

Proxcel Advisory Services Private Limited

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Synopsis of Union Budget 2020



PROFICIENTLY ADVISING
GLOBAL BUSINESSES
FOR TRADE IN INDIA

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The Hon’ble Finance Minister of India Mrs. Niramala Sitharaman has presented budget on February 1st 2020 in the Parliament.

She mentioned *“It will be an India where the Centre and States will work harmoniously towards the common goal of shared prosperity. The unanimity of the Constitutional amendment and the consensus of the GST Council highlights that India can rise above narrow politics for the nation’s interest. With the GST, neither the state nor the Centre loses its sovereignty. In contrast, they will pool their sovereignty on decisions on indirect taxes.”*

The budget was focused on three prominent themes:

Aspirational India	Economic Development	Caring Society
Agriculture, Irrigation and Rural Development	Industry Commerce and Investment	Women & Child, Social Welfare
Wellness, Water and Sanitation	Infrastructure	Culture and Tourism
Education and Skills	New Economy	Environment and Climate Change

Structural Reforms

- The turnaround time for trucks has witnessed a substantial reduction to the tune of 20% due to abolition of check posts in GST.
- Benefit to MSMEs through enhanced threshold and composition limits.
- Savings of about 4 per cent of monthly spending for an average household.
- In last 2 years, 60 lakh new taxpayers added and 105 crore e-way bills generated.

Key Benefits through “SabkaSaath, SabkaVikas, SabkaVishwas”

- Welfare schemes with Direct Benefit Transfer (DBT) embedded in them
- Sanitation and water as provision of basic needs and as a measure of preventive healthcare.
- Healthcare, through Ayushman Bharat.
- Clean energy through Ujjwala and Solar Power.
- Financial inclusion, credit support, insurance protection to vulnerable sections and pension scheme.
- Digital penetration with broadband and UPI
- Affordable Housing for all through PMAY

Economic Indicators

- Government have estimated **nominal growth of GDP for year 2020-21 at 10%**, on the basis of trends available.
- Receipts for the year 2020-21 are estimated at ₹ 22.46 lakh crore and level of expenditure has been kept at ₹ 30.42 lakh crore.
- India's foreign direct investment got elevated to the level of US\$ 284 billion during 2014-19 from US\$ 190 billion that came in during the years 2009-14.
- Government **estimated a fiscal deficit of 3.8% in RE 2019-20 and 3.5% for BE 2020-21.**
- Borrowings for capital expenditure for the financial year 2020-21 would be scaled up by more than 21%.

Proposed allocation for Major Ministries in the Budget:

Area	Amount in ₹ 'Crores
Ministry of Housing and Urban Affairs	50,040
Ministry of Health and Family Welfare	67,112
Ministry of Railways	72,216
Ministry of Road Transport and Highways	91,823
Ministry of Human Resource Development	99,312
Ministry of Rural Development	1,22,398
Ministry of Consumer Affairs, Food and Public	1,24,535
Ministry of Agriculture and Farmers Welfare	1,42,762
Ministry of Home Affairs	1,67,250
Ministry of Defence	4,71,378

Direct Tax Proposals

Income Tax slab Rates for Individuals and HUF:

Finance Minister has introduced a new set of individual Income Tax slab and has given an option to Individual/ HUF assessee to Choose from one out of two slab rates:

Present scenario: Option –I With all Available Exemptions

Tax Rates applicable for Resident Individuals/ HUF in Financial Year 20-21				
Income		Rates of Income Tax		
S. No.	Total Income	Individual (Age less than 60 Years)/HUFs	Senior Citizen (Age 60 Years or above)	Super Senior Citizen (Age-80 Years or above)
1	Up to Rs.2,50,000	Nil	Nil	Nil
2	Rs.2,50,000 to Rs.3,00,000	5%	Nil	Nil
3	Rs.3,00,000 to Rs.5,00,000	5%	5%	Nil
4	Rs.5,00,000 to Rs.10,00,000	20%	20%	20%
5	Above Rs.10,00,000	30%	30%	30%

