Budget Connect 2020

Tax and Policy highlights

Building a better working world

Macro-fiscal

- In spite of slippage in the fiscal deficit for FY20 and FY21 by margins of 0.5% points each from their respective targets at 3.3% and 3% of GDP, the extent of stimulus provided by Union Budget FY21 remained marginal.
- Some net increase in personal disposable incomes has been provided for after balancing rate reductions against sacrificing deductions and exemptions.
- The fiscal deficit target of 3.5% of GDP in FY21 is critically dependent on the ambitious disinvestment target of INR2.1 lakh crore, which is 223% more than the FY20 Revised Estimates (RE) at INR65,000 crore.
- The quality of fiscal deficit is projected to deteriorate in FY21 as compared with FY20.
- The share of revenue deficit in fiscal deficit is expected to increase to 77% in FY21 Budget Estimates (BE) as compared with 63% in FY20 RE.
- There are small increases in capital expenditure amounting to 0.1% point of GDP both in FY20 RE (1.7%) and FY21 BE (1.8%).
- Growth in Government's gross tax revenues in FY20 RE is 4% as compared with a budgeted growth of 18.3% for FY20. This is due to the impact of economic slowdown reflected in a fall in the real and nominal GDP growth.
- Among direct taxes, growth in Corporate Income Tax (CIT) revenues is negative at (-)8% in FY20 RE mainly due to the CIT reforms.
- Growth and buoyancy of Personal Income Tax (PIT) revenues are expected to be relatively high in FY20 RE, possibly due to gains on account of "Vivad se Vishwas" Scheme for reducing direct tax litigation.

Highlights

INR2.1 lakh crore
ambitious disinvestment target for FY21

10%
nominal GDP growth rate for FY21

3.5%
fiscal deficit target for FY21

Policy

- National Logistics Policy will be released soon for creation of a single window e-logistics market and focus on generation of employment, skills and making MSMEs competitive.
- There will be an allocation of INR8,000 crore for National Mission on Quantum Computing and Technology.
- Investment Clearance Cell will be set up to promote entrepreneurship:
  - It will provide pre-investment advisory, information related to land banks, and facilitate clearances at Centre and State level.
- Policy for enabling private sector to build data center parks will be introduced:
  - This will enable firms to skilfully incorporate data in every step of their value chain.
- New education policy for delivery of high-quality education will be announced soon.
- Turnover requirement to be audited by an accountant has been increased from INR1 crore to INR5 crore.
- Removal of Dividend Distribution Tax has been announced:
  - Dividend to be taxed only in the hands of the recipients.
- Budget offers to provide INR1.70 lakh crore for transport infrastructure in FY21.
- Indian Railways will set up Kisan Rail through PPP for building seamless national supply chain for perishables.
- 100 more airports will be set up by 2024 under UDAAN scheme.
- Deposit insurance coverage will be increased from INR1 lakh to INR5 lakh per depositor.

Highlights

Businesses with turnover >INR5 crores
- To be audited by an accountant

INR1.7
lakh crore for transport infrastructure

National Logistics Policy

New Education Policy

Investment Clearance Cell

Corporate Tax

- India moves to classical system for taxation of dividend:
  - Dividend will be taxed in the hands of the shareholders.
  - Dividend Distribution Tax (DDT) of 20.56% on the company declaring the dividend is removed with effect from 1 April 2020.
  - To remove the cascading effect, deduction will be allowed in respect of certain intercorporate dividends.
- 15% concessional corporate tax rate will now be extended to new domestic companies engaged in generation of electricity.
- Withholding taxes on Fees for Technical Services (other than professional services) paid to residents will be reduced from 10% to 2%.
- For micro, small and medium enterprises (MSMEs), the turnover threshold limit for tax audit will be increased from INR10m to INR50m, provided the cash transactions are less than 5%.
- There is 100% exemption to "start-ups" for consecutive 3 years out of first 10 years (previously 7 years) from incorporation, if the turnover in any of the year is ≤INR1,000m (previously ≤INR250m).
- Faceless appeal will be introduced to eliminate human interface during appeals.
- Vivad se Vishwas Scheme (no dispute but trust scheme) will be introduced to reduce litigations in the direct tax.
  - Taxpayers would be required to pay only disputed amount and will get complete waiver of interest and penalty, provided it is paid before 31 March 2020.

Highlights

Extension of timeframe to avail tax incentives by start-ups proposed

DDT

Dividend Distribution Tax to be abolished

Faceless appeal regime to be introduced

Indirect Tax - Customs

- Health cess of 5% will be levied and collected as duty of customs on import value of medical devices
  - Export promotion scrips cannot be used for payment of cess

  This would help boost the domestic healthcare manufacturing sector in India. The proposition of limited use of this cess for generating resources for health services is expected to benefit the larger population.

