

BREAKING DOWN THE 2019 UNION BUDGET

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CHARTERED ACCOUNTANTS | EST. 1946



UNION BUDGET 2019

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FOREWORD

While in the Interim Budget announced on 1st February 2019, the government shared its vision of becoming a \$10 Trillion economy in thirteen years, this time around in the first Budget announced by India's first full-time woman Finance Minister, Mrs. Nirmala Sitharaman on 5th July 2019 a target of achieving a \$5 Trillion economy status was given to the nation by 2024 from the current \$2.6 Trillion. This by any small measure is a bold target which the government of the day can be held accountable for achieving by the electorate.

Given that a slowdown is knocking on our doors, the only way that the FM is going to hit her numbers is by increasing government spending on infrastructure which will likely be funded by the governments new initiative of overseas borrowings at relatively low rates, given that India's sovereign debt to GDP is amongst the lowest globally. The Fiscal Deficit has been reduced to 3.3% in the current 2019-20 budget as compared to 3.4% for the same period announced in the Interim Budget. The projections for Fiscal Deficit for 2020-21 has been pegged at 3.0%.

One of the big announcements for improving social security benefits, was the PM-KYM under which pension benefits will be provided to retail traders and small shopkeepers. In keeping with the earlier announcement in the Interim Budget, the outlay to the PM-KISAN scheme for the farmers has been maintained.



The faceless E-Assessment initiative which is expected to be launched this year requires special mention to improve the ease of doing business in India and would go a long way in reducing corruption. Similarly, on the indirect tax side the Sabka Vishwas Legacy Dispute Resolution Scheme is a laudable measure to enhance ease of doing business.

The initiative to promote electric vehicles and support the NBFC sector are also proactive measures which will have far reaching positive impact.



I personally feel that whilst there is a positive momentum for change based upon the initiatives announced in the Budget, businesses continue to face challenges during this transition phase evidenced by the list of 'Billions to Bust' which has recently gone viral on the social media. Change being inevitable, India Inc. needs to realign to the direction in which the country is moving by adopting the **Reform, Perform and Transform** agenda. Jai Hind!

CA RAGHU MARWAH
Managing Partner

Direct tax proposals in Finance Bill 2019 ("bill") as well as its modifications by Lok Sabha summarized. Sections ("sec") refer to the provisions of the Indian Income Tax Act,1961 ("Act").All amendments proposed would apply in relation to AY 2020-21 and onward unless specifically stated otherwise.

PERSONAL TAX

Tax Rates/ Slabs

Tax impact of the same can be summarized as under:

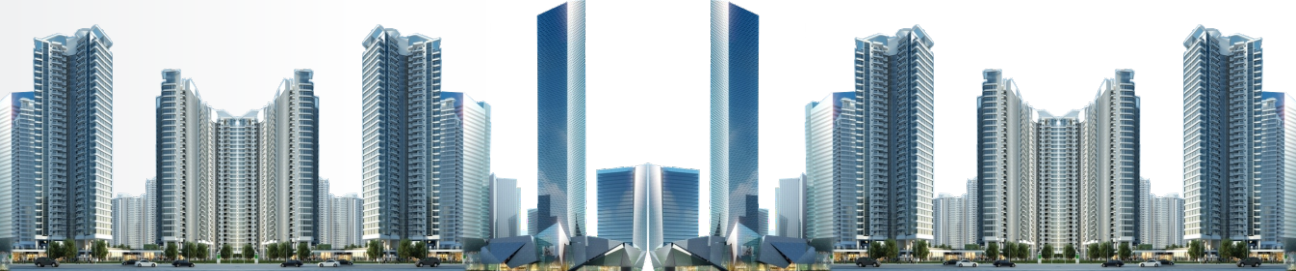
CATEGORY OF TAX PAYERS	INCOME	EXISTING TAX RATES	PROPOSED TAX RATE	IMPACT
INDIVIDUALS	Up to Rs.2,50,000	Nil	Nil	Nil
	Rs. 2,50,001 to 5,00,000	5%	5%	Nil
	Rs. 5,00,001 to 10,00,000	20%	20%	Nil
	Above Rs. 10,00,000	30%	30%	Nil
SENIOR CITIZENS	Up to Rs.3,00,000	Nil	Nil	Nil
	Rs. 3,00,001 to 5,00,000	5%	5%	Nil
	Rs. 5,00,001 to 10,00,000	20%	20%	Nil
	Above Rs. 10,00,000	30%	30%	Nil
VERY SENIOR CITIZENS	Up to Rs. 5,00,000	Nil	Nil	Nil
	Rs. 5,00,001 to 10,00,000	20%	20%	Nil
	Above Rs. 10,00,000	30%	30%	Nil

There is no change in tax rate as compared to earlier assessment year.

- Cess:** The existing rate applicable till AY 2019-20 of Cess @ 4% (E.C 1% + SHEC 2%+ HC 1%) remains same.
- Surcharge:** The existing surcharge rate applicable till AY 2019-20 for both resident and non- resident has increased on slab basis as follows:

INCOME RANGE	RATE OF SURCHARGE (% ON INCOME TAX)
Exceeding 50 lakhs but upto 1 crore	10 %
Exceeding 1 crore but upto 2 crores	15 %
Exceeding 2 crores but upto 5 crores	25 %
Exceeding 5 crores	37 %

Same rates are applicable for charging tax, deducting taxes and payment of advance tax under various sections.



Deduction/Exemptions

- To give effect to NPS incentives decided [Sec 10(12A), Sec 80C & Sec 80CCD]**
 - The limit of exemption increased from current 40% to 60% of payment on final withdrawal from NPS [Sec 10(12A)].
 - Deduction for employer's contribution increased from current 10% till up to 14% of salary. [Sec 80CCD].
 - Deduction for contribution made to Tier II NPS account by Central Government employees to be allowed [Sec 80C].
- Deduction of Interest on loan taken for certain house property [New Sec 80EEA]**

It is proposed to allow an additional deduction of up to 1,50,000/- for interest paid on loans borrowed up to 31st March, 2020 for purchase of an affordable house valued up to 45 lakh.
- Deduction in respect of purchase of electric vehicle [New Sec 80EEB]**

It is proposed to allow an additional deduction of 1.5 lakh on the interest paid on loans taken to purchase electric vehicles.