Proposed Scenario: Option -2 Without any deduction/exemption

Tax Rates applicable for Resident Individuals/ HUF in Financial Year 20-21		
S. No.	Total Income	Tax rates {For all Individuals without Age limit}
1	Up to Rs.2,50,000	Nil
2	Rs.2,50,001 to Rs.3,00,000	5%
3	Rs.3,00,001 to Rs.5,00,000	5%
4	Rs.5,00,001 to Rs.7,50,000	10%
5	Rs.7,50,001 to Rs.10,00,000	15%
6	Rs.10,00,001 to Rs.12,50,000	20%
7	Rs.12,50,001 to Rs.15,00,000	25%
8	Rs.15,00,001 and above	30%

In case of option 2, the assessee shall not be allowed any deduction/exemption including Leave travel concession, house rent allowances, standard deduction in salary u/s 16, interest on house property, deductions u/s 80C, 80CCC, 80CCD etc.

This amendment will take effect from 1st April, 2021 and will apply for Assessment Year 2021-22 and onwards.

Surcharge to be added as below:

Income (Rs)	Surcharge (AY 2021-22)
Upto 50 Lakhs	Nil
50 Lakhs - 1 Crore	10%
1 Crore - 2 Crore	15%
2 Crore - 5 Crore	25%
Above 5 Crore	37%

Cess: Cess of 4% is leviable on the amount of income tax and surcharge, if any.

Corporate Tax Rate

No further change has been proposed in corporate tax rates in this budget. The corporate tax rate shall be as below for AY 2021-22:

Income	Domestic Company with turnover less than 400Cr in previous year	Domestic Company with turnover of 400Cr or more in previous year	Other Company
Total income less than 1 Crore in current year	25% plus cess 4%	30% plus cess 4%	40% plus cess 4%
Total income more than 1 Crore but less than 10 Crore in current year	25% plus surcharge of 7% plus cess 4%	30%* plus surcharge of 7% plus cess 4%	40% plus 2% surcharge plus cess 4%
Total income more than 10 Crore in current year	25% plus surcharge of 12% plus cess 4%	30%* plus surcharge of 12% plus cess 4%	40% plus 5% surcharge plus cess 4%

Note: Manufacturing companies incorporated on or after 1st October 2019 may opt optional tax rate and required to pay @ 15% & companies which do not avail any exemption/incentive may opt for optional tax rate and they are required to pay tax @ 22%.

Tax rate for cooperative societies

It is proposed to provide an option to **cooperative societies resident in India to pay the tax at the rate of 22% for AY 2021-22** onwards in respect of its total income subject to complying certain conditions. The Option so exercised cannot be withdrawn. Surcharge rate for Cooperative society opting for this option will be 10% under new section 115BAD.

Insights of other Major Direct Tax Proposals:

- 1. Abolition of dividend distribution tax (DDT):** It is proposed to remove dividend distribution tax (DDT) and moving to classical system of taxing dividend in the hands of shareholders/unit holders.
- 2. Amendment in Section 115BAB:** It is proposed to include and exclude following businesses from concessional tax rate of 15% available for new manufacturing concerns.

Proposed inclusions: Generation of Electricity companies

Proposed exclusions:

- businesses engaged in development of computer software,
- Mining
- conversion of marble blocks or similar items into slabs,
- bottling of gas into cylinder,
- printing of books
- or production of cinematograph

- 3. Increase in limit of tax audit:** It is proposed to increase the limit of turnover to INR 5 crore from INR 1 Crore for tax audit under Section 44AB if aggregate of all receipts in cash during the previous year does not exceed five per cent of such receipt; and aggregate of all payments in cash during the previous year does not exceed five per cent of such payment.

Further, the due date for filing return of income under sub-section (1) of section 139 is proposed to be amended by:-

- providing 31st October of the assessment year (as against 30th September) as the due date for an assessee referred to in clause (a) of Explanation 2 of sub-section (1) of Section 139 of the Act;
- removing the distinction between a working and a non-working partner of a firm with respect to the due date as mentioned in sub-clause (iii) of clause (a) of Explanation 2 of sub-section (1) of Section 139 of the Act.

These amendments will take effect from 1st April, 2020 and will, accordingly, apply in relation to the assessment year 2020-21 and subsequent assessment years.