- Importers will be made responsible to ensure compliance with prescribed Rules of Origin in case of imports at concessional duty rates under Preferential Trade Agreements. This would help check undue benefits claimed, if any, by the importers and its adverse impact on the manufacturing domestic industry.

- The power to prohibit uncontrolled import or export of gold and silver, for prevention of injury to the Indian economy, has now been extended to "any other goods".

- Duty credits proposed for exporters:
  - Will be in lieu of remission of duty or other financial benefits
  - Will be maintained in the form of electronic duty credit ledger

  This reflects a blueprint of the proposed Remission of Duties or Taxes on Export Product (RoDTEP) Scheme

- Provisions relating to safeguard measures in case of surge in quantity of import or under such conditions that causes serious injury to domestic industry have been revamped.

- Anti-Dumping Rules have been made comprehensive and wider to strengthen the anti-circumvention measures.

- Amendments have been made to rules related to Countervailing Duty on subsidized articles to enable investigation in cases of circumvention of such duties.

Highlights

5 % Health Cess

Indirect Tax - GST

Measures to curb tax evasion

- There is a relaxation in restriction of 30th September – the annual return deadline for input tax credit on debit notes with it now being linked to the debit note date instead of the original invoice date.

  There are financial benefits for many businesses; especially where price adjustments are long drawn.

- Punishment for offences has been extended to person who causes to commit offence and retains the benefit arising from such offence.
- Fraudulent availment of input tax credit without invoice has been made cognizable and non-bailable offence.
- Penalty provisions extended to cover persons who retain the benefits and at whose instance the following offences are committed:
  - Supplies without issuing invoice or issuing false invoice
  - Issue of invoice without supply in violation of the provisions of the GST law
  - Availing or utilising input tax credit without actual receipt of goods or services
  - Taking or distributing input tax credit in contravention of provisions of input service distributor (ISD)

These amendments should help check tax evasion and control fake invoicing or availment of credits.

Other amendments

- Refund of compensation cess due to inverted duty structure on tobacco products has been retracted (made retrospectively effective for the period 1 July 2017 to 30 September 2019).

Highlights

Measures to curb tax evasion

Personal Tax

- Taxpayers' Charter will be institutionalised in statute to avoid any harassment for taxpayers.
- New simplified personal income tax regime will be introduced, which is optional. The new regime provides reduced slab rates (as mentioned below) that are applicable without exemptions and deductions:
  - Up to INR2.5 lakh - nil
  - Above INR2.5 lakh to INR5 lakh - 5% (remains unchanged)
  - Above INR5 lakh to INR7.5 lakh - 10%
  - Above INR7.5 lakh to INR10 lakh - 15%
  - Above INR10 lakh to INR12.5 lakh - 20%
  - Above INR12.5 lakh to INR15 lakh - 25%
  - Above INR15 lakh - 30%
- Certain exemptions and deductions (around 70) will be removed under the new simplified income tax regime.
- There is an introduction of process for instant allotment of PAN on the basis of Aadhaar.
- The changes in residential status conditions are the following:
  - 182 days replaced with 120 days for determining residency of an Indian citizen or Person of Indian Origin (PIO) who being outside India comes on a visit to India
  - Conditions for Not Ordinarily Resident status modified
  - An Indian citizen deemed to be a resident if he or she is not liable for tax in any other country due to specified criteria
- Dividends will be taxed in the hands of taxpayers at their applicable tax rates (Dividend Distribution Tax abolished).
- Tax on ESOPs arising at the time of exercise in the hands of employees of eligible start-ups can now be deferred:
  - Up to 5 years, or
  - Exit from the start-up, or
  - Sale of shares,
  - whichever is earlier.

Highlights

Taxpayers' Charter

Simplified income tax regime

Definition of residency impacted

5 **years**

ESOPs' taxability deferred for **start-up** employees

Dividend now only taxable in the hands of taxpayers

- Employer's aggregate contribution in excess of INR7.5 lakh toward:
  - Recognised Provident Fund
  - National Pension Scheme
  - Approved Superannuation Fund

  shall be taxable in the hands of employees. Any accretion on such amount shall also be taxable.
- To further incentivize affordable housing, the time limit for loan sanctioned from a financial institution has been extended from 31 March 2020 to 31 March 2021.
- Faceless appeals will be enabled in line with faceless assessment.
- Introduction of "Vivad Se Vishwas" Scheme is open till 30 June 2020:
  - Disputed tax amount when paid on or before 31 March 2020 will result in waiver of interest and penalty.
  - Some additional amount may be levied for disputed tax payments made on or before 30 June 2020.

Transfer Pricing

- Amendments have been made to Advance Pricing Agreement (APA) and Safe Harbour provisions:
  - Scope of APA and Safe Harbour provisions has been expanded to cover determination of income deemed to accrue or arise in India, such as income attributable to a business connection or Permanent Establishment (PE).
  - The amendment with respect to Safe Harbour will be effective from assessment year 2020-21.
  - The amendment with respect to APA will be effective for APAs entered on or after 1 April 2020.
- The due date for maintenance of transfer pricing (TP) documentation and filing of Accountant's report in Form 3CEB is advanced by one month to 31 October of the relevant assessment year.