Tax Rates

- Domestic Companies having turnover up to Rs. 400 crores**
A domestic company is taxable at 25% if the turnover or gross receipt in the previous year 2017-18 does not exceed 400 Crore rupees. Effective rate of tax is depicted as under:

PARTICULARS	TAXABLE INCOME > Rs. 1 CRORE, BUT < 10 CRORE	TAXABLE INCOME > Rs. 10 Crore
Tax Rate	25.00%	25.00%
Surcharge	7.00%	12.00%
Tax + Surcharge	26.75%	28.00%
Cess thereon	4.00%	4.00%
Effective Tax Rate	27.82%	29.12%

- Domestic Companies having turnover exceeding Rs. 400 crores**
A domestic company is taxable at 30% if not covered in above. Effective rate of tax is depicted as under:

PARTICULARS	TAXABLE INCOME > Rs. 1 CRORE, BUT < 10 CRORE	TAXABLE INCOME > Rs. 10 Crore
Tax Rate	30.00%	30.00%
Surcharge	7.00%	12.00%
Tax + Surcharge	32.10%	33.60%
Cess thereon	4.00%	4.00%
Effective Tax Rate	33.38%	34.94%



- Foreign Company**
Corporate tax remains unchanged at 40% (plus applicable surcharge and education cess)

PARTICULARS	TAXABLE INCOME > Rs. 1 CRORE, BUT < 10 CRORE	TAXABLE INCOME > Rs. 10 Crore
Tax Rate	40.00%	40.00%
Surcharge	2.00%	5.00%
Tax + Surcharge	40.80%	42.00%
Cess thereon	4.00%	4.00%
Effective Tax Rate	42.43%	43.68%

- MAT Rate** – There is no change in MAT Rates
- Tax Distributed Income to Shareholder [Section 115QA]**
Any buy back of shares from a shareholder by a company listed on recognised stock exchange, on or after 5th July 2019, shall also be covered by provisions of section 115QA and subjected to a tax of 20% on distributed income (gains on buyback). Consequential amendment to be made in section 10(34), thereby, receipt of buyback consideration by shareholders of listed companies to be exempted. This amendment is proposed to be effective from 5th July, 2019.

Deductions

- Deductions in respect of profits and gains from housing projects [Section 80-IBA]**
The definition of “affordable housing” under section 80-IBA is aligned with GST Act. Eligible housing project (approved on or after 1st September 2019) is proposed to be defined as a housing project, in which carpet area of residential units does not exceed 60 sq. mtr. in metropolitan cities [90 square meter in other cities] and it is valued at a maximum of 45 lakh rupees.



Provisions for IFSC Units

- **Deductions for International Financial Services Centre (IFSC) [Section 80LA]**

The existing provisions of the section 80LA of the Act, inter alia, provide profit linked deduction of an amount equal to one hundred per cent of income for the first five consecutive assessment years and fifty per cent of income for the next five consecutive assessment years, to units of an IFSC.

With a view to further incentivize operation of units in IFSC, it is proposed to amend the said section so as to provide that the deduction shall be increased to one hundred per cent for any ten consecutive years. The assessee, at his option, may claim the said deduction for any ten consecutive assessment years out of fifteen years beginning with the year in which the necessary permission was obtained.

- **Tax-free Dividend Distribution [Sec 115-O]**

A unit located in IFSC subject to certain conditions is exempt from DDT on distribution of dividend out of its current income. It is proposed that DDT exemption would be available to unit of IFSC on dividend distributed out of its current income or income accumulated as a unit of IFSC after 1st April 2017.

This amendment will take effect from 1st September, 2019.

- **Tax on Distributed Income to Unit Holders [Section 115R]**

It is proposed that no additional income tax shall be chargeable in respect of any amount of income distributed on or after 1st September 2019 by specified Mutual Fund out of income derived from recognized stock exchange located in any IFSC subject to certain conditions prescribed.

Lok Sabha passed the bill with modification: Condition added that the exemption to be available, only if consideration for transactions made on recognized stock exchange in IFSC, is paid or payable in convertible foreign exchange. Also, condition that 'Specified mutual fund' to earn income, only in convertible foreign exchange is removed.

- **Transactions not regarded as transfer [section 47]**

Specified capital assets, transferred by a non-resident on a recognized stock exchange in any IFSC, where consideration is payable in foreign currency is not regarded as a transfer under provisions of section 47(viib). Budget 2019 extends the scope of specified capital assets to include notified securities and the scope of transferor to include "specified funds". Further, definition of relevant terms is proposed to be added in the Explanation. By virtue of this amendment, transfer of certain securities by Category III Alternative Investment Fund (AIF's) wherein all unit holders are non-residents is covered as a transaction not regarded as transfer u/s 47.

Lok Sabha passed the bill with modification: Shifted the proposed amendment from Section 47 to Section 10, thereby, treating the transaction of the transfer of capital asset by Category III AIF as transfer for capital gain chapter, however, exempting income of AIF from such transfer under section 10.

- **Taxation of income of Non-Resident units in IFSC [sec 115A]**

Presently, as per section 115A, dividend and interest derived by Non-resident/foreign company from investments in units located in IFSC is subject to tax on gross basis (without considering tax holiday benefit u/s 80LA). It is proposed to compute tax liability under section 115A (net of deduction u/s 80LA) to provide level playing field with resident units to the Non-Resident units in IFSC.

Provisions For Startups

- **Carry forward and set off of losses for startup companies [Sec79]**

Currently, closely held eligible startup companies are allowed to carry forward their business losses (incurred during the period of seven years beginning from the year in which the start-up is incorporated), if all the shareholders (holding shares carrying voting power) continue to hold all the shares irrespective of their percentage of shareholding. All other closely held companies are allowed to carry forward/ set-off of business losses on continuity of at least 51% of their beneficial shareholding. To remove this disparity and provide level playing field to startups, it is proposed that the startups would be entitled to carry forward/set off business losses on continuity of the same shareholders or even if they are able to maintain continuity of 51% of beneficial shareholding.