- 4. Rationalization of taxation of start-up:** Section 80-IAC has been proposed to be amended to provide that deduction to an eligible start-up shall be available for a period of 3 consecutive assessment years out of 10 years. Earlier, this deduction was available for 3 consecutive financial years out of first 7 years. Further, the turnover limit for claiming such exemption has been proposed to be raised to Rs. 100 crore which was earlier Rs. 25 crore.

- 5. Tax deduction on ESOPs:** Currently TDS is deducted at the time of exercise of ESOPs by the employee, which create cash flow problem to employee. It is proposed that TDS or tax payment in respect of income pertaining to ESOP of eligible start-ups referred in section 80IAC shall be deducted:

- (i) after the expiry of forty eight months from the end of the relevant assessment year; or
- (ii) from the date of sale of such specified security or sweat equity share by the assessee; or
- (iii) from the date of which the assessee ceases to be the employee of the person;

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

6. New Section inserted 194 K for **Deduction of TDS @10% in respect of income of Mutual Funds** specified under clause (23D) of section 10, with the **Threshold Limit: ₹ 5,000** upto which no TDS is required to be deducted.

7. **TDS on technical services:** It is proposed to reduce the withholding tax rate to 2% on **technical services** under Section 194J from existing 10%.

8. **Tax deduction at source by Ecom operators:** New Section 194 O is inserted to provide that **E-commerce operator** shall deduct TDS @1% on gross amount of Sale of Goods or Services or both done by **E-Commerce participant (Seller)** through its digital platform, with a **Threshold Limit of ₹ 5,00,000/-** Threshold limit is available to Individual or HUF only, upto which no TDS is required to be deducted if PAN or Aadhar is furnished.

9. **Amendment in section 194LC:** It is proposed to extend the period of concessional rate of TDS of 5% for a period of 3 years till 1st July'2023 from 1st July' 2020. Further rate of TDS shall be 4% on interest paid on Rupee denominated bonds (RDBs)

10. **Amendment in section 194LD:** It is proposed to extend the period of concessional rate of TDS of 5% to 1st July'2023 from 1st July 2020. It also provide that concessional rate of TDS of 5% under this section shall also apply on the interest payable, on or after 1st April, 2020 but before 1st July, 2023, to a FII or QFI in respect of the investment made in municipal debt security.

11. **Interest paid by cooperative societies:** It is proposed to extend the scope of section 194A to interest paid by large co-operative society, in case the amount of interest, or the aggregate of the amount of such interest, credited or paid, or is likely to be credited or paid, during the financial year is more than fifty thousand rupees in case of payee being a senior citizen and forty thousand rupees, in any other case.

12. **Relaxation for return filing for non-residents:** It is proposed to amend section 115A to provide an exemption to non-residents from filing of Income tax return having royalty and FTS Income provided TDS has been deducted on such income at the rate not lower than rate prescribed in section 115A (1).

13. **TCS on foreign remittance:** It is proposed to widening the scope of section 206C to include TCS on foreign remittance through Liberalized Remittance Scheme (LRS) @ 5% and on selling of overseas tour package @ 5% as well as TCS on sale of goods over a turnover limit of 10 Crore @ .1% having PAN or Aadhar .

14. Proposed to amend section 94B of the Act so as to provide that provisions of interest limitation would not apply to interest paid in respect of a debt issued by a lender which is a PE of a non-resident, being a person engaged in the business of banking, in India.

15. **FMV of property purchased before 01-4-2001 should not exceed stamp duty value:** If the land or building is purchased before 01-4-2001, the fair market value as on that date can be taken as cost of acquisition of such property as per existing provisions of the Act. It has been proposed that such fair market value can't exceed the stamp duty value of the property as on 01-04-2001.

16. Safe harbour limit of 5% under Section 43CA, 50C and 56 has been extended to 10%. These provisions shall not apply if the stamp duty value of an immovable property does not exceed 10% of the consideration or Rs. 50,000, whichever is higher.

17. In order to incentivize 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 by another period of one year ending on 31st March, 2021 (Earlier it was 31st March'2020).

18. The period of sanctioning of loan for affordable housing by the financial institution is proposed to be extended to 31st March, 2021.

