to provide that the cost of acquisition of a unit or units in the segregated portfolio shall be the amount which bears to the cost of acquisition of a unit or units held by the taxpayer in the total portfolio, the same proportion as the net asset value of the asset transferred to the segregated portfolio bears to the net asset value of the total portfolio immediately before the segregation of portfolios. Further, clause (2AH) is proposed to be inserted to provide that the cost of acquisition of the original units shall be deemed to be reduced by the amount equal to the cost allocated to the segregated portfolio.

To rationalize the provisions, it is also proposed to insert sub-clause (hh) to Explanation 1(i) to Section 2(42A) to provide that the period of holding of the units of the segregated portfolios would be considered from the date when the units in the main portfolio were held by the taxpayer.

For this purpose, the expressions 'main portfolio', 'segregated portfolio' and 'total portfolio' shall have the meaning assigned in the said SEBI Circular dated December 28, 2018.

These amendments are proposed to take retrospective effect from April 1, 2020 (AY 2020-21).

[Clauses 3 and 25]

Cost of acquisition of land & building acquired before April 1, 2001 – Section 55

The existing provisions of Section 55(2) of the Act provide that cost of acquisition in relation to land or building or both acquired before the April 1, 2001 shall be actual cost or the fair market value as on the April 1, 2001, at the option of the assessee.

It is proposed to insert clause (b) to sub-section 55(2) to provide that such fair market value of land or building or both shall not exceed the stamp duty value on April 1, 2001, wherever available. It is further proposed to define stamp duty value as the value adopted or assessed or assessable by any authority of the Central Government or a State Government for the purpose of payment of stamp duty in respect of the said immovable property.

This amendment is proposed to take effect from April 1, 2021 (i.e. AY 2021-22).

[Clause 28]

Safe harbor rate increased from 5% to 10% for sale of immovable properties - Sections 43CA, 50C & 56

Under the existing provisions of Sections 43CA and 50C, in case of transfer of land or building or both, if the sale consideration accrued / received is less than the value as adopted by the stamp valuation authority, and the stamp duty value exceeds by 5% or more, then the stamp duty value as adopted by the stamp valuation authority shall be deemed to be the sale consideration for computing the total income.

Further, as per the existing provisions of Section 56(2)(x), if any person receives from any other person any immovable property for a consideration which is less than the value as adopted by the stamp valuation authority and the stamp duty value exceeds by 5% or more, then such differential amount is taxed as income in the hands of recipient of the immovable property, provided the difference in value exceeds INR 50,000.

Considering the current economic scenario, wherein the real estate sector is already facing hardships, it is proposed to amend the said provisions of Section 43CA, Section 50C and Section 56(2)(x) to revise the safe harbour rate from 5% to 10%.

Currently in many cases, the actual transacted value of immovable property is less than the value as adopted by stamp valuation authority, which leads to extra cash outflow towards tax in the hands of both sellers and purchasers. The proposed amendment will bring a big relief to the taxpayers and also help to boost the real estate transactions.

These amendments are proposed to take effect from April 1, 2021 (AY 2021-22).

[Clauses 22, 27 and 29]

Rationalization of provisions relating to trust, institutions and funds – Sections 11, 12A, 12AA, 13 and other related sections

Sections 11 to 13 contain provisions dealing with exemption of income from property held for charitable or religious purposes and apply to trust and institutions which are registered under Section 12A/AA.

Section 11(7) provides that once a trust has been granted registration Section 12A or 12AA and the said registration is in force, exemption of income under Section 10 shall not be allowed except as provided for in Section 10(1) [for agricultural income] and Section 10(23C) [which applies to, among others, universities, educational institutions, hospitals etc.]. It is now proposed to extend the aforesaid carve out to entities covered by Section 10(46) of the Act.

The provisions of Sections 11 to 13 being self contained, the deduction under any other provisions of the Act, except in the case of carve outs in Section 10, were not allowed to the assessee to ensure adherence to the mandatory conditions stipulated and ensure their fulfilment.

Thus, a request of entity notified under Section 10(46) for exemption of its income would be acceded to, it would enjoy exemption of income under one mode, viz. Section 10 or Section 12 even when its registration under Section 12A/ AA is in force and switching from one mode to another would be allowed only once to the entity during the said period in which registration under Section 12A/AA is in force.

A further amendment is proposed to provide for getting the registration once again operative in terms of the proposed Section 12AB. It is also proposed that should this route be adopted, approval under Section 10(23C) or the notification Section 10(46) shall cease to have effect from the date on which the registration under Section 12AB becomes operative, where upon, it will not be entitled to exemption of income under those clauses of Section 10.

This will effectively shut out switching over from one exemption section to another and ensure that the switch over is allowed only once and not routinely, as was found to be done in some cases. This also ensures consistent compliance with the conditions of one exemption mode.

Section 12A lays down the conditions for applicability of Sections 11 & 12. Section 12(1)(a) and (aa) refer to making of application to the Principal Commissioner of Income Tax for registration etc.

A new clause (ac) is proposed to be introduced to provide for making of an application to the Principal Commissioner by all trusts or institutions for registration under the proposed Section 12AB.

For trusts or institutions who have been granted registration under Section 12A or Section 12AA, this application will have to be made within 3 months of the clause coming into force. This means that all registered trust or institutions will have to re-register themselves.

It is proposed that the provisions of Section 11 and 12 will apply to them from the AY from which the trust was earlier granted registration.

Where the trust, etc. has been only provisionally registered under Section 12AB, it will have to apply for approval or registration at least six months prior to the expiry of the period of provisional registration or within six months of the commencement of its activities, whichever is earlier. It is proposed that the provisions of Section 11 and 12 will apply from the AY for which the trust was provisionally registered.

Where registration has become inoperative in terms of the new Section 11(7), an application for approval or registration would be required to be made at least six months prior to the commencement of the AY from which the registration is sought to be made operative.

Where there has been a modification of the objects of the trust etc., which do not conform to the conditions of registration, such an application will have to be made within 30 days from the date of said modification of its objects.

The residuary clause requires an application to be made at least one month prior to the commencement of the previous year relevant to the AY from which the registration is sought.

The amendments are proposed to take effect from June 1, 2020.

Section 12(1)(b) provides for submission of the audit report along with the return of income.

It is proposed to provide that such audit report will have to be submitted before the due date for filing of the return of income under Section 139(1). So, even if the return is not filed, the audit report will have to be furnished.

The new regime is proposed to come into force from June 1, 2020. Correspondingly, Section 12AA will cease to have effect from June 1, 2020.

New sub-section 5 is proposed to be inserted to provide that nothing contained in said Section 12AA shall apply on or after April 1, 2021.

A new Section 12AB, laying down a new procedure for fresh registration, is proposed to be introduced. It provides that for trusts, etc. who have been granted registration under Section 12A or 12AA, shall, almost automatically, be granted registration, for a period of five years. Such orders are to be passed within three months from the end of the month in which the application is received. In a sense therefore, an updated register of trust or institutions is proposed to be drawn up.