- Amendment to Dispute Resolution Panel (DRP) provisions:
  - The definition of eligible assessee is expanded to include a non-resident (NR), not being a company in addition to a foreign company.
  - The objections before the DRP can be filed for any variation prejudicial to the interest of the eligible assessee, even in the absence of adjustment to income or loss (e.g., orders pertaining to penalty).

Highlights

APA and Safe Harbour scope expanded

Revised due date for TP documentation and Form 3CEB

31 Oct

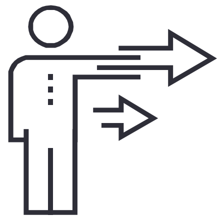
DRP route
for non-resident

International Tax

- Significant Economic Presence (SEP) provisions have been deferred by one year in light of Base Erosion and Profit Shifting (BEPS) 2.0
- Extension of source-based taxation rule will cover income from advertisement, sale of data collected from India, and sale of goods or services using data collected from India.
- There will be liberalization of investment-related conditions in the special taxation regime for offshore funds.
- Interest limitation rules will be inapplicable to a debt issued by permanent establishment of non-resident engaged in the business of banking in India.
- Indian Tax Administration will have the power to frame rules and procedures for arriving at the income of the non-resident.
- Definition of royalty will be rationalized to include consideration for the sale, distribution or exhibition of cinematographic films.
- Foreign portfolio investments (FPIs) will be aligned for exemption from taxability on account of indirect transfer of assets with amended scheme of SEBI.
- There will be an extension in period of applicability of concessional rate of withholding tax (WHT) in relation to interest on certain bonds and Government securities:
  - The preferential rate of 5% WHT will be extended for another 3 years, until 1 July 2023.
  - This is also applicable on interest payable to Foreign institutional investors (FIIs) or Qualified Foreign Investor (QFIs) with respect to the investment made in municipal debt security between 1 April 2020 and 1 July 2023.
  - The amendment will be effective from 1 April 2020.

Highlights

Expansion of source rule taxation



Deferral of SEP provisions

- Expanding scope of WHT will cover e-commerce transactions:
  - Applicable to e-commerce operator for sale of goods or provision of service facilitated by it through its digital or electronic facility or platform
  - Applicable rate of tax would be 1% on the gross amount of such sales or service or both
  - Exemption provided to an e-commerce participant being an individual or Hindu Undivided Family:
    - Where the gross amount of sales or services or both does not exceed INR0.5 million
    - Upon furnishing of PAN or Aadhaar number to the e-commerce operator
    - Exemption only for sale of goods or services and not for other transaction
- Extension of the period of concessional rate of WHT on approved borrowings in foreign currency (FC) proposed:
  - Preferential WHT rate of 4% will be applicable on interest payable to non-resident on FC borrowing provided it is listed in any recognized stock exchanges located in any IFSC.

Highlights

Expansion of WHT to e-commerce

Concessional WHT rate extended

Budget Connect 2020

Sector highlights

Building a better working world

Agriculture

- Encourage states to implement central Model Agriculture Laws:
  - Push for uniform agriculture laws across the country
- Comprehensive measures for 100 water-stressed districts:
  - Hand-holding to farmers at 100 water-stressed districts
- Incentivize farmers to go solar by setting up solar pumps, and new scheme to set up solar power generation units:
  - Reduction of cost through use of solar technology
- Encourage sustainable farming by balanced use of all fertilizers to reduce excessive use of chemical fertilizers

- Boost for agricultural warehouses, cold storage and other inventory storages by:
  - Mapping and geo tagging
  - Providing Viability Gap Funding at block or taluka level
- Village Storage Scheme to help farmers store more and reduce logistics costs:
  - Storage facilities near villages will also help in reduction in post-harvest losses
- Introduce Kisan Rail through public private partnership (PPP) arrangement for transportation of perishable goods:
  - Perishable goods, inclusive of milk, meat and fish, to get faster access to market through Indian Railways
- Krishi Udaan scheme for agri-exports on international and national routes
  - Boost to agri-exports and better connectivity within India agri-markets

Highlights

16 point Action plan

2× farmer's income by 2022

Allocation for agriculture, and irrigation and allied activities

INR1.60 lakh crore

Allocation for rural development and Panchayati Raj

INR1.23 lakh crore

- Focus on One Product-One District in horticulture sector:
  - Increase in better marketing and export opportunity
- Focus on zero budget farming and expansion of integrated farming systems in rainfed areas
- Integration of financing of negotiable warehousing receipts with e-NAM
- NABARD Refinancing Scheme to further expand with Kisan Credit Card scheme:
  - Improve credit facilities for farmers
- Elimination of foot and mouth disease for increase in productivity of livestock and doubling of milk production by 2025
- Framework for Blue economy
  - Framework for development of marine fishery resources
- Promotion of growing of algae, seaweed and cage culture, and raising of fish production in India through 3477 Sagar Mitras and 500 Fish Farmer Producer Organisations
- DeenDayal Antyodaya Yojana for further expansion of self-help groups for alleviation of poverty