19. Modification in Residency provisions: it is proposed that-

(i) the exception provided in clause (b) of Explanation 1 of sub-section (1) to section 6 for visiting India in that year be decreased to 120 days from existing 182 days.

(ii) an individual or an HUF shall be said to be “not ordinarily resident” in India in a previous year, if the individual or the manager of the HUF has been a non-resident in India in seven out of ten previous years preceding that year. This new condition to replace the existing conditions in clauses (a) and (b) of sub-section (6) of section 6.

(iii) an Indian citizen who is not liable to tax in any other country or territory shall be deemed to be resident in India.

This amendment will take effect from 1st April, 2021 and will, accordingly, apply in relation to the assessment year 2021-22 and subsequent assessment years.

20. Expansion of e-assessment scheme: The scope of e-Assessment is proposed to be extended, so as to include the proceedings under Section 144 of the Act relating to best judgement assessment;

21. Reference to Dispute Resolution Panel (DRP) Eligible assessee for making a reference to DRP shall include a Non-resident as well. It is proposed that any variation done by the AO which is prejudicial to the interest of the assessee (even if there is no impact on profits/losses) can be referred to DRP.

22. Faceless appeal with CIT(A): It is proposed to introduce the provisions of **E-Appeal (faceless appeal)** with CIT (A). The Central Govt. may notify the scheme in this regard by 31-03-2022.

23. No stay by ITAT unless 20% of the disputed tax is deposited: It is proposed to provide that stay under the first proviso to section 254(2A) shouldn't be provided by ITAT unless assessee deposits or furnish security for atleast 20% of the amount of tax, interest, fee, penalty, or any other sum payable under the provisions of this Act.

24. Approval of CIT/Director is required to conduct Survey: Power of survey has been proposed to be rationalized as under:

a) Where some information has been received from the prescribed authority, 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;

b) In any other case, no survey should be done by a Joint Director or a Joint Commissioner or an Assistant Director or a Deputy Director or an Assessing Officer or a Tax Recovery Officer or an Inspector of Income-tax without obtaining the approval of the Director or the Commissioner

25. Insolvency Professionals can act as “authorised representative”: Section 288 is proposed to be amended to provide that Insolvency Professional can appear before any Income-tax Authority or the Appellate Tribunal on behalf of an assessee as its “authorised representative”.

26. Penalty for fake invoices: it is proposed to penalize false entry in the books or any entry to evade tax liability with a penalty equal to the aggregate amount of false entries or omitted entry.

Key Indirect Taxes Proposals

Goods & Services Tax

- Mismatch of input tax credit results allow only 10% excess credit.
- Aadhaar based verification of Taxpayer being introduction to weed out dummy or non-existent units.
- Cash reward system envisaged to incentivize customer to seek invoice.
- Simplified return with features like SMS based filing for nil return and improve input tax credit flow to be implemented from 1st April 2020.
- Dynamic QR-code capturing GST parameters proposed for consumer invoices.
- Electronic invoice to capture critical information in a centralize system to be implemented in phased manner.

Custom Duties

- Custom duty raised on footwear to 35% from 25% and on furniture goods to 25% from 20%
- Basic custom duty on import of news print and light-weight coated paper reduced from 10% to 5%.
- Custom duty rates revised on electric vehicles and parts mobiles.
- 5% Health cess to be imposed on the imported of medical devices, except those exempt from BCD.
- Lower customs duty on certain inputs and raw material like fuse, chemical & plastics

Sectorial Insights

Financial Sector

- Deposit Insurance Coverage to increase from ₹ 1 lakh to ₹ 5 lakh per depositor.
- Eligibility limit for NBFCs for debt recovery under SARFAESI Act proposed to be reduced to asset size of ₹ 100 crore or loan size of ₹ 50 lakh.
- Proposal to sell balance holding of government in IDBI Bank.
- Separation of NPS Trust for government employees from PFRDAI.
- Proposed to introduce a scheme to provide subordinate debt for entrepreneurs of MSMEs.
- The government now proposes to sell a part of its holding in LIC by way of Initial Public Offer (IPO).