In other cases of application for registration referred to in Section 12A(1)(ac) (supra) the Principal CIT or the CIT shall call for such documents or information etc., as he thinks necessary and pass an order granting registration for a period of five years. In doing so, he will satisfy himself about the genuineness of the activities of the trust, compliance with requirements of other applicable laws etc. He can reject the application by an order in writing, after giving the assessee an opportunity of being heard and can also cancel the existing registration. These steps are in line with provisions of Section 12AA. In this case orders are to be passed six months of the end of the month in which application is received.

The Principal CIT/CIT is also empowered to pass an order granting provisional registration which will be valid for period of three years from the AY from which registration is sought. In this case the order is to be passed within one month from the end of the month in which the application is received.

Consequential changes are proposed in Section 115TD (tax on accreted income). Right of appeal is provided for against orders Section 12AB by amending Section 253.

Similar amendments are proposed in Section 80G.

All applications pending before the Principal. Commissioner of Income Tax / Commissioner of Income Tax on June 1, 2020 shall be deemed to be applications Section 12(1)(ac)(vi) which will be eligible for provisional registration as aforesaid.

Similar amendment is proposed in Section 80G.

Provisions of sub-sections 4 and 5 of Section 12AB, dealing with cancellation of registration etc. are similar to those of sub-sections 3 and 4 of Section 12AA.

The objective behind not granting registration in perpetuity, is to keep a tab on the activities of the trusts to ensure that they are in sync with the objects for which they have been formed.

Similar amendments are proposed in Section 10(23C) dealing with educational institutions or hospital or other medical institutions, etc.

It is further proposed that approval granted Section 10(23C) to existing approved institutions, as aforesaid, shall apply from the AY from which the approval was earlier granted. In case of provisionally approved institutions etc. the approval will apply from the first of the assessment years for which it was provisionally approved. In other cases, from the AY immediately following the financial year in which the application was received.

It is also proposed to amend Section 35(1) to provide that every notification under clauses (ii) and (iii) for an existing research association, university, college or other institution shall be deemed to have been withdrawn upon coming into force of the proposed amendment, unless such association etc. makes an intimation in the prescribed form and manner to the prescribed income tax authority, within three months from the date on which the proviso comes into force. Once the intimation is made, the notification shall be valid for a period of five consecutive AYs beginning with the AY commencing from April 1, 2021.

Any notification issued after the enactment of Finance Bill, 2020 shall be effective for such AY or years, not exceeding five assessment years, as may be specified in the notification.

The said research association, university, college or other institution is also to prepare and deliver a statement in prescribed form, verified in the manner etc. within such time as may be prescribed. The association, etc. is also required to furnish to the donor a certificate specifying the amount of donation in such manner, containing such particulars and within such time from the date of receipt of the sum, as may be prescribed.

Similar amendments are proposed to Section 80G.

Failure to comply with requirement to furnish statement or as aforesaid will attract fee of INR 200 for every day of default Section 234G. Section 271K is also proposed to provide for penalty for failure to furnish statements, certificates etc. referred to Section 35 and Section 80G. The minimum penalty proposed is INR 10,000, the maximum being INR 1,00,000.

An important amendment to Section 80G is addition of Explanation 2A to sub-section 5D to provide that the claim of the assessee for a deduction in respect of a donation referred to Section 80G(5) shall be allowed on the basis of information relating thereto, furnished by the said institution or fund, to the prescribed authority, subject to verification in accordance with the risk management strategy formulated by CBDT.

Similar amendment is proposed in Section 80GGA.

These amendments will take effect from June 1, 2020.

[Clauses 7,9,11,12,17,33,34,61,94,96 and 99]

Deduction for Capital Expenditure and depreciation on assets – Section 35AD and Section 32

Section 35AD of the Act provides for 100% deduction for capital expenditure (other than expenditure on land, goodwill and financial assets) incurred by the assessee for the purposes of certain specified businesses. Under Section 35AD(1), the said deduction is allowable during the previous year in which such expenditure has been incurred.

Section 35AD(4) provides that no deduction is allowable under any other Section in respect to the expenditure referred to in sub-section(1).

The taxpayer does not have any option of not availing the deduction under said Section 35AD.

A domestic company engaged in carrying on specified business is eligible for deduction of 100% capital expenditure under Section 35AD and opting for concessional tax rates. The taxpayer availing benefit under Section 115BAA or 115 BAB would be denied depreciation under Section 32 peremptorily, due to mandatory operation of provisions of Section 35AD, though the taxpayer has not claimed deduction under Section 35AD.

In order to alleviate the unnecessary hardship that is likely to be caused in the light of the aforesaid circumstances, an amendment is proposed in Section 35AD(1) to make the claim optional to the eligible taxpayer. An amendment is also proposed in Section 35AD(4) to provide that if a taxpayer has chosen to claim the deduction under Section 35AD for expenditure incurred in specified business, then no deduction under any other Section would be allowable to him in any previous year.

This amendment is proposed to take effect from April 1, 2020 (AY 2021-22).

[Clause 18]

Deduction for Scientific Research expenditure– Section 35

The existing provisions of Section 35 allows deduction for expenditure on scientific research, including payments to approved research association, university, etc. Explanation to the said clause provides that deduction shall not be denied in respect of any sum paid to a research association, etc., falling under clauses (ii) and (iii). However, no such clarification was provided for a sum paid to a company falling under clause (iia).

In order to bring the approved companies at par with the research association, university, college etc., the Explanation is proposed to be amended to even include clause (iia) of Section 35(1). As per proposed amendment, the deduction will be allowed to a person who makes payment to an approved company, irrespective of the fact that subsequently such approval has been withdrawn.

This amendment is proposed to take effect from April 1, 2021 (AY 2021-22).

[Clause 17]

Deduction to insurance companies for amount disallowed under Section 43B

The existing provisions of Section 44 of the Act provide for computation of profit and gains from insurance business (which includes mutual insurance company or a co-operative society) in accordance with the rules contained in the First Schedule to the Act. Rule 5 of the First Schedule (which provides for the computation of profits and gains for insurance business, other than life insurance) does not have any specific provision for claim of deduction under Section 43B (provides for allowance of certain deductions on a payment basis). While these entities were required to disallow the deductions under Section 43B, they were facing challenges to claim the deduction on a payment basis, due to lack of clarification in respect of the same.

It is proposed to amend Rule 5 to specifically provide for the claim of deduction on payment basis under Section 43B, which was disallowed in the earlier years.

This amendment is proposed to take effect retrospectively from April 1, 2020 (AY 2020-21).