- **Exemption of capital gains from sale of residential house [sec 54GB]**

Period of exemption of capital gains arising from sale of residential house for investment in eligible start-ups is proposed to be extended up to 31.3.2021 from sunset clause of 31.03.2019. Minimum shareholding/voting rights in eligible startup companies is reduced from 50% of to 25%. Currently, the section imposes a condition that the funds received by eligible startups should be utilized for purchase of new assets and such assets should not be transferred within a period of 5 years from purchase date. It is proposed that if the new assets purchased by eligible startup companies are computer or computer software, than capital gain exemption would be withdrawn only if these assets are sold within 3 years (in place of 5 years).





- **Conditional exemption from share premium taxation to startups [Sec 56(2)(viib)]**

Currently, startups are exempted from tax on issue of shares at a premium where the aggregate issue consideration is in excess of Fair Market Value (FMV). It is proposed that this exemption would be withdrawn if the company fails to comply with any of the specified conditions and the income will be liable to tax in the year of such non-compliance.

Lok Sabha passed the bill with modification: In year when exemption is withdrawn for failure to meet specified conditions, difference between issue price of the shares and its fair market value (not face value) shall become taxable as income of the company. Company would be further subjected to a penalty of an amount equal to 200% of taxpayable on the underreported income (i.e., difference between issue price and fair market value of shares) as per section 270A.

Respite To Troubled Companies [sec 79]

It is proposed that Section 79 would not restrict carry forward/set off business losses of a company, its subsidiaries and subsidiary of such subsidiary, where its change in shareholding has taken place pursuant to resolution plan approved by National Company Law Tribunal (NCLT) subject to conditions provided. It is also proposed that in such case of companies, the aggregate amount of unabsorbed depreciation and brought forward loss (excluding depreciation) will also be allowed to be reduced for book profit calculation under section 115JB of the Act.

Incentives To NBFC's [Sec 43B]

Currently, interest on certain bad/doubtful debts by specified institutions (not including NBFC) is taxable in the year in which interest is credited to the profit and loss account or is actually received, whichever is earlier. It is proposed that deposit-taking NBFCs and systemically important non-deposit-taking NBFCs will be included within the scope of the specified institutions as well as a corresponding amendment will be made in section 43B of the Act for claiming interest deduction by the debtor (if paid before ROI due date).

Taxation Of LLP/ Partnership Firms

Tax rates remain unchanged. Effective tax rate will be 31.2% if taxable income is less than INR 1 crore and 34.94% if taxable income exceeds 1 crore.

Capital Gains

- **Exceptions to deem FMV as sale consideration of shares [Sec 50CA & sec 56(2)(x)]**

There are situations like determination of transfer price through dispute resolution schemes wherein the seller and buyer do not have any control over the transfer price and it would be unfair to make the seller pay capital gains deeming Fair Market value (FMV) as sale consideration and buyer pay tax on notional gains deeming shortfall of price with FMV as income. Hence, tax authority has been empowered to grant exemption from provisions of section 50CA as well as section 56(2)(x) in such situations.

- **Definition of equity-oriented funds expanded [Sec 111A]**

Currently, there is disparity in definition of “units of an equity-oriented fund” as provided in section 112A (tax on long term capital gains) and section 111A (tax on short term capital gains). To remove this disparity in taxing capital gains from units of an equity-oriented fund, same definition is extended for section 111A as is provided in section 112A.

Income From Other Sources

- **Exemption from share premium tax on issue by VCU to Category II AIFs [Sec 56(2)(viib)]**

Currently, section 56(2)(viib) exempts issue of shares by a Venture Capital Undertaking (VCU) to Venture Capital Company (VCC) or Venture Capital Fund (VCF) at a premium (above face value) where aggregate consideration is in excess of FMV. It is proposed to extend this benefit for issue by VCU to Category II Alternate Investment Funds (AIFs).

- **Taxability of interest on compensation/enhanced compensation [sec 56(2)(viii)]**

The Finance Act, 2018 substituted the provisions of section 145A with sections 145A and 145B. Section 145B now provides for taxation of interest on compensation/enhanced compensation. However, currently, section 56(2)(viii) continues to provide reference to section 145A. Hence, a consequential amendment is proposed to section 56(2)(viii) to provide reference to the new section 145B.

Cash Less Economy / Digital Economy

There are various provisions in the Act which prohibit cash transactions and allow or encourage payment or receipt only through account payee cheque, account payee draft or electronic clearing system through a bank account. To promote other electronic modes of payment, it is proposed to amend these provisions to also allow payment or receipt through other prescribed electronic modes. Consequential amendments have been made to following sections to encourage payment through other digital modes:-

Section	Description	Effective Date
13A	Income of political parties	1 st April, 2020
35AD	Deduction in respect of expenditure on specified business.	
40A	Expenses or payments not deductible in certain circumstances	
43(1)	Determination of actual cost of an asset	
43CA	Full value of consideration for transfer of asset other than capital assets in certain case.	
44AD	Computing profits and gains of business on presumptive basis.	
50C	Full value of consideration in certain cases.	
56(2)(X)	Income from receipt of immovable property	
80JJAA	Deduction for cost incurred for an additional employee	1 st September, 2019
269SS	Mode of taking/ accepting loans, deposits and specified sums	
269ST	Mode undertaking transaction	
269T	Mode of repayment of certain loans or deposits	

International Taxation

• Relaxation of provisions in respect of payments made to NR [sec 201]

- 1) It is proposed that in case a non-resident is able to provide an accountant's certificate that such sum is duly disclosed in its income tax return to a resident payer, then the resident payer would not be treated as assessee in default on non-deduction of TDS while making payment to such non-resident.

This amendment is proposed to take effect from 1 September 2019.

- 2) A consequential amendment is proposed u/s 40(a)(i) of the Act prohibiting disallowance of expense on such payments made to Non-Residents without TDS. *This amendment is proposed to take effect from AY 2020-21 and onwards.*

• Widening scope of income deemed to accrue/arise in India for Non-Resident [sec 9(1)]

It is proposed that income of a non-resident on receipt of money or property situated in India without consideration or for inadequate consideration, from a resident, on or after 5th July 2019 would be deemed to accrue or arise in India.