New Economy

- Knowledge Translation Clusters for emerging technology sectors.
- National Mission on Quantum Technologies and applications with an outlay of Rs.8000 crore proposed

Aim towards Digital Revolution

- To achieve seamless delivery of services through Digital governance.
- To improve physical quality of life through National Infrastructure Pipeline.
- Risk mitigation through Disaster Resilience
- Social security through Pension and Insurance penetration.

Wellness, Water and Sanitation

- More than 20 000 empanelled hospitals under More than 20,000 empanelled hospitals under PM Jan Arogya Yojana.
- “TB Harega Desh Jeetega” campaign launched to end TB by 2025.
- Expansion of Jan Aushadhi Kendra Scheme to all districts by 2024.
- Government have provided for the health sector about ₹69,000 crores that is inclusive of ₹6400 crores for Prime Minister Jan Arogya Yojana (PMJAY).
- Total allocation for Swachh Bharat Mission is about ₹12,300 crore in 2020-21.

Education and Skills

- About 150 higher educational institutions will start apprenticeship embedded courses
- Internship opportunities to fresh engineers by urban local bodies
- Special bridge courses to improve skill sets of those seeking employment abroad
- Degree level online education programmes for students of deprived sections of the society

Agriculture, Irrigation and Rural Development

- PM-KUSUM to cover 20 lakh farmers for stand alone solar pumps and further, 15 lakh for grid connected pumps.
- India has an estimated capacity of 162 million MT of agri-warehousing, cold storage, reefer van facilities etc. NABARD will undertake an exercise to map and geo-tag them.
- As a backward linkage, a Village Storage scheme is proposed to be run by the SHGs.
- “Kisan Rail” and “Krishi Udaan” to be launched by Indian Railways and Ministry of Civil Aviation respectively for a seamless national cold supply chain for perishables.
- Increasing coverage of artificial insemination to 70 per cent.
- Doubling of milk processing capacity by 2025.
- Agricultural credit target of ₹15 lakh crore for 2020-21.
- Fish Production target of 200 lakh tonnes by 2022-23.
- Another 45000 acres of aqua culture to be supported
- Raise fishery exports to ₹1 lakh crore by 2024-25

Industry Commerce and Investment

- Scheme to encourage manufacturing of mobile phones, electronic equipment and semi-conductor packaging.
- National Technical Textiles Mission for a period of 4 years.
- NIRVIK Scheme for higher export credit disbursement launched.
- Setting up of an Investment Clearance Cell to provide end to end facilitation.
- Scheme anchored by EXIM Bank and SIDBI to handhold MSMEs in exports markets.

Infrastructure

- National Logistics Policy to be launched soon National Logistics Policy to be launched soon.
- Roads: Accelerated development of Highways.
- Railways: Four station redevelopment projects
- 150 passenger trains through PPP mode.
- More Tejas type trains for tourist destinations.
- Port: corporatizing at least one major port.
- 100 more airports to be developed under UDAAN.
- ₹103 lakh crore National infrastructure Pipeline projects announced

Women & Child, Social Welfare

- More than 6 lakh anganwadi workers equipped with smart phones.
- A task force to be appointed to recommend regarding lowering MMR and improving nutrition levels.
- 5 archaeological sites to be developed as iconic sites.

About Us

Proxcel is in specialized corporate advisory with a vision to deliver professional excellence in the field of corporate financial and management consultancy. We offer range of integrated professional services to help entrepreneurs set up businesses and constantly grow by leveraging all opportunities smoothly through advising them on the right financial and legal strategies for expansion.

Our Services include business set up services in India and outside India, business valuations for merger & acquisitions and in line with global regulatory compliance, financial reporting, corporate law advisory, international taxation, direct and indirect tax advisory, internal and external audit etc.

Our Expert Team while sharing a common vision, belong to diverse technical, business and legal backgrounds and comprise of Chartered accountants, Chartered financial Analysts (US), Company Secretaries, Cost Accountants, Lawyers and Engineers. We deploy specialized and multidisciplinary teams to serve assignments requiring specific skills. This enables us to work proactively and closely with clients and respond effectively to their needs in a highly focused manner, which in today's fast changing business environment is quite crucial to a client's success.

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