[Clause 104]

Enlarging the scope of TDS on interest income - Section 194A

The existing provisions of Section 194A(1) provide for TDS on interest paid (other than interest on securities). Section 194A(3) provides that no tax is required to be deducted by co-operative societies (other than co-operative bank) on income payable to its member or any other co-operative society (clause v) and on income payable in respect of deposits with primary agricultural credit society or a primary credit society or a co-operative land mortgage bank or a co-operative land development bank and deposits (other than time deposits) with a co-operative bank not engaged in the business of banking (clause viia).

In order to enlarge the scope for TDS, it is proposed to provide that the co-operative societies mentioned in clauses (v) and (viia) shall be liable to deduct tax, if -

- Total sales / gross receipts / turnover of the society exceeds INR 50 crores during the immediately preceding FY; and
- Interest is more than INR 50,000 for senior citizen and INR 40,000 in other case.

This will effectively bring these depositors on the radar of the tax department

This amendment is proposed to take effect from April 1, 2020.

[Clause 75]

Extension of the definition of 'work' for TDS- Section 194C

Under the existing provisions of Section 194C, any person responsible for paying any sum to a resident for carrying out any work pursuant to a contract, is required to deduct tax at source. The expression 'work' is defined to include manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from such customer. Thus, in certain cases, the definition gave an escape mode, where the contractors procured the goods from the related parties of the customer instead of purchasing directly from the customer.

To cover such tax leakage, the definition of 'work' is proposed to be amended to include material purchased from the 'associate' of the customer. The term 'associate' shall have the same meaning as provided under Section 40A(2)(b) of the Act.

The amendment is proposed to take effect from April 1, 2020.

[Clause 75]

Reducing the TDS rate on fees for technical services (other than professional services) – Section 194J

The existing provisions of Section 194J provide for deduction of tax @10% on payments towards professional fees, technical fees, etc. On the other hand, Section 194C provides for deduction of tax @ 1% / 2% on any sum payable for carrying out any 'work' pursuant to any contract. It was noticed that a lot of litigation arose for short deduction of tax, since the taxpayer deducted tax at source under Section 194C and the tax officers claimed to tax the same under Section 194J.

To reduce litigation, it is proposed to lower the rate of TDS under Section 194J to 2% in case of fees for technical services (other than professional services) from the existing 10%.

This amendment is proposed to take effect from April 1, 2020.

[Clause 79]

TDS on E-commerce transactions – Section 194O

As a measure to widen the tax base and bring domestic e-commerce transactions within the ambit of withholding tax regime a new Section 194O is proposed to be introduced. Section 194O seeks to bring the participants of e-commerce into the tax net.

The proposed amendment obligates an e-commerce operator to deduct tax at source @ 1% of gross amount of sale of goods or services facilitated by the e-commerce operator through electronic platform irrespective of the fact that payment is made directly by the purchaser of goods / services to the e-commerce participants. Tax is required to be deducted at the time of credit of amount of sale / services to the account of e-commerce participants or payment thereof, whichever is earlier.

E-commerce operators are defined as persons providing digital or e-commerce platforms and are responsible for making payments to E-commerce participants.

E-commerce participants are defined as residents of India who would be selling goods and services through digital or e-commerce platform.

The proposed amendment *inter-alia* provides that:

- No TDS would be attracted if the e-commerce participant is an individual or HUF having

PAN / Adhaar and the aggregate value of transactions is less than INR 5 Lacs.

- Any payment made directly by the purchaser to the e-commerce participant shall be deemed to be amount paid / credited by e-commerce operator to e-commerce participant.
- Tax deduction obligation would continue to apply for payments made to e-commerce operator for hosting advertisements or providing unrelated services
- Transactions covered under the proposed provisions would not attract tax withholding obligation under any other provision/s . This is to ensure that one and the same transaction is not subjected to multiple tax deductions at source.
- 'Services' would include fees for technical / professional services as defined under Section 194J.

Consequential amendment has been made under Section 197 (lower tax withholding certificate), 204 (defining person responsible for paying any sum) and Section 206AA (TDS @ higher rate of 5% in case of non-furnishing of PAN / Aadhaar).

This amendment is proposed to take effect from April 1, 2020.

[Clause 84]

TCS on overseas remittance and on sale of overseas tour package

The existing provisions of Section 206C provide for collection of TCS on purchase of certain goods and entering into certain contracts as prescribed in the Section. In order to widen and deepen the tax net, it is proposed to amend Section 206C and cover the following transactions:

- The authorised dealer receiving an amount of INR 7 lacs or more for remittance out of India under Liberalized Remittance Scheme shall be liable to collect TCS @ 5% (10% in case of non-PAN/ Aadhaar cases).
- The seller of an overseas tour package program shall collect TCS @ 5% from the person who purchases such package (10% in case of non-PAN/ Aadhaar cases).

The terms 'authorised dealer' and 'overseas tour program package' have been defined.

Further, it is also proposed to levy TCS on sale of goods, as under:

- On consideration received from buyer in excess of INR 50 Lacs during a FY, TCS @ 0.1% has to be collected (1% in case of non-PAN/ Aadhaar cases).
- However, only those sellers would be liable to collect TCS whose total sales exceeds INR 10 crores during the FY immediately preceding the year in which TCS has to be collected.
- Government may notify persons who would not be liable to collect TCS.

The above amended provisions shall not be applicable in some cases as follows:

- No TCS has to be deducted if the seller is already liable to deduct TCS under any other provisions of Section 206C or if the buyer is liable to deduct TDS under any other provisions of the Act and has deducted such amount.
- No TCS is to be collected from Central / State Government, embassy, local authority, etc. as defined in the Section.

The above amendment would increase the compliances to be done by the seller but would have the effect of more such transactions being reported and linked between the buyer and seller.

This amendment is proposed to take effect from April 1, 2020.

[Clause 93]

Permitting carry forward of losses and depreciation in certain amalgamations – Section 72AA

The existing provisions allow for the carry forward of accumulated losses and unabsorbed depreciation of the banking company, being amalgamated with any other banking institution under a scheme sanctioned and brought into force by the Central Government under sub-section (7) of Section 45 of the Banking Regulation Act, 1949 (10 of 1949). In order to address the issues faced by the amalgamated public sector banks and public sector general insurance companies, it is proposed to substitute the Section and extend the benefit to the amalgamation of the following companies as well:

- one or more corresponding new bank or banks with any other corresponding new bank under a scheme brought into force by the Central Government under Section 9 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 or under Section 9 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980, or both, as the case may be, or
- One or more Government company or companies with any other Government company under a scheme sanctioned and brought into force by the Central Government under Section 16 of the General Insurance Business (Nationalisation) Act, 1972.

The meaning of the Corresponding new bank, Government Company and general insurance business would be the one assigned in the respective laws mentioned above.

This amendment is proposed to take effect retrospectively from April 1, 2020 (AY 2020-21).