• Taxation of offshore funds [sec 9A]

It is proposed to relax following conditions for taxation of eligible offshore funds:-

- 1) Presently, for a fund established during the year, monthly average of the corpus of the fund should not be less than 100 crore rupees at the end of the year. It is proposed to relax the timelines. It is proposed that the fund can meet the corpus requirement at the end of six months from the date of establishment of the fund or the end of the year, whichever is later.
- 2) Presently, it is required that the remuneration paid by the fund to an eligible fund manager should not be less than the Arm's Length Price (ALP). It is proposed that this will be changed to a minimum remuneration calculated in a prescribed manner.

• Exemption to Non-Residents of interest income arising from borrowings by way of issue of Rupee Denominated Bonds [sec 10(4C)]

Interest payable on Rupee Denominated Bonds issued outside India by an Indian company or a business trust to a Non-Resident is exempt during the period from 17 September 2018 to 31 March 2019 and hence, no TDS is deductible under section



194LC. Accordingly, it is proposed to insert section 10(4C) to enact such exemption granted to Non-Residents.

- **Clarification to keep, maintain and furnishing of information and documents by Constituent Entity [Section 92D]**

Existing Section 92D might be interpreted as designated constituent entity is required to keep and maintain information or documents i.e. to furnish master file, only when the constituent entity enters into an International Transaction. Budget 2019 clarifies the position with amendment in section 92D. This amendment will require that the designated constituent entity of an international group shall be required to keep and maintain information & documents even when there is no international transaction undertaken by such designated constituent entity. Such designated constituent entity is also required to file requisite form in this regard.

- **Clarification regarding provisions of Secondary Adjustment [Section 92CE]**

In order to make the secondary adjustment regime more effective and easy to comply with, it is proposed to provide that:

- 1) The condition of threshold of one crore rupees and of the primary adjustment made upto assessment year 2016-17 are alternate conditions.
- 2) The assessee shall be required to calculate interest on the excess money or part thereof.
- 3) The provision of this section shall apply to the agreements which have been signed on or after 1st April, 2017; however, no refund of the taxes already paid till date under the pre amended section would be allowed.
- 4) The excess money may be repatriated from any of the associated enterprises (AE) of the assessee which is not resident in India even if such AE is not the party to the international transaction resulting in primary adjustment.

The above said amendments would take effect retrospectively i.e. from Financial Year 2017-18 and onwards.

- Further, proposed amendments provide an option to the assessee to pay additional tax in case where it is impracticable or impermissible to repatriate the excess money.

- 1) In a case where the excess money or part thereof has not been repatriated in time, the assessee will have the option to pay additional income-tax at the rate of 18% on such excess money or part thereof in addition to the existing requirement of calculation of interest till the date of payment of this additional tax. The additional tax is proposed to be increased by a surcharge of 12%.
- 2) the tax so paid shall be the final payment of tax and no credit shall be allowed in respect of the amount of tax so paid;
- 3) the deduction in respect of the amount on which such tax has been paid, shall not be allowed under any other provision of this Act; and
- 4) if the assessee pays the additional income-tax, he will not be required to make secondary adjustment or compute interest from the date of payment of such tax.
This amendment would take effect from 1st September, 2019.

- **Effect to Advance Pricing Agreement [Section 92CD]**

Budget 2019 provides amendment in section 92CD(3) of the Act to clarify that in cases where assessment or reassessment has already been completed and modified return of income has been filed by the assessee under section 92CD(1), the Assessing Officers shall pass an order modifying the total income of the relevant assessment year determined in such assessment or reassessment, having regard to and in accordance with the Advance Pricing Agreement (APA).

This amendment would take effect from 1st September, 2019.





- **Country-by-Country Report [Section 286]**

In order to bring the clarity in law, Budget 2019 proposes to provide that accounting year in case of Alternate Reporting Entity (ARE) of an International Group, the parent entity of which is not resident in India, the reporting accounting year shall be the one applicable to such parent entity.

The above said amendments would take effect retrospectively i.e. from Financial Year 2016-17 and onwards.

Tax Procedural Amendments

- **Return of Income [Section 139]**

Filing of return of income shall be mandatory under Section 139 if an individual has deposited Rs. 1 crore or more in current account or he has incurred expenditure of Rs. 2 lakhs or more on foreign travel or he has incurred expenditure of Rs. 1 lakh or more on electricity consumption.

If a person total income is more than the maximum amount not chargeable to tax before claim of the rollover benefits on investment in a house or a bond or other assets, under sections 54, 54B, 54D, 54EC, 54F, 54G, 54GA and 54GB of the Act will be compulsorily required to furnish tax return.

- **Tax Deduction from Payment of Life Insurance Policy [Section 194DA]**

Currently, any person responsible for paying to a resident any sum under a life insurance policy (including bonus) was required to deduct TDS at the rate of 1% on gross amount. It is proposed to deduct TDS only on the income component (net basis) at the rate of 5%.

This amendment is proposed to take effect from 1st day of September, 2019.

- **Tax deduction from payment on transfer of certain immovable properties (other than agriculture land) [Section 194-IA]**

Liability to deduct TDS under Section 194IA proposed to be widened by including charges of the nature of club membership fee, car parking fee, electricity and water facility fees, maintenance fee, advance fee or any other charges of similar nature, which are incidental to transfer of the immovable property as part of “consideration for immovable property”.

This amendment is proposed to take effect from 1st day of September, 2019.

- **Tax deduction at source in respect of payment by individual/HUF to contractors and professionals [new sec 194M]**

Presently, no TDS is required to be deducted by Individuals/HUF for making payments for personal use or who are not subjected to tax audit. It is proposed that individual/HUF (not required to deduct TDS u/s 194C or 194J) to deduct TDS at the rate of 5% on gross basis for contractual work or professional fees payable if the aggregate of such sums exceed Rs. 50 lakhs in a year. It is also proposed that individuals or HUFs will be able to deposit the tax deducted u/s 194M using their PAN and will not be required to obtain TAN.

This amendment is proposed to take effect from 1st day of September, 2019.