Highlights

Agriculture credit target increased

INR12 lakh crores (2019-20) → INR15 lakh crores (2020-21)

Increase in fishery exports by 2024-25 to

INR1 lakh crore

Key direct tax proposals

- Co-operative societies such as Farmer co-operative societies – option to tax at reduced rate of 22% (no exemptions or deductions) from existing 30% rate:
  - Proposal to also exempt co-operative societies from Alternate Minimum Tax if opted for reduced rate of 22%

Key indirect tax proposals

- Retrospective changes in GST rates:
  - 12% GST on pulley, wheels and other parts falling under chapter heading 8483 and used as parts of agricultural machinery of Chapter headings 8432, 8433 and 8436 for the period from 1 July 2017 to 31 December 2018
  - The earlier rate on the goods falling under chapter heading 8483 was 28%/18%
- Exemption from Social Welfare Surcharge:
  - Exemption from Social Welfare Surcharge on Maize (Custom Tariff head: 1001 90), wheat and meslin (custom tariff head: 1001 1100, 1001 9100, 1001 9920) with effect from 2 February 2020
  - The earlier surcharge rate on the said products at 10%
- Changes in Basic Custom Duty (BCD) Rate:
  - Import of durum wheat seeds and seeds of wheat other than durum wheat falling under tariff item 1001 1100 and 1001 9100 will attract 100% BCD with effect from 2 February 2020 – earlier, the same was exempt
  - Import of meslin falling under Custom tariff item 1001 9920 will attract 100% BCD with effect from 2 February 2020 – earlier, the same was exempt
  - Sugar Beet Seeds falling under Custom tariff 1209 1000 will attract BCD of 30% with effect from from 2 February 2020 – earlier, there was a concessional rate of 5% on said goods

Highlights

Tax rate reduced*

30% → 22%

*Optional

Automotive

- Higher customs duty has been imposed on import of electric vehicles (EVs) in any form.
- Higher customs duty on import of completely built units of commercial vehicles will be partially compensated by exemption of Social Welfare Surcharge.
- Higher customs duty has been imposed on import of various parts used in the auto sector.
- In line with observations in the Economic Survey, no direction have been provided for reduction in GST for the industry.
- Income tax exemption provided for income of specified sovereign wealth funds for their investment in infrastructure as well as removal of DDT is likely to spur investments in infrastructural projects and thereby eventually benefit the automotive sector.
- A roadmap has been provided for monetisation of road assets by 2024.
- Scheme to boost mobile, electronic manufacturing and semi-conductor packaging will help EV manufacturing and encourage newer technologies for connected cars.
- Proposed National Logistic Policy will be announced.
- The National Infrastructure Pipeline launched few months ago is likely to benefit the commercial vehicle and construction equipment makers.

Highlights

BCD ↑ on EV, CV, auto parts

Increased investment in infrastructure

Scheme for electronic manufacturing to help auto industry

Financial Services

Policy proposals

- Governance reforms will be carried out in public sector banks (PSBs); some PSBs will approach capital market to raise additional capital.
- Deposit insurance coverage will be increased from INR1 lakh to INR5 lakh per depositor.
- The Banking Regulation Act will be amended for strengthening governance in cooperative banks and increasing oversight of the Reserve Bank of India.
- Limit for non-banking financial companies (NBFCs) eligible for debt recovery under Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002, will be reduced from INR5 billion to INR1 billion; or loan size from INR10 million to INR5 million.
- There will be amendments to the Factor Regulation Act 2011 to enable NBFCs to extend invoice financing to the MSMEs through Trade Receivables Discounting System (TReDS).
- Certain specified categories of Government Securities (G-Secs) will be opened fully for non-resident investors.
- Limit for FPI in corporate bonds increased from 9% to 15% of the outstanding stock.
- There will be a legislation for netting of financial contracts to improve investors' confidence and expand the scope of CDS.
- Float debt-exchange traded fund (ETF) will consist primarily of G-Secs to enable access for retail investors.
- GIFT City will house an International Bullion exchange for gold trading by global market participants.
- There will be divestment of Government shareholding in IDBI Bank through the stock exchange.
- Government will also divest its stake in LIC by way of raising capital through the IPO route.