[Clause 31]

Rationalisation of tax treatment of employer's contribution to recognised provident funds, superannuation funds and national pension scheme – Section 17

Under the existing provisions, employer's contribution to recognised provident funds, superannuation funds and national pension scheme exceeding the prescribed threshold is taxable in the hands of the employee. However, there is no combined upper limit specified for the purpose of deduction on such contributions made by the employer. Due to this, employees having a high salary income are able to design their salary package in a manner where a large part of their salary is paid by the employer in the said three funds vis-à-vis the employees earning a lower salary. The salary portion remains untaxed as EEE (exempt-exempt- exempt) regime is followed for these funds.

It is proposed to amend Section 17 to provide an annual upper limit of INR 7,50,000 for making combined contributions to the above-mentioned funds, in order to balance between the employees having high and low salary income. Thus, the total employer's contribution in excess of INR 7,50,000 would be treated as taxable perquisite in the hands of the employee. Further, any accretion by way of interest, dividend or any other amount of similar nature during the previous year on such excess employer's contribution would be treated as taxable perquisite in the hands of employee.

This amendment is proposed to take effect from April 1, 2021 (AY 2021-22).

[Clause 13]

Powers of ITAT to grant stay of demand

Section 254 contains various provisions dealing with orders of the ITAT. Section 254(2A) requires the ITAT to hear and decide an appeal, if possible, within a period of four years. It also empowers the ITAT to grant stay of demand, after considering the merits of the stay application. The stay could be granted for an initial period not exceeding 180 days and, with extension, for an aggregate period not exceeding 365 days (there are Court rulings holding that the ITAT can extend the stay beyond 365 days). The ITAT is required to dispose of the appeal within the said period of stay. Apart from mandating the period for which stay of demand could be granted by the ITAT, no other pre-condition has been prescribed.

It is now proposed to amend the first proviso thereto to provide that the ITAT will grant a stay only if the taxpayer deposits not less than 20% of the amount of tax, interest, fee, penalty, or any other sum payable under the provisions of this Act, or furnishes security of equal amount in respect thereof.

It is also proposed to amend the second proviso to provide that the ITAT can extend the stay beyond the first period of up to 180 days, only if the taxpayer has deposited part of the demand as aforesaid.

In practical terms, whether the ITAT will take into account refunds due and other adjustments claimed by the taxpayer against the subject demand would remain to be seen. It may happen that these issues may have to be settled with the lower authorities before making the stay application. Further, this payment would be over and above the amount paid/recovered by the revenue authorities. In a given case, the ITAT may insist on payment of more than 20% of the demand. With the 20% payment being mandatory, patently unjustified demands would also have to be paid.

Since this amendment becomes applicable with effect from April 1, 2020, it would appear that, in respect of stay orders passed on or after April 1, 2020, even for extension of stay beyond the first tranche, the ITAT would be required to insist on payment of at least 20% of the demand, even if no such condition was imposed by the ITAT while granting stay to begin with.

In fairness, upon the disposal of the appeal, the ITAT should be empowered to order refund out of such pre-deposit, within a period to be statutorily mandated.

[Clause 97]

Provision for e-appeal – Section 250

The existing provisions of Section 143 provide for a scheme of e-assessment. With the advent of the e-assessment scheme, most of the functions / processes under the Act, including the filing of return, processing of returns, issuance of refunds or demand notices and assessments, which used to require person-to-person contact between the taxpayer and the Income-tax Department, are now being done in the electronic mode.

The filing of appeals before the first appellate authority has also been enabled in the electronic mode. However, till now, appeal proceedings were neither electronic nor faceless.

It is now proposed to insert sub-section (6A) to provide for formulation of a scheme for e-appeals similar to e-assessments.

- so as to impart greater efficiency, transparency and accountability;
- to eliminate interface between the first appellate authority (CIT(A)) and the appellant;
- to optimize the utilization of resources;
- to adopt a dynamic jurisdiction in which appeal shall be disposed of by one or more CIT(A).

The required directions for the purpose of giving effect to the scheme are to be issued on or before March 31, 2022.

This amendment is proposed to take effect from April 1, 2020.

[Clause 95]

Provision for e-penalty – Section 274

Section 274 of the Act provides for the procedure for imposing penalty under Chapter XXI of the Act. Under the existing provisions an order imposing penalty cannot be passed unless the taxpayer is heard or has been given a reasonable opportunity of being heard. Taxpayer or his authorised representative for that purpose is required to visit the office of the AO In response to a show cause notice issued by the AO.

it is proposed to insert a new sub-section (2A) in the Section 274 to provide that the Central Government may notify an e-scheme for the purposes of imposing penalty so as to impart greater efficiency, transparency and accountability by

- eliminating the interface between the AO and the taxpayer in the course of proceedings to the extent technologically feasible;
- optimising utilisation of the resources through economies of scale and functional specialisation;
- introducing a mechanism for imposing of penalty with dynamic jurisdiction in which penalty shall be imposed by one or more income-tax authorities.

It is also proposed to empower the Central Government, for the purpose of giving effect to the scheme made under the proposed sub-section, for issuing notification in the Official Gazette, to direct that any of the provisions of this Act relating to jurisdiction and procedure of imposing penalty shall not apply or shall apply with such exceptions, modifications and adaptations as may be specified in the notification. Such directions are to be issued on or before March 31, 2022. It is proposed that every notification issued shall be required to be laid before each House of Parliament.

This amendment is proposed to take effect from April 1, 2020.

[Clause 100]

Modification of E-assessment scheme – Section 143

The existing provisions of Section 143(3A) empowers the Central Government to make a scheme for the purpose of making an assessment under Section 143(3) of the Act, with greater efficiency, transparency and accountability, which mainly focuses on faceless assessments. It is proposed to amend the provisions of Section 143(3A) and expand the scope so as to include the best judgment assessment under Section 144 of the Act in the scope of faceless assessments.

Further, the provisions of Section 143(3B), permitted the Central Government to issue notifications / directions to the effect that any of the provisions of the Act relating to the assessment of total income or loss, shall not apply or shall apply with such exceptions, modifications and adaptation, as may be specified in the notification. However, no direction or notification shall be issued after March 31, 2020. It is now proposed to extend this date upto March 31, 2022.

This amendment is proposed to take effect from April 1, 2020.

[Clause 69]

Insertion of Taxpayer's Charter – Section 119A

The Government would like to build trust between the taxpayers and the Income-tax department, so that the apprehensions around doing business in India can be addressed. In order to achieve this, it is proposed to insert a new Section 119A to empower the CBDT to issue a Taxpayer's charter and any directions, instructions or guidelines thereon. This will increase the efficiency and effectiveness of the income-tax department with the taxpayer and consequently, it will have a positive impact on the ranking of ease of doing business in India.

The proposed amendment is proposed to take effect from April 1, 2020.

[Clause 64]

No Dispute but Trust Scheme - 'Vivad Se Vishwas' Scheme

The Government had introduced a Sabka Vishwas Scheme in the last budget, with an intention to reduce the pending litigations in indirect taxes. The statistics released by the Government displayed that such a scheme was effective and had been successful in settling over 1,89,000 cases.