Lok Sabha passed the bill with modification: The scope of Section 194M extended to levy TDS u/s 194M on commission (*not being insurance commission referred to in Section 194D*) and brokerage also.

- **TDS on withdrawal of cash exceeding INR 1 crore [new Sect 194N]**

It is proposed to insert new section 194N requiring deduction of tax at source at the rate of 2% if aggregate of cash withdrawn during the financial year from any account maintained with a banking company or cooperative bank or post office exceeds INR 1 crore.

Lok Sabha passed the bill with modification: For the purpose of calculation of threshold limit of Rs. 1 crore, the aggregate amount of cash withdrawn from one or more accounts during the previous year shall be considered. No credit of TDS u/s 194N would be available to the deductee (*consequential amendment made u/s 198*).

- **Provision of credit of relief provided under Section 89**

Currently, section 140A & 143 provided for relief under various sections while computing interest on income u/s 234A, 234B & 234C. However, relief u/s 89 is not considered for this purpose. It is proposed that for calculating the interest u/s 234A, 234B & 234C on the income, any relief provided u/s 89 shall be deducted from such income.

This amendment will be retrospectively with effect from AY 2007-08 & onwards.





- **Form for claim of refund and limitation [Section 239]**

Presently, a form for claim of refund can be made within 2 years from end of relevant Financial Year. It is proposed that now claim of refund can be made only through a return of income filed u/s 139 i.e. within one year from end of relevant financial year. *This amendment is proposed to take effect from 1st day of September, 2019.*

- **Appealable orders before Commissioner (Appeals) [Section 246A]**

The word “assessment & reassessment” shall be replaced with “made” resulting in covering every order made under various sections irrespective of its nature.

- **Acceptance of payments through electronic modes [new sec 269SU]**

It states that every person carrying on business with total sales, turnover or gross receipt exceeding Rs. 50 crores during the immediately preceding previous year, would be required to mandatorily provide facility for accepting payments through prescribed electronic modes.

This amendment is proposed to take effect from 1st day of November, 2019.

- **Penalty for non-compliance with sec 269SU [sec 271DB]**

If any person fails to comply with Section 269SU, he shall be liable to pay, by way of penalty, a sum of Rs. 5000 for every day during which such failure continues. However, this penalty is not imposable if such person proves that there were good & sufficient reasons for such failure. This penalty is imposable by the Joint Commissioner of Income Tax.

This amendment is proposed to take effect from 1st day of November, 2019.

- **Penalty for under-reporting and misreporting of income [Section 270A]**

Penalty u/s 270A applies to cases of underreporting of income where no income tax return has been furnished. It is proposed to extend the scope of the section to cover cases of underreporting of income where tax return has been furnished for the first time u/s 148 of the Act.

This amendment is proposed to take effect from AY 2017-2018 and onwards.

- **Penalty for failure to comply with the provisions of Sec 139A [Section 272B]**

It is proposed that section 272B of the Act will be amended to provide for the levy

of penalty of INR 10,000 for failure to comply with the provisions of section 139A of the Act (mandatory quoting of Indian identification number – PAN or Aadhar).

- **Failure to furnish returns of income [Section 276CC]**

It is proposed to increase the exemption limit of tax payable on total income from Rs. 3,000 to Rs. 10,000 for prosecution proceedings u/s 276CC.

- **Obligation to furnish statement of financial transaction [Sec 285BA]**

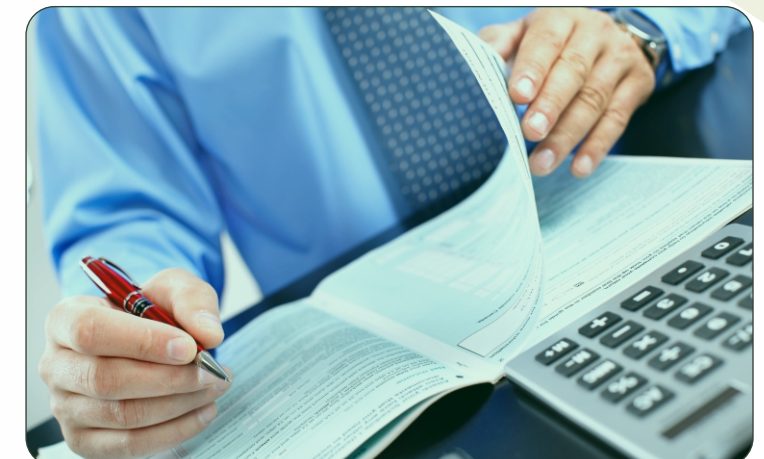
It is proposed that scope of persons required to furnish statement of financial transactions is extended to certain more prescribed persons, the present criteria of INR 50,000 is removed and statements where defect is not rectified within time limit is covered under penal provisions of section 271FAA.

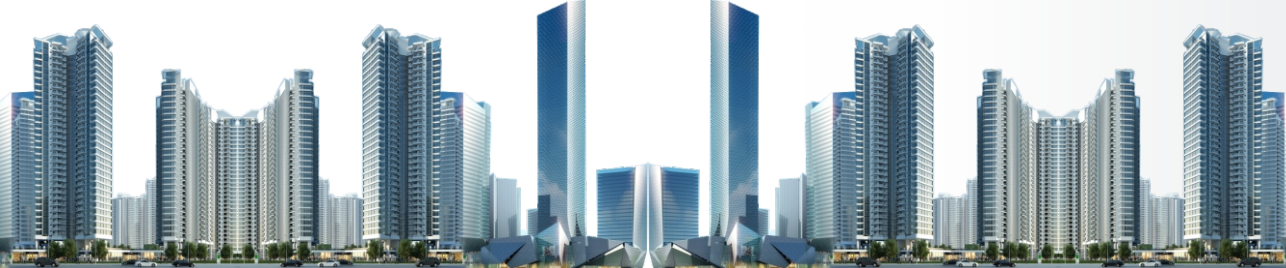
This amendment is proposed to take effect from 1st day of September, 2019.

- **Time limit for sale of attached immovable property [Rule 68B of 2nd Schedule]**

It is proposed to increase the time limit for sale of immovable property attached for tax recovery from 3 years to 7 years from the end of the FY in which the tax order becomes final. It is further proposed that the CBDT may, for reasons to be recorded in writing, extend the aforesaid period of limitation by a further period of three years.