Tax Proposals

- Income of sovereign wealth funds, including the wholly owned subsidiary of Abu Dhabi Investment Authority (ADIA), has been exempted subject to the specified conditions:
  - Income arises from investment in an infrastructure company or such other business as may be notified by the Central Government.
  - The investment is made on or before 31 March 2024 and is required to be held for at least three years.
- There is relaxation in two conditions for onshore management of offshore funds; relating to contribution by Indian residents into the fund and increase in time limit for having monthly average corpus size of INR1 billion.
- DDT has been abolished; tax incidence will be shifted to the recipient at applicable rates.
- Thin Capitalization provisions will not be applied to interest paid in respect of a debt issued by an Indian branch of the foreign bank (being a PE of a non-resident).
- Provisions relating to exclusion from indirect transfer provisions for FPIs have been amended:
  - Investments made by non-residents in erstwhile Category I and II FPIs under the SEBI (FPI) Regulations, 2014 grandfathered
  - Similar exception provided to Category-I FPI under the SEBI (FPI) Regulations, 2019
- WHT rate concession of 5% has been extended up to 1 July 2023 in respect of:
  - Interest income on G-Secs and RDBs to FPIs; scope of securities expanded to also include municipal debt securities
  - Interest income on borrowings in foreign currency including RDBs issued offshore
- For bonds listed on IFSC exchange, withholding tax has been reduced from 5% to 4%.

Tax Proposals (contd)

- Provisions dealing with computation of profits and gains of insurance company (other than life insurance) will be rationalized to allow deduction for amount disallowed under Section 43B, on payment basis.
- Rationalization of the manner of computation of cost and holding period of segregated portfolios are as follows:
  - For computing the period of segregated units, period for which original units were held to be included
  - Cost of acquisition of segregated units to be computed on a proportionate basis
- Definition of "business trust" has been amended to do away with the requirement of listing of units of business trust.
- Finance Minister reiterated simplified GST returns to be effective from 1 April 2020 and e-invoicing will be introduced in a phased manner.

Chemicals

- Allocation of INR11,500 crore under 'Jal Jeevan Mission', which provides piped water supply to all households. The mission would be first implemented at cities with over a million population.
  - This will have a positive impact on PVC, vinyl compounds, water treatment chemicals, etc.
- Scheme focussed on encouraging manufacture of mobile phones, electronic equipment and semi-conductor packaging will be announced.
  - This will have a positive impact on electronic chemicals like semi-conductors, silicon, IC process chemicals, chemical used for semi-conductor packaging, etc.
- National Technical Textile Mission' is proposed to boost manufacturing of technical textiles in India and its exports.
  - This will have a positive impact on dye and intermediaries, colourants and paints, speciality chemicals, etc.
- There is a continued focus on implementation of investment of over INR100 lakh crore in India's infrastructure announced in 2019 through accelerated development of highways and over 6,500 projects announced in December 2019. This caters to housing, safe water, modern railway stations, setting up of new 100 airports, metros, irrigation projects, setting up large solar power capacity, etc.
  - This will have a positive impact on varied speciality chemicals, including construction chemicals.
- It emphasises the importance of technology innovations like artificial Intelligence, quantum computing and 3D printing on economy. Policy to build data centre parks throughout the country will be announced.
  - This will have a positive impact on varied speciality chemicals including 3D printing chemicals.
- Specific importance has been given to environment and climate change. It is proposed that thermal power plants that are old with high carbon emissions levels would be closed. Further, states would be encouraged for formulating and implementing plans for ensuring cleaner air in cities.
  - This will encourage chemical manufacturers to design eco-friendly plants with a minimal carbon footprint.

Highlights

INR100 lakh crore investment in infrastructure

Scheme focused on mobile phones, electronic equipment and semi-conductor packaging

National Technical Textile Mission proposed

Data centre parks to be built

Importance to environment and climate change

Positive impact on chemical sub-segments

Key indirect tax proposals

- Following changes will be made in the customs duty rates with effect from 2 February 2020:
  - Chapter heading 2843 – Noble Metal Compounds and Noble Metal Solutions: Basic Customs Duty increased from to 5% to 7.5%
  - Chapter heading 2916 12 10 – Butile Acrylate: Basic Customs Duty increased from to 5% to 7.5%
  - Chapter heading 38 – Platinum and Palladium used in manufacture of all goods falling under 3815: Basic Customs Duty reduced from to 12.5% to 7.5%, subject to actual user condition
  - Tariff item 3824 99 00 – Ammoniacal gas liquors and spent oxide produced in coal gas purification, case hardening compound, heat transfer salts; mixture of diphenyl and diphenyl oxide as heat transfer medium, mixed polyethylene glycols; salts for curing or salting, surface tension reducing agents: Basic Customs Duty increased from to 10% to 17.5% by increasing tariff rate
- Anti-dumping duty has been revoked on import of following items under 2917 36 00 of First Schedule to Customs Tariff Act, 1975 in respect of countries mentioned below:
  - Purified Terephthalic Acid
  - Medium Quality Terephthalic Acid
  - Qualified Terephthalic Acid