Post such success being observed in the indirect taxes, which helped in quick disposal of pending matters and collection of taxes, the Government has proposed to introduce a similar scheme for reducing the litigations in direct taxes as well. The current statistics reveal that there are 4,83,000 direct tax cases pending at various appellate forums, i.e. CIT(A), ITAT, High Court and Supreme Court. In light of the same, it is proposed to introduce "Vivad Se Vishwas" Scheme (No Dispute but Trust Scheme).

The scheme, though not yet been framed, would however include the following clauses:

- The taxpayer would be required to pay only the disputed taxes and will get complete waiver of interest and penalty. This benefit is available, provided if the demand is paid by March 31, 2020;
- The Scheme would remain open till June 30, 2020. However, in cases where the tax demand is paid after March 31, 2020, the taxpayer will have to pay some additional amount. The said amount is not yet being determined.

What may be noted is that the Scheme is not yet been finalized and released for the action of the taxpayers. In such scenario, the taxpayers would have a limited time to analyse the impact of the Scheme (once released), pay the required taxes and comply with the required procedures to avail the benefit of the Scheme.

On an overall basis, the Scheme is definitely a good initiative by the Government, which could be a win-win situation for both the parties. Adoption of such a Scheme would help the Government recover the taxes quickly rather than awaiting the long and uncertain legal process and reduce the litigation burden on the Appellate authorities and Courts. On the other side, it could help the taxpayers to adopt the Scheme in cases where the issue is factual and establishing the case would be difficult based on the weak documentary evidences. However, the litigation with regard to the legal issues involving substantial question of law or debatable in nature may continue to be litigated by the taxpayers.

Increase in the turnover limit for tax audit in certain cases - Section 44AB

The existing provisions provide that the taxpayer carrying on business, is required to furnish the tax audit report, if the turnover exceeds INR 1 crore in the previous year.

It is now proposed to increase the above limit to INR 5 crores in case the aggregate of all cash receipts or cash payment during the previous year does not exceeds 5% of total receipts or total payments respectively.

In order to enable the prefilling of the income tax returns, it is also proposed to amend the explanation to Section 44AB to provide that the tax audit report may be furnished at least one month prior to the due date of filing of return of income. Hence, the due date of filing return of income in such cases has been extended to October 31 of the relevant AY. Corresponding amendment is made in Section 139(1) of the Act. Thus, the due date for furnishing the tax audit report would be September 30 and for filing the return of income would be October 31. Where transfer pricing regulations are applicable to the taxpayer, the due date for furnishing of tax audit report would be October 31. Corresponding amendments have been made Sections related to TDS and TCS i.e. Sections 194A, 194C, 194H, 194I, 194J and 206A.

This amendment is proposed to take effect from April 1, 2020 (AY 2020-21).

[Clauses 23, 75, 76, 77, 78 and 79]

Due Date for furnishing of Transfer Pricing report – Section 92F

Under the existing provisions, the due date for furnishing of the transfer pricing report under Section 92E was aligned with the due date of filing the income tax return of the taxpayer for the relevant AY, i.e. November 30.

It is now proposed that the due date shall be one month prior to the due date for furnishing the income tax return of income under Section 139(1) for the relevant AY. Hence, the transfer pricing report would have to be furnished by October 31 of the relevant AY, i.e. one month prior to the due date for filing of income tax return (which is, November 30).

This amendment is proposed to take retrospective effect from April 1, 2020 (AY 2020-21)

[Clause 45]

Extension of Due date for furnishing the return of income – Section 139

The existing provisions of Section 139 inter-alia, provides for the due date of furnishing of return of income for certain persons, including a working partner of the specified firm (whose accounts are required to be audited), as the 30th day of September of the relevant AY.

In order to remove the distinction between the working and non-working partner, it is proposed to extend the due date of September 30 to October 31 of the AY.

This amendment is proposed to take effect retrospectively from April 1, 2020 (AY 2020-21).

[Clause 66]

Verification of return of income – Section 140

The existing provisions permit verification of the return of income of a company by the Managing Director and, where the Managing Director is not available for any unavoidable reasons, by a director thereof. Similarly, in case of a LLP, the return has to be verified by the designated partner of the LLP or any partner, in case there is no such designated partner.

It is proposed to amend clause (c) and (cd), so as to enable any other person, as may be prescribed by the CBDT, to verify the return of income in the case of a company and a LLP. A notification to this effect, will be issued separately.

This amendment is proposed to take effect from April 1, 2020.

[Clause 67]

Proceedings before DRP – Section 144C

Under the existing provisions, the AO has to forward a draft of the proposed order of assessment to the taxpayer, where he proposes to make any variation in the income or loss returned, which is prejudicial to the interest of the taxpayer. Thus, the DRP mechanism was applicable only if there was a variation of income. However, say, if the tax rate was challenged and income was not disturbed in such cases tribunals have held that DRP route cannot be considered.

It is proposed to do away with the wordings 'variation to income', so that the DRP route can be adopted even in such cases.

Further, the existing provision is applicable to persons in whose case there is any transfer pricing adjustment made by the Transfer Pricing Officer under Section 92CA(3) and to foreign companies. It is now proposed to expand the scope of the Section to include a non-resident, not being a company.

This amendment is proposed to take effect from April 1, 2020, i.e. in cases where the AO proposes to make any variation after this date, even though applicable for earlier AYs.

[Clause 70]

Penalty for fake invoice – Section 271AAD

It was noticed in the recent past that there were reporting of several cases, wherein fraudulent input tax credit was claimed before the GST authorities based on fake invoices. The invoices were obtained by suppliers (assessee) registered under the GST, to fraudulently claim credit and to reduce his GST liability on the goods sold by him. However, the said persons issuing the invoices were not into genuine business of supply of any goods or services.

In order to punish for such fraudulent arrangements, it is proposed to introduce a new provision to provide levy of penalty on such person. If it is found during any proceedings under the Act that in the books of accounts maintained by the person, there is:

a) a false entry

b) an omission of any entry relevant for computation of the total income of such person, to evade tax liability

The penalty payable by such person shall be equal to the aggregate amount of false or omitted entry.

It is also proposed to levy an equal amount of penalty on the person who causes, in any manner, a person to make or cause to make a false entry or omits or causes to omit any entry.

For this purpose, the false entry would include the use or intention to use:

(a) forged or falsified documents, such as a false invoice or, in general, a false piece of documentary evidence; or

(b) invoice in respect of supply or receipt of goods or services or both issued by the person or any other person without actual supply or receipt of such goods or services or both; or

(c) invoice in respect of supply or receipt of goods or services or both to or from a person who does not exist.

This amendment is proposed to take effect from April 1, 2020.