This amendment is proposed to take effect from 1st day of September, 2019.





• Demerger of Ind AS Compliant Companies [Sec 2(19AA)]

Presently, for a demerger to be tax neutral, resulting company should record property and liabilities of undertaking at the value appearing in the books of the demerged company. This has led to hardship in case of Ind AS compliant companies that are statutorily required to record such assets and liabilities at value that could be different from the book value recorded by demerged company.

To remove this difficulty, it is proposed to provide an exception whereby such requirement will not be applicable in case resulting company records value of property and liabilities in compliance of Ind AS, even where such value is different from book value recorded by demerged company.

• Procedure for registration [Section 12AA]

It has been proposed that while granting of registration u/s 12AA, the tax officer would take into consideration any non-compliance with any other law that is material for the purpose of achieving objects of trust or institution. Further, any such non-compliance can qualify as a ground for cancellation of registration of trust or charitable institution u/s 12AA of the Act.

This amendment is proposed to take effect from 1st day of September, 2019.

Lok Sabha passed the bill with modification: On similar lines, Commissioner of Income-tax (exemption), while granting or withdrawing exemption to trust or institution of national importance, religious and charitable trust, educational or medical institution as referred to in section 10(23C)(iv)/(v)/(vi)/(via), shall be required to consider the requirements of any other law which are material for the purpose of achieving the objects of such trust or institution.



INDIRECT TAX

Amendment in the Central Goods and Services Tax Act (CGST Act, 2017)

S. No.	Section	Description
1.	2(4)	"the National Appellate Authority for Advance Ruling" is excluded from the definition of "Adjudicating Authority"
2.	10	A new composition scheme is available to supplier of services or mixed suppliers (earlier not eligible) having an annual turnover in preceding FY up to Rs. 50 lakhs.
3.	22	Proviso inserted so as to provide for higher threshold exemption limit from Rs. 20 Lakhs to Rs. 40 Lakhs in case of supplier who is engaged in exclusively supply of goods.
4.	39	Composition taxpayers allowed to furnish annual return along with quarterly payment of taxes and other taxpayer may be given an option for quarterly or monthly furnishing of returns and payment of taxes under proposed new return system
5.	44 (1)	Proviso inserted to empower the Commissioner to extend the due date for furnishing FORM GSTR-9/9A and FORM GSTR-9C.
6.	49	New sub section is inserted to facilitate the taxpayer to transfer an amount from one head (Major or Minor) to another head (Minor or Major) in Electronic Cash Ledger.
7.	50(1)	New proviso inserted, to charge interest only on the Net Cash Liability except on those cases where returns are filed subsequent to initiation of any proceedings under Section 73 or 74 of CGST Act.
8.	52 (4) and (5)	Proviso inserted to empower the Commissioner to extend the due date for furnishing of monthly and annual statement.
9.	53A	Newly inserted section, to transfer an amount in electronic cash ledger from one head to other between Centre and States consequential to amendment in Section 49 of the CGST Act
10.	54 (8A)	A new sub -section is being inserted so as to provide that the Central Government may disburse refund amount of State tax as well to taxpayer.
11.	95	A new clause (f) is being inserted to define the "National Appellate Authority for Advance Ruling"
12.	101A, 101B and 101C	New sections are inserted specifying constitutions, qualifications, conditions etc. of the "National Appellate Authority for Advance Ruling", including tenure within which it may pass order i.e. Ninety days from the date of filing of the appeal.
13.	102	National Appellate Authority may amend any order passed by it within a period of six months from the date of the order.
14.	103	Advance ruling pronounced by National Appellate Authority shall be binding, unless there is a change in laws or facts, on the applicants and all registered persons having the same PAN and on the concerned officer of the jurisdictional officers in respect of said applicants.
15.	104	This amendment provides that the advance ruling pronounced by the National Appellate Authority shall be void if the same is obtained by fraud or suppression of material facts or misrepresentation of facts.
16.	171	This amendment empowers the National Anti-profiteering Authority to impose penalty Equivalent to 10% of the Profiteered amount.

Retrospective Amendments of GST Rate Notification

S. No.	Notification	Particulars
1	2/2017-Central Tax (Rate) 2/2017-Integral Tax (Rate)	Exempts Goods and Services Tax on "Uranium Ore Concentrate" from 1st July, 2017 to 14th November, 2017

Amendment in the Customs Act, 1975

Amendment in Basic Customs Duty Rate:

S. No.	Particulars	Existing Rate	New Rate	
1.	Construction Materials	10%	15%	↑↑
2.	Precious Metals (like Gold, Silver and other allied)	10%	12.5%	↑↑
3.	Automobile parts	10%	15%	↑↑
4.	Electronics and Electrical equipments (Digital Video, CCTV and IP Camera)	15%	20%	↑↑
5.	Optical Fibres and Loud Speaker	10%	15%	↑↑
6.	Specified Defence equipment and their parts imported by the Ministry of Defence or the Armed Forces	Applicable Rate	Nil	↓↓
7.	Raw material, parts or accessories for use manufacture of artificial kidneys, disposable sterilized dialyzer and micro-barrier of artificial kidney	Applicable Rate	Nil	↓↓
8.	All goods for use in generation of Nuclear power (Certain goods such as sintered natural uranium dioxide already exempt)	7.5%	Nil	↓↓
9.	All goods required for setting up of the following power projects under project imports: - a) Mahi Banswara Atomic Power project - 1 to 4, Mahi Banswara site Rajasthan b) Kaiga Atomic Power project – 5 & 6, Kaiga site, Karnataka c) Gorakhpur Atomic Power project - 3 & 4, GHAVP, Haryana d) Chutka Atomic Power project - 1 & 2, Chutka site, Madhya Pradesh	Applicable Rate	Nil	↓↓