Originating in and export from **People's Republic of China, Iran, Indonesia, Malaysia, Taiwan, Korea RP and Thailand.**

Highlights

Basic Customs Duty increased from 5% to 7.5% for noble metal compounds, noble metal solutions and butile acrylate

Basic Customs Duty reduced from 12.5% to 7.5% (subject to user condition) for platinum and palladium

Basic customs duty increased from 10% to 17.5% for ammoniacal gas liquors and other products

Infrastructure

- There will be extension of beneficial corporate tax rate of 15% to new companies engaged in the generation of electricity. Furthermore, acknowledging the industry's needs, measures to bring relief to power distribution companies (DISCOMs) will be announced.
- Any investment income earned by a sovereign wealth fund from new investment (whether debt or equity) in infrastructure companies viz roads, ports, airports, etc., would be tax exempt.
- Budget will consider solar power generation on land owned by railways alongside railway tracks.
- Monetization of at least 12 highway projects covering 6000km before 2024 will be announced.
- 5 smart cities will be developed in collaboration with State under Public-Private-Partnership (PPP) model.
- 100 more airports will be developed by 2024 which is in line with National Infrastructure Pipeline's Vision 2025 of entering Top 2 world's largest aviation market and to propel UDAAN Scheme.
- A National Logistics Policy will be introduced to create a single window e-logistics market and it would augment inclusion of MSMEs and generate employment.
- There will be redevelopment of stations and operations of more passenger trains through PPP mode. More trains akin to Tejas will be announced to connect tourist destinations.
- Measures, such as funding and private sector inclusion, will be announced for the setting up of warehouses. Furthermore, digital tools to map and geotag agricultural and cold storage warehouses will also be brought forth.
- Budget will contemplate setting up of project preparation facility to propel infrastructure projects by harnessing the skilled talent pool.

Highlights

Power generation – **15%** ***CTR***

5 smart cities with PPP

More trains such as Tejas

100 more airports by 2024

- Conventional meters will be replaced by smart meters that would help to reduce power distribution losses.
- The setting up of Kisan Rail will be announced, with the involvement of private sector to augment cold supply chain for perishable goods.

Highlights

Stock-in-trade (SIT)
into
Capital asset (CA)

PAN
INR0.25m
or more in a tax year

OECD model legislation

Media & Entertainment

- Definition of “royalty” has been amended to omit exclusion of “sale, distribution or exhibition of cinematographic films” effective 1 April 2020.
  - This will subject theatrical and other receipts from exploitation of cinematographic films to taxation and withholding requirements.
- Provision relating to “Significant Economic Presence” of a non-resident, introduced in the Finance Act 2018 to tax digital economy transactions, has been deferred to 1 April 2021 onward in light of ongoing G20 and OECD BEPS project.

- Scope of source rule under the domestic law in the event of a “business connection” has been expanded to include income from:
  - Advertisements targeting an Indian customer or a customer who accesses the advertisement through an internet protocol address located in India
  - Sale of data collected from an Indian resident or a person who uses an internet protocol address located in India
  - Sale of goods or services using data collected from an Indian resident or a person who uses an internet protocol address located in India

Highlights

Significant economic presence deferred to FY2021-22

Exclusion of cinematographic films removed from royalty definition

Scope of source rule expanded

- A new section has been introduced to widen the scope of domestic withholding tax on e-commerce transactions which will more particularly impact the new media and digital businesses.
  - E-commerce operators, who facilitate supply of goods or provision of services to customers through their platforms, are required to withhold tax **at 1%** on gross amount of sales or services payable to e-commerce participants.
  - The section clarifies that the e-commerce operator shall also be required to withhold tax on the amounts directly collected by such e-commerce participants.
  - No withholding on e-commerce participants who are individuals or HUFs, where gross amount of sales or services does not exceed INR500,000 and who have furnished a Permanent Account Number or Aadhar number.
- Withholding tax rate on "fees for technical services" (not being professional services) has been reduced from 10% to 2%.
  - This may help reduce potential withholding tax litigation on rate applicable to production services.
- Policy to enable private sector to build Data Centre parks throughout the country will be introduced.
- Basic customer duty on imports of news print and light-weight coated paper has been reduced from 10% to 5%.