[Clause 98]

Rules for manner and procedure for arriving the income of non-resident– Section 295

An amendment is proposed in Section 295 to empower the CBDT for making rules to provide for the manner in which and the procedure by which the income shall be arrived at in the case of-

(i) operations carried out in India by a non-resident; and

(ii) transaction or activities of a non-resident.

The amendment at clause (i) will take effect from April 1, 2021 (AY 2021-22). The amendment at clause (ii) will take effect from April 1, 2022 (AY 2022-23).

[Clause 103]

Providing check on survey operations – Section 133A

Under the existing provisions, an income-tax authority is empowered to conduct survey at the business premises of the taxpayer under his jurisdiction. To prevent the possible misuse of such power, a proviso to Section 133A(6) was inserted to provide that no income-tax authority below the rank of the Joint Director or Joint Commissioner, shall conduct any survey, without prior approval of the Joint Director or the Joint Commissioner, as the case may be.

It is proposed to substitute the said proviso to provide that:

a) in a case where the information has been received from the authority (as may be prescribed), no income-tax authority below the rank of Joint Director or Joint Commissioner, shall conduct any survey, without prior approval of the Joint Director or the Joint Commissioner, as the case may be; and

b) in any other case, no income-tax authority below the rank of Commissioner or Director, shall conduct any survey, without prior approval of the Commissioner or the Director, as the case may be.

This amendment is proposed to take effect from April 1, 2020.

[Clause 65]

Appearance of authorized representative- Section 288

The existing provisions of Section 288(2) provide for the list of persons who can be appointed as an authorised representative, entitled to appear before any Income-tax Authority or the Appellate Tribunal, on behalf of the taxpayer. While the Insolvency and Bankruptcy Code, 2016 empowers the Insolvency Professional or the Administrator to exercise the powers of the Board of Directors or corporate debtor, there is no explicit reference in Section 288 for an Insolvency Professional to act as an authorised representative of the corporate debtor, which has been raising certain practical difficulties. Therefore, it is proposed to enable any other person, as may be prescribed by the CBDT, to appear as an authorised representative.

This amendment is proposed to take effect from April 1, 2020.

[Clause 102]

Annual information statement - Section 285BB

The existing Section 203AA provides for furnishing of a statement (Form 26AS) of tax deducted at source etc. It is proposed to replace this Section 203AA by a new Section 285BB providing for furnishing of an annual information statement. This will involve uploading into the registered account of the taxpayer the Annual information statement in the prescribed form and manner containing the prescribed information which is in possession of the income tax authority etc. With advancement in technology and enhancement in the capacity of system, multiple information comes into the possession of the income tax department which will be uploaded in the registered account of the assessee and made use of and be also made available to the assessee.

These amendments will take effect from June 1, 2020.

[Clauses 90 and 101]

Definition of 'Speculative Transaction' – Section 43(5)

Under the existing provisions, the meaning of 'Speculative Transaction' is provided under Section 43(5) of the Act, which uses the term 'recognised association'.

It is proposed to replace the word 'recognised association' with the term 'recognised stock exchange' wherever they occur and it is also proposed to substitute the Explanation 2 of the said clause relating to the definition of the term 'recognised stock exchange'.

This amendment is proposed to take effect from April 1, 2020 (AY 2020-21).

[Clause 21]

Widening the scope of CTT

The Finance Act, 2013 had introduced a levy of CTT at the rate of 0.01% on the sale of 'futures' of the commodity derivatives and sale of options on the commodity derivatives. These transactions were regulated by the SCRA.

After repeal of Forward Contracts (Regulation) Act, 1952, the definition of the recognised associations under this Act were replaced by the recognised stock exchange as defined in the SCRA. Subsequently, the scope of 'commodity derivatives' was also expanded under the SCRA.

Presently, as per the SCRA provisions, derivative trading in commodities is limited only to commodity 'futures' and 'option on commodity futures'. Recently, 'option in goods' has also been included in the definition of 'derivatives' in the SCRA. Moreover, 'commodity futures' based on prices or indices of prices of 'commodity futures' is also likely to be introduced as a new product in the commodity derivative market.

In order to align the provisions of CTT with the changes in commodity derivative market, it is proposed to amend the Finance Act, 2013 to charge CTT on the new commodity derivative products at the following rates:

Description	Rate (%)	Payable by
Sale of a commodity derivative based on prices or indices of prices of commodity derivatives	0.01	Seller
Sale of an option in goods, where option is exercised resulting in actual delivery of goods	0.0001	Purchaser
Sale of an option in goods, where option is exercised resulting in a settlement otherwise than by the actual delivery of goods	0.125	Purchaser

Further, the following changes are also proposed in the Finance Act, 2013–

- The definition of taxable commodities transaction in clause (7) of Section 116 is proposed to be amended to –
  - (i) include the transactions of "sale of option in goods" and "sale of commodity derivatives based on prices or indices of prices of commodity derivatives" and
  - (ii) substitute "recognised stock exchange" in place of "recognised association".
- The reference to FCRA in clause (8) of Section 116 is proposed to be changed to SCRA.
- The table in Section 117 to be amended to incorporate the taxable commodities transactions referred to in (a) above, specify the rate of CTT and specify the person by whom CTT is payable.
- The value of taxable commodities transactions defined in Section 118 is proposed to be amended to incorporate the taxable commodities transaction referred above.

This amendment is proposed to take effect from April 1, 2020.

Clause 147

Expanding the eligibility criteria for appointment of member of Adjudicating Authority under the Prohibition of Benami Property Transactions Act, 1988 .

The existing provisions of Section 9 of the Prohibition of Benami Property Transactions Act, 1988 provide that the Commissioner of Income-tax or an equivalent post in the India Revenue Service or the Joint Secretary or equivalent post in the Indian Legal Service is qualified for appointment as a Member of the Adjudicating Authority.

It is proposed to amend the provisions to even permit a person who is qualified for appointment as a District Judge for appointment as a Member of the Adjudicating Authority.

This amendment is proposed to take effect from April 1, 2020.

[Clause 143]

INDIRECT TAXES

Scheme for Rebate of State Levies:

Recently, WTO has been scrutinizing the MEIS incentive offered by Government to Indian exporters.

Therefore, Export Promotion Councils had requested the Government to expand the scope and ambit of the existing scheme for granting rebate of State Levies to exporters of textiles. This is because the existing scheme is compliant with global trade rules, as it involves State levies paid by the exporters and is not a subsidy.

Finance Minister's assurance that a scheme would be introduced to grant rebate of state level duties paid by the exporters, is a positive step.

Customs:

- On the Customs front, Honourable Finance Minister has proposed to levy a Health Cess of 5% on import of medical equipments, considering the fact that India is manufacturing and also exporting medical equipments in large quantities. The cess would be levied in addition to the other duties of customs. However, Health Cess will not be levied on equipments which are fully exempted from basic customs duty. The proceeds from the cess will be used for creating infrastructure for health services.
- To further encourage domestic manufacture of electric vehicles & components and mobile phones under the Make in India initiative, the customs duty rates are proposed to be revised on such goods.
- CBU's of commercial vehicles, other than electric vehicles is being increased from 30% to 40%, effective April 1, 2020. However, Social Welfare Surcharge on all commercial vehicles, including electric commercial vehicles is being exempted.
- The above increase in rates of BCD on Electric Motor Vehicles are effective April 1, 2020.