S. No.	Particulars	Existing Rate	New Rate	
10.	Petroleum Crude	Nil	Re. 1 per tonne	↑↑
11.	a. Newsprint b. Uncoated paper used for printing of newspapers c. Lightweight coated paper used for printing of magazines	Nil	10%	↑↑
12.	Printed books (including covers for printed books) and printed manuals	Nil	5%	↑↑
13.	Wool Fibre and Wool Top	5%	2.5%	↓↓
14.	Raw materials used in manufacture of Preform of Silica:- (i) Refrigerated Helium Liquid (ii) Silicon Tetra Chloride and Germanium Tetra Chloride	Applicable Rate	Nil	↓↓
15.	Silver dore bar, having silver content not exceeding 95%	8.5%	11%	↑↑
16.	Gold dore bar, having gold content not exceeding 95%	9.35%	11.85%	↑↑
17.	Capital goods used for manufacturing of following electronic items, namely (i) Populated PCBA (ii) Camera module of cellular mobile phones (iii) Charger/Adapter of cellular mobile phone (iv) Lithium Ion Cell (v) Display Module (vi) Set Top Box (vii) Compact Camera Module	Applicable rate	Nil	↓↓
18.	Charger/Power adapter for CCTV camera/IP camera/DVR/NVR	Nil	15%	↑↑
19.	Export Promotion for Sports goods (Foam/EVA foam (39) and Pine Wood (4407) used for sports goods exported)	Applicable Rate	Nil	↓↓



Retrospective Amendments of Rate Notifications :

S. No.	Particulars	Existing Rate	New Rate	
1.	Exempts IGST and Compensation Cess on the temporary importation of vehicles under the Customs Convention on the Temporary Importation of Private Road Vehicles (carnet de passages-en-douane) for the period 1st July, 2017 to 31st December, 2018	Applicable Rate	Nil	↓

Other Miscellaneous changes:

S. No.	Particulars
1.	To rephrase the existing entry to make the intention explicitly clear that prawn feed, shrimp larvae feed in any form are entitled to concessional rate of 5% whereas fish feed in pellet form only attracts 5%
2.	To include HS 8486 in the notification No. 25/1998-Customs so as to explicitly exempt from BCD all the machines used for the manufacture of semi-conductors as included in the notification
3.	To include “Headphones, earphones and combined microphone/speaker sets of Line Telephone handsets” in notification No. 25/2005-Customs dated 1st March 2005 as these items were included in the ITA agreement, by changing the description of goods against tariff sub heading 8518 30 00
4.	To amend entry at S. No. 6A of the notification No. 57/2017-Customs so as to explicitly exclude microphones, receivers, speaker, connectors and SIM socket from the said entry

Amendment in the Central Excise Act, 1944 :

S. No.	Particulars	Existing Rate	New Rate	
1.	Petroleum Crude (declaration under the Provisional Collection of Taxes Act, 1931)	Nil	Re. 1/tonne	↑
2.	Imported Petroleum Crude (tariff item no. 27090000)	Nil	Re.1/tonne	↑
3.	Hookah or tobacco	Nil	0.5%	↑
4.	Smoking mixtures for pipes and cigarettes	Nil	1%	↑
5.	Other than paper rolled biris, manufactured without the aid of Machine	Nil	5 paise per thousand	↑
6.	Crude Petroleum oil produced in specified oil fields	Re. 1 per Tonne	Nil	↓

Below table summarizes duty rates applicable on Petrol and Diesel :

	Duty rates applicable upto 05.07.2019 (Rs. per litre)				Duty rates applicable with effect from 06.07.2019 (Rs. per litre)			
	BED	SAED	RIC	Total	BED	SAED	RIC	Total
Petrol (Unbranded)	2.98	7	8	17.98	2.98	8	9	19.98
Petrol (Branded)	4.16	7	8	19.16	4.16	8	9	21.16
Diesel (Unbranded)	4.83	1	8	13.83	4.83	2	9	15.83
Diesel (Branded)	7.19	1	8	16.19	7.19	2	9	18.19

Amendment in Service Tax :

S. No.	Retrospective Exemption	Existing Rate	New Rate	
1	Services provided or agreed to be provided by the State Government by way of grant of liquor licence, against consideration of licence fee or application fee.	15%	Nil	↓
2	Services provided or agreed to be provided by the Indian Institutes of Management by way of the following educational Programmes: (a) two-year full time Post Graduate Programmes in Management for the Post Graduate Diploma in Management, to which admissions are made on the basis of Common Admission Test (CAT), conducted by Indian Institute of Management; (b) fellow programme in Management; (c) five year integrated programme in Management. (from the 1 st day of July, 2003 and ending with the 31st day of March, 2016).	15%	Nil	↓
3	Consideration paid in the form of upfront amount (called as premium, salami, cost, price, development charges or by any other name) payable in respect of service, by way of granting of long term lease of thirty years, or more of plots for development of infrastructure for financial business (having 50% or more ownership of Central Government, State Government, Union Territory to the developers).	15%	Nil	↓

A dispute resolution cum amnesty scheme called the **(Sabka Vishwas) Legacy Dispute Resolution Scheme** is being introduced for resolution and settlement of legacy cases of Central Excise and Service Tax.

INDUSTRY WISE IMPACT

- The increase in the Market Intervention Scheme and Price Support Scheme (MIS-PSS) allocation to Rs 3,000 crore from Rs 2,000 crore will lead to only a marginal improvement in procurement for pulses and oil seeds; the procurement stood at only 2% of production in fiscal 2019;
- Allocation to the Pradhan Mantri Annadata Aay SanraksHan Abhiyan (PM-AASHA) raised to Rs 1,500 crore from Rs 1,400 crore. This would be insufficient as the deficit payment for oilseeds and pulses requires Rs 30,000 crore;
- About 10,000 new FPOs to ensure economies of scale for farmers in the next five years. There are around 6,000 FPOs in India now; the 10,000 new FPOs will cater to an additional 1 crore farmers (~7% of farmer households);
- Launch of the Department of Fisheries with a budget outlay of Rs 804 crore will aid in infrastructure development to meet the stringent export norms (especially from the US, which constitutes ~33% of India's exports basket in value terms);and
- The increase in development expenditure allocation to crop husbandry to Rs 87,396 crore from Rs 34,293 (RE fiscal 2019) crore will aid in the development of infrastructure, crop storage, exports, providing higher domestic prices to farmers.