Highlights

Withholding tax on e-commerce transactions

1%

10% → 2%

Withholding on fees for technical services

Life Sciences Sector

- Health care budget has increased in FY20-21 to INR69k crores vs. INR62.6K crore in FY19-20.
- Public-private-partnership (PPP) models for hospitals has been proposed – more hospitals in tier 2 and tier 3 cities will be brought in ambit of Ayushman Bharat. Also, hospitals providing facilities for medical colleges will be incentivized.
- A scheme to encourage manufacturing of medical devices in India will be announced.
- Institute of Excellence will be established for working on the complexity and innovation in the field of IP. A digital platform will be promoted to facilitate seamless application and capture of IPRs.
- Budget 2020 will strengthen efforts to eradicate tuberculosis by 2025.
- Health care schemes, such as Jan Aushadhi and Ayushman Bharat, will be further strengthened and expanded.
- Two new national level schemes will be announced to support mapping of India's genetic landscape – critical for next-generation medicine, agriculture and for biodiversity management.
- New levy of Health Cess at the rate of 5% ad valorem on the import value will be levied as duty of customs on import of medical devices (unless exempted) (wef 2 February 2020) – will be used for creating health infrastructure in selected districts.
- Social Welfare Surcharge at 10% of the BCD will be payable on certain medical equipment under Chapter 90 (wef 2 February 2020).
- Customs Act will administer trade agreements – additional obligations on importers and time bound verification from exporting countries.
- Budget will focus on eliminating foot and mouth disease, brucellosis in cattle, and also peste des petits ruminants (PPR) in sheep and goat by 2025.

Highlights

Focus on increasing affordable health care outreach

Mapping of genetic landscape for next-generation medicine

Push on "Make in India" for medical device sector

Increase in import levies on medical devices

Real Estate

- Tax holiday for affordable housing projects has been extended to projects that have obtained approval from competent authorities up to 31 March, 2021.
- Tax holiday for affordable housing projects has been extended to loans availed up to 31 March, 2021
- Variance between stamp duty value (SDV) and actual sale consideration (SC) for sale of land and building increased from 5% to 10%.
- Dividend earned by Business Trust (including Real Estate Investment Trust) will be taxable in the hands of unit holders; and will be subject to withholding tax (WHT) of 10%.
- Concessional rate of WHT of 5% provided to non-residents for interests paid on monies borrowed by way of issue of Rupee Denominated Bonds (RDBs) and external commercial borrowings has been extended by 3 years, i.e.; until 1 July 2023.
- Concessional rate of WHT of 5% for interests payments made to Foreign Institutional Investors (FII) and Qualified Foreign Investors (QFI) on investments made in government securities and RDBs of Indian companies has been extended by 3 years, i.e.; until 1 July 2023.

Highlights

WHT concessional rate benefit extended for ECBs and RDBs by **3** years

Affordable housing approval of project and loan sanction increased by **1** *year*

Relaxation of variance between SDV and SC increased from **5** percent → **10** percent

Consumer Products and Retail | "Make in India"

'Make in India' push for CPR Sector

Modi Government's FY2020 Budget is aimed at giving a big push to "Make in India" by increasing customs duty rates related to many consumer products, fast-moving consumer goods (FMCG) items and daily essentials:

- **Toys industry:** Custom duty rates on toys has increased from 20% to a whopping 60%. This is definitely likely to force toy-importing brands to explore "manufacturing in India", especially for Indian market.
- **Footwear industry:** Increase in import duties for footwear from 25% to 35% (parts of footwear from 15% to 20%) is likely to result in domestic manufacturers being able to price their brands more competitively.
- **Electronics:** Apparently, to reduce dependency on China, SE Asia, etc., for electronics, customs duty on parts for refrigerators, air conditioners, mobile phones, head phones, ear phones and so on have been substantially increased and doubled in many cases.
- Essential – less technology-driven based items:
  - **Furniture brands:** Customs duty on furniture made from bamboo, cane, etc., is increased from 20% to 25%.
  - **Table ware, kitchen ware, artificial flowers and other household articles:** Customs duty has increased from 10% to 20%.
  - **Food items:** Customs duty has increased on milk powder, cream powder, whey, butter, ghee, infant food items, walnuts, vegetable oils, etc.
- **Free trade agreement (FTA) benefits:** Procedures for availing FTA benefit for imports have been more stringent, especially around origin rules.

Highlights

- Thrust on Make in India
- Increase in customs duty rates
- FTA policy made more stringent
- **Customs duty exemption withdrawn on multiple items**

Consumption and Driving Demand initiatives, if implemented well, are likely to benefit FMCG sector

Budget 2020 attempts to provide boost to consumption story, both urban and rural, by increasing disposable funds / income in hands of consumers and farmers

- **Personal tax slabs –** new regime with reduced tax rates for various slabs
- **Significant initiatives announced for agriculture, irrigation and rural development aimed at doubling farmers income by 2022**
  - Measures like Fasal Bima Yojna, solar pumps for farmers, promotion of warehousing and cold storage, agriculture credit target of INR15 lakh crores for 2020-21, horticulture support, fishery exports, blue economy push, cattle fodder farms, milk processing, etc., if implemented well, are likely to uplift the earnings of people in rural India (Bharat), thereby benefiting FMCG sector.
- **Incentive provided to small retailers, traders, shopkeepers and so on**
  - Incentive provided to small retailers, traders, shopkeepers, etc., by increasing the threshold limit for exemption from tax audit from a turnover of INR1 crore to INR5 crore is a welcome step.
  - However, the condition that cash transactions (receipts or payments) should not exceed 5% is likely pose to a practical challenge for many small-scale retailers to avail this benefit initially, until the economy completely digitizes.
- **Digitization, GST, e-invoices, QR codes**
  - Government seems keen to continue its journey toward digitizing tax interfaces, such as faceless tax appeals, e-invoicing, dynamic QR codes for B2C and consumer invoices, and cash rewards for consumer who opt for invoices.
  - Such measures, while welcome, requires a ‘thought through’ and planned implementation to avoid practical challenges faced by the retail and consumer sector. This is especially because retail stores have their own “point of sale” software systems, etc.