Changes in Customs Duty Rates:

- BCD rates increased on electric vehicles and parts of mobiles.
- Higher custom duty on certain goods like auto parts, chemicals, etc., which are also manufactured in India.
- 5% customs health cess to be imposed on imports of medical equipments. However, the cess will not be applicable on goods fully exempted from basic customs duty.
- Customs duty increased from 25% to 35% on footwear & from 20% to 25% on furniture.
- BCD on imports of news print and light-weight coated paper reduced from 10% to 5%.
- BCD on imports of news print and light-weight coated paper reduced from 10% to 5%.

Heading	Description	From	To
8702 8704	CBU's of commercial electric vehicles.	25%	40%
8703	SKD forms of electronic passenger vehicles, Three wheeler	15%	30%
8702 8704 8711	SKD form of electronic vehicles Bus, Trucks and Two wheelers	15%	25%
8702 8703 8704 8711	CKD forms of electronic vehicles Passenger vehicles, Bus and Trucks, Three wheelers, two wheelers.	10%	15%

Measures to Improve Customs Compliance & reduce litigation:

Some of the important amendments to the Customs Act include:

- A new Chapter VAA (a new Section 28DA) is being incorporated in the Customs Act to provide enabling provision for administering the preferential tariff treatment regime under Trade Agreements. This is to specifically enable imposition of certain obligations on the importer and to prescribe for time bound verification from the exporting country in case of doubt. Pending verification preferential tariff treatment shall be suspended and goods shall be cleared only on furnishing security equal to differential duty. In certain cases, the preferential tariff treatment may be denied without further verification.
- An explanation is being inserted in Section 28 to explicitly clarify that any notice issued under the said Section, prior to the enactment of the Finance Act, 2018, shall continue to be governed by the Section 28 as it existed before the said enactment, notwithstanding order of any Appellate Tribunal, Court or any other law to the contrary. The amendment is expected to reduce litigation.
- Power of the Central Government under Clause (f) of the Section 11(2), for prevention of injury to the economy of the country by the uncontrolled import or export of gold or silver, and to prohibit their import or export enhanced to include "any other goods" (in addition to gold and silver) in its ambit.
- A new Section (Section 51B) is being incorporated to provide for creation of an Electronic Duty Credit Ledger in the customs system. This will enable duty credit in lieu of duty remission to be given in respect of exports or other such benefit in electronic form for its usage, transfer etc. In this regard, enabling provisions for issuance of suitable regulations are also being inserted in Section 157(2) of the Customs Act, 1962. The provisions for recovery of duties provided under Section 28AAA of Customs Act, 1962 are also being expanded to include such electronic credit of duties.
- Section 8B is being substituted with a new Section to empower the Central Government to apply safeguard measures, in case any article is imported into India in increased quantities and under such conditions so as to cause or threaten to cause serious injury to domestic industry. Safeguard measure shall include imposition of a Safeguard Duty or application of a Tariff Rate Quota or any other measure that the Central Government may consider appropriate as safeguard measure.

Changes in GST Provisions:

- In GST, stringent measures have been proposed to punish those who avail ITC based on fake invoices or by adopting fraudulently means. Such offences are proposed to be made cognizant and non-bailable.

Further proposals to discourage evasion are:

- Introduction of Cash Rewards system to encourage customers to ask for an invoice.
- Dynamic QR code capturing GST parameters proposed for consumer goods.
- Electronic invoice to be implemented in a phased manner.
- Aadhaar based verification of taxpayers, to weed out dummy or non- existent units.

Other important proposals include:

- Effective April 1, 2020, a simplified return filing process & improved ITC flow are to be implemented on a trial basis.
- GST rate structure is being reviewed to address the issue of inverted duty structure.

Clause wise changes proposed in GST:

Clause 117

Under the existing provisions of Section 10 of the CGST Act, the persons specified in the amendment were not allowed to opt for composition scheme in respect of supply of goods. After the amendment, such persons cannot opt for the scheme in respect of supply of services also.

The proposed amendment seeks to exclude the following persons from the ambit of the scheme:

i. Persons making inter-state outward supply of services

ii. Persons making supply of services through an E-commerce operator who is required to collect tax at source.

iii. Persons making supply of services through an E-commerce operator who is required to collect tax at source.

Clause 119

Under the existing provisions of Section 29(1)(c) of the CGST Act, taxable persons who obtained voluntary registration in GST were not allowed to seek cancellation of registration.

It is proposed to amend the sub-section (1)(c) to enable such a person to opt for cancellation, of his registration if he is no longer liable to be registered or wants to opt out of the registration.

Clause 120

Under the existing provisions of Section 30(1) of the CGST Act, the time limit to apply for revocation of cancellation of GST registration is only 30 days.

It is proposed to amend the sub-section, so that the Additional Commissioner or the Joint Commissioner would be empowered to grant time upto 60 days and the commissioner can grant time upto 90 days.

Clause 122

Under the existing provisions of Section 51 of the CGST Act, the deductor of TDS was required to issue a TDS certificate within 5 days. Also, a late fee was prescribed for any delay in issuing the certificate.

The proposed amendment seeks to dispense with the time limit and the late fees.

Clause 123

The power to constitute Appellate Tribunal Benches is now extended to the Union territories of Jammu & Kashmir and Ladakh.

Clause 124

Under the existing provisions of Section 122 of the CGST Act, levy of penalty on a person who supplies any goods or services without issuing any invoice or issues an incorrect or false invoice was envisaged. Penalty was also envisaged on persons who supply goods and services by violating the provisions of the Act or the rules or take/utilize ITC without actual receipt of goods or services or distribute ITC.

It is proposed to introduce a new sub-section (1A) in Section 122 of the CGST Act, to impose penalty of an amount equal to the tax evaded or ITC availed or passed on, on a person who retains the benefit fraudulently.

Clause 125

Under the existing provisions of Section 132 of the CGST Act, whoever commits the offences specified in the Section is liable to be punished.

It is proposed to amend the Section to punish whoever commits or causes to commit and retains the benefits of availing ITC claimed against invoices issued without supply of goods and services, or fraudulently avails ITC without any invoice or bill.

Clause 126

The existing provisions of Section 140 of the CGST Act, which enable a registered person to avail transitional credit did not specify any time limit. Only rule 117 had prescribed a time limit of 90 days from 01st July,2017.

It is proposed to amend Section 140 of the CGST Act, and make it mandatory to claim transitional credit under the pre-GST laws **"within such time and such manner"** as may be prescribed. This has the effect of ratifying the time limit prescribed under Rule 117, even though Section 140 did not specify any time limit.