Agriculture

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NEUTRAL**



Affordable Housing

IMPACT POSITIVE

- Interest deduction on loans taken until March 31, 2020, for the purchase of a house valued up to Rs 45 lakh has been enhanced to Rs 3.5 lakh from Rs 2 lakh. The additional interest deduction of Rs 1.5 lakh would reduce the effective home loan interest rate by 40-50 bps for a typical 15-year loan;
- Under the Pradhan Mantri Awas Yojana (Gramin), as many as 1.5 crore houses have been constructed so far. The government has set up a construction target of 1.95 crore houses up to fiscal 2022 under Phase II. The said budgetary allocations for the scheme will be insufficient. As a result, the scheme will rely heavily on extra budgetary resources raised through NABARD (National Bank for Agriculture and Rural Development) bonds. The flow of funds for the second phase will be key with an investment requirement of Rs 1.6 lakh crore, or Rs 80,000 per house. Only Rs 19,000 crore has been provided for fiscal 2020 with almost Rs 1.4 lakh crore additional needs over next two years to achieve PMAY-G targets; and
- Under Pradhan Mantri Awas Yojana (Urban), out of the estimated 1 crore houses to be constructed over seven years from fiscal 2016 to fiscal 2022, 84 lakh houses have been sanctioned as of July 2019. Of these, while 26 lakh houses have been constructed, 22 lakh houses are under construction. Like PMAY-G, PMAY-Urban also relies heavily on extra budgetary resources raised through HUDCO (Housing and Urban Development Corporation Ltd) bonds. The flow of funds from the Central government remains crucial for scheme's success, as it needs nearly Rs 1.5 lakh crore over the remaining life of the scheme – an average of Rs 150,000 per house; this could be quite challenging, given that only 34%, i.e., Rs 51,400 crore, is released until now. With this, the Central government needs almost Rs 98,600 crore to achieve PMAY-U completions.

- The reduction in GST on electric vehicles (EVs) from 12% to 5% and tax deduction up to Rs 1.5 lakh on the interest component of EV loans should aid EV adoption;
- Two-wheeler EVs to cost 10% lower than traditional scooters; currently, they are at par
- For taxi-fleet owners, the acquisition cost will be 5% lower for EVs, compared with vehicles with internal combustion engines;
- However, the acquisition cost of personal electric small cars will remain unfavourable;
- Custom duty on EV components such as e-drive assembly, e-compressors, charging gun and on-board charger, has been kept at nil. In March 2019, the government had indicated that duty on these components will increase to 15% from April 1, 2020;
- Higher customs duty on key parts such as brake parts, filters and wipers will lead to higher realisation for domestic manufacturers in the replacement market (~16% of auto-component players' revenue). Higher duty on catalytic convertors should aid localisation in view of the upcoming BS VI norms;
- Higher petrol and diesel prices (by Rs 2.5 each) to increase the cost of ownership for cars and two-wheelers by around 1%. This is after the 6% and 13% increase, respectively, in fiscal 2019;
- Increase in customs duty on gold from 10% to 12.5% will result in a price increase of 2.3% at the consumer level. Gold constitutes more than 80% of the total domestic gems and jewellery consumption. Higher prices are expected to affect demand, hurting growth in the gems and jewellery sector; and
- Ease of local-sourcing norms for single-brand retail sector is expected to help foreign players stabilize their sourcing base and scale up operations. This step conforms with the 100% FDI in single-brand retail trade announced in 2018. However, the announcement is unlikely to impact domestic consumption in the immediate term.



Consumption

IMPACT NEUTRAL



MSMEs

IMPACT POSITIVE

- NBFCs to be allowed to register and participate on the TReDS platform. As of March 2019, only 71 banks and five NBFC factors were registered on TReDS. Since inception in 2014, TReDS has seen 2.5 lakh transactions of Rs 6,700 crore only and needs a further participation push. The move to allow NBFC participation on TReDs is a welcome, given the chronic issue around working-capital funding that the MSMEs face. This opens up a new lending avenue for NBFCs, which accounted for about 13% of MSME lending last fiscal.
- The allocation of Rs 350 crore in fiscal 2020 to fund 2% interest subvention for all GST-registered MSMEs on fresh loans would benefit a fifth of MSMEs. However, this would support only 10% of incremental SME lending.
- Creation of a new payment platform by the central government for MSMEs to facilitate faster payments for vendors will ease working capital and cash flow stress. Many new measures, including the removal of the angel tax, should help the startup ecosystem, and that is a key positive.

- Capital infusion of Rs 70,000 crore will help the four remaining PSBs to come out of PCA framework. It will also provide growth capital for weak PSBs and allow them to grow at 4-6% in fiscal 2020;
- Credit guarantee by the government to PSBs on purchase of assets from NBFCs should narrow the prevailing trust deficit and boost investor confidence in NBFCs. The assumption here is that the credit guarantee is for the entire tenure of the pooled assets purchased by PSBs over the next six months;
- Transferring the regulatory power on HFCs from National Housing Bank to the RBI will have more streamlined regulations and implementation as well as better risk management framework for HFCs;
- Strengthening the regulatory authority of the RBI over NBFCs will enhance the central bank's power to increase NBFC capital requirements, suspend or remove directors of NBFCs and take actions against auditors. This would enable the RBI to have prudent risk-focused surveillance over NBFCs;
- Taxing interest on NPAs on receipt basis should improve cash flows and profitability of NBFCs in the short term; and
- Amendments in relation to the Debenture Reserve Ratio (DRR), deepening bond market, and giving NBFCs access to the TreDS platform should impact positively in the long term.



Financial Services



IMPACT POSITIVE



FOREIGN DIRECT INVESTMENT (FDI) RELATED PROPOSAL

The following proposal(s) were announced in Union Budget with objective to further consolidate the gains in order to make India a more attractive FDI destination:

- The Government will examine suggestions of further opening up of FDI in aviation, media (animation, AVGC) and insurance sectors in consultation with all stakeholders.
- 100% FDI will be permitted for insurance intermediaries.
- Local sourcing norms will be eased for FDI in Single Brand Retail sector.

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