Start-up

- Collection of taxes in relation to specified security or sweat equity shares deferred issued by eligible start-up:
  - It was the long-standing demand of start-ups to defer deduction of taxes in relation to allotment of specified securities or sweat equity shares by start-ups.
  - With effect from FY2020-21, eligible start-ups will be required to deduct taxes in relation to specified security or sweat equity shares issued, within 14 days of earliest of the following event or date:
    - 5 years from the FY in which the specified security or sweat equity share is allotted or transferred to the employee (i.e., expiry of 48 months from the end of the relevant assessment)
    - Date of the sale of specified security or sweat equity shares
    - Date of cessation of employment
- In line with criterion specified by Department for Promotion of Industry and Internal Trade (DPIIT) for recognition of eligible start-ups, the annual turnover threshold criteria for availing income tax holiday has been increased from INR25 crore to INR100 crore.
- Time limit to avail 100% deduction of profits earned by eligible start-ups has been extended from any 3 consecutive years, out of a block of 7 years, to block of 10 years (from year beginning incorporation).
- Newly introduced withholding tax will be levied at a rate of 1% on the payments made by the e-commerce operator to e-commerce participants in relation to consideration for sale of goods or provision of services facilitated through e-commerce platform. Relaxation will be provided to individual/HUF e-commerce participants, subject to furnishing PAN or adhaar number.
- Interface between tax payer and Commissioner Income tax (Appeals) will be eliminated.
- Withholding tax rate on fee for technical services (other than professional services) paid to residents will be reduced from 10% to 2%.

Other announcements

- Seed fund will be set up for providing early life funding, support ideation and development of early stage start-ups.
- Investment clearance cell will be set up for providing "end-to-end" facilitation and support, including pre-investment advisory, information relating to land banks; and facilitate clearance at centre and state level.

Highlights

- Annual turnover cap increased from INR25 crores to INR100 crores
- Withholding tax on fees for technical services reduced from 10% to 2%
- Period for claiming income tax holiday relaxed

Technology

- Government proposed to focus on new-age technologies such as data analytics, internet of things (IoT) and artificial intelligence (AI) to facilitate its goal of becoming a US$5 trillion economy by 2025.
- For reaping the benefits of technology, the Government proposes the following:
  - To come out with policy for enabling private sectors to build data centre parks for enabling the businesses to skilfully incorporate data in every step of their value chain
  - Linking 100,000 grama panchayats in FY2020-21 through Bharatnet's Fibre to the Home (FTTH)
  - Exploiting technology to increase the efficiency of Indian seaports
  - Adopting suitable technologies to replace manual cleaning of sewer systems or septic tanks
- Government will provide INR8,000 crores over 5 years for the National Mission on Quantum Technologies and Application.
- It has been proposed to take measures to create and protect Intellectual Property Rights (IPRs). These include:
  - Digitally capturing IPRs
  - Setting and scaling up of Knowledge Translation Clusters in new and emerging areas of technology
  - Schemes for mapping of India's genetic landscape
- Machine learning and AI will enable health authorities and medical fraternity to target disease with an appropriately designed preventive regime.
- Dedicated scheme will be announced to focus on encouraging manufacture of mobile phones, electronic equipment and semi-conductor packaging.

Highlights

100,000
FTTH connections

INR8,000 crore
on quantum technologies and application

Telecom

- There is a thrust to boost electronics manufacturing in India. A scheme will now be introduced to encourage domestic manufacturing of:
  - Mobile phones
  - Electronic equipment
  - Semiconductor packaging
- Basic customs duty (BCD) on Printed Circuit Board Assembly (PCBA), and charger and power adaptor of cellular mobile phones will be increased to 20%.
- In order to align with Phased Manufacturing Program (PMP), BCD for the remaining parts of mobile phones, namely vibrator motor and ringer, display assembly, and touch panel and glass assembly will be increased to 10% with effect from prescribed dates.
- An enabling provision will be inserted for administrating preferential tariff treatment regime under Trade Agreements.

Highlights

Thrust on Make in India

0% → 10%

BCD will be increased for remaining parts of mobile phones, in line with PMP.

A scheme will be introduced to boost manufacturing of mobile phones in India.

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