The amendment appears to be introduced to overcome certain court judgements which were against the Government in respect of claims for Transitional credits.

Clause 127

The existing provisions of Section 168 (2) of the CGST Act, empowered the Commissioner to determine the expenses for conducting special audit and the remuneration of the auditor conducting the special audit. The Commissioner was also empowered to extend the time limit to bring back the goods sent to the job worker.

It is proposed to amend the Section to withdraw such powers of the Commissioner.

Clause 128

Under Section 172 of the CGST Act, the power to issue removal of difficulties order was envisaged up to June 30, 2020.

Post the amendment the Government would be empowered to issue removal of difficulties order up to June 30, 2022.

Clause 129

Under the existing item 4(a) of Schedule II of the CGST Act, the transfer or disposal of business assets with or without any consideration is considered as a supply of goods. Further, item 4(b) of Schedule II treats the act of permitting the use or making available business assets for any private use or for any non-business purpose, with or without any consideration, as a supply of service.

It is proposed to amend entry 4(a) so as not to treat transfer or disposal of business assets done without consideration, as a supply of goods. Similarly, para. entry 4(b) is being amended so as not to treat the act of permitting the use or making available business assets for any private use or for any non-business purpose, without consideration, as a supply of service.

GLOSSARY

Abbreviation	Description
%	Percentage
AAR	Authority of Advance Rulings
AMT	Alternate Minimum Tax
Act	Income Tax Act, 1961
AE	Associate Enterprise
ALM	Asset Liability Management
ALP	Arm's length Price
AMC	Asset Management Company
AMT	Alternative Minimum Tax
AO	Assessing Officer
AOP	Association of Persons
APA	Advance Pricing Agreement
APMC	Agricultural Produce Market Committee
AS	Accounting Standard issued by ICAI
AY	Assessment Year
BCD	Basic Customs Duty
BEPS	Base Erosion and Profit Shifting
BM Act	Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015
BOI	Body of Individuals
BPCL	Bharat Petroleum Corporation Limited
CA2013	Companies Act, 2013
CAD	Current Account Deficit
CEA	Chief Economic Advisor
CBCR	Country-by-Country reporting

Abbreviation	Description
CBDT	Central Board of Direct Taxes
CBEC	Central Board of Excise and Customs
CBUs	Completely Built Units
CCIT	Chief Commissioner of Income Tax
Central Excise Act	Central Excise Act, 1944
Central Excise Tariff Act	Central Excise Tariff Act, 1985
CENVAT	Central Value Added Tax
CENVAT Rules	CENVAT Credit Rules, 2002
CESTAT	Customs, Excise and Service Tax Appellate Tribunal
CETH	Central Excise Tariff Heading
CGST Act	Central Goods and Services Tax Act, 2017
CIT	Commissioner of Income-tax
CIT(A)	Commissioner of Income-tax (Appeals)
CKD	Completely Knocked Down
CPC	Centralized Processing Centre
CPI	Consumer Price Index
CPSE	Central Public Sector Enterprises
CSO	Central Statistics Office
CST	Central Sales Tax
CTA	Covered Tax Agreements
CTT	Commodities Transaction Tax
CTH	Customs Tariff Heading
Customs Act	Customs Act, 1962
Customs Tariff Act	Customs Tariff Act, 1975
CVD	Countervailing duty
DDT	Dividend Distribution Tax

Abbreviation	Description
DGFT	Directorate General of Foreign Trade
DRP	Dispute Resolution Panel
DTAA	Double Tax Avoidance Agreement
DTC	Direct Tax Code
EBITDA	Earnings before interest, tax, depreciation and amortization
ECA	Essential Commodities Act, 1955
ECB	External Commercial Borrowing
EPCG	Export Promotion Capital Goods Scheme
ETF	Exchange Traded Fund
FDI	Foreign Direct Investment
FM	Finance Minister
FII	Foreign Institutional Investors
FPI	Foreign Portfolio Investor / Foreign Institutional Investor
FTS	Fees for Technical Services
FY	Financial Year
GAAR	General Anti-Avoidance Rule
GDP	Gross Domestic Product
GoI	Government of India
GST	Goods and Service Tax
GVA	Gross Value Add
HC	High Court
HDI	Human Development Index
HRA	House Rent Allowance
HUF	Hindu Undivided Family
IBC	Insolvency Bankruptcy Code, 2016
IDS	Income Declaration Scheme, 2016

Abbreviation	Description
IndAS	Indian Accounting Standard
IFSC	International Financial Services Centre
IIP	Index of Industrial Production
INR	Indian Rupees
IPO	Initial Public Offer
IRDA	Insurance Regulatory and Development Authority
ITAT	Income Tax Appellate Tribunal
ITC	Input Tax Credit
KCC	Kisan Credit Card
KYC	Know Your Customer
LLP	Limited Liability Partnership
LTA	Leave Travel Allowance
LTCG	Long-Term Capital Gain
MAT	Minimum Alternate Tax
MEIS	Merchandise Exports from India Scheme
MGNREGA	Mahatma Gandhi National Rural Employment Gurantee Act
MLI	Multilateral Instrument
MSME	Micro, Small and Medium Enterprises
MW	Mega Watts
NABARD	National Bank for Agricultural and Rural Development
NBFC	Non-Banking Financial Company
NCLT	National Company Law Tribunal
NPS	National Pension System
OECD	Organization for Economic Cooperation and Development
PAN	Permanent Account Number
PE	Permanent Establishment

Abbreviation	Description
PF	Provident Fund
POP Rules	Place of Provision of Services Rules, 2011
POTR	Point of Taxation Rules, 2011
PPP	Public Private Partnership
PSU	Public Sector Undertaking
QFI	Qualified Foreign Investors
RBI	Reserve Bank of India
RDB	Rupee denominated bonds
RNOR	Resident but not ordinarily resident
Rules	Income-tax Rules, 1962
SCRA	Securities Contract (Regulation) Act, 1956
SEBI	Security and Exchange Board of India
SEBI (FPI) Regulations	SEBI (Foreign Portfolio Investors) Regulations, 2014
Service Tax Legislation	Finance Act, 1994
SEP	Significant Economic Presence
SEZ	Special Economic Zone
SFT	Statement of Financial Transactions
SHEC	Secondary and Higher Education Cess
SHR	Safe Harbor Rules
SKD	Semi Knocked Down
STT	Securities Transaction Tax
TDS	Tax Deducted at Source
TLAA	Taxation Laws (Amendment) Act, 2019
TRC	Tax Residency Certificate
USA	United States of America
USD	US Dollar

Abbreviation	Description
WDRA	Warehouse Development and Regulatory Authority
w.e.f	with effect from
w.r.e.f	with retrospective effect from
WTO	World Trade Organization

NOTES

NOTES

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