



# **BUDGET**

## **AN OVERVIEW**

### **2020**

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## 1. INTRODUCTION

The Longest Budget Speech took place, lasting under 3 hours. For Reference, the 2019 (#NirmalaSitharaman) was 2 Hrs 15 Mins, the 2003 (Jaswant Singh) was 2 Hrs 13 Mins, and the 2014 (Arun Jaitley) 2 Hrs 10 Mins! The Budget was a series of initiatives, rather than contain just a few big ideas. Fiscal deficit is to be at 3.8%: at this juncture, growth over fiscal prudence is truly brilliant. As is obvious many announcements are at an “idea level” and details are expected in due course. That would mean neither their impact would be fully assessable within budget period, nor would their benefits become tangible in the budget period.

The Union Budget is a refreshing roll out which is in fact unique in many ways. A bird’s eye view of the length and breadth, and vast expanse of the field of play, is admirable as it is breathtaking. If there is one fundamental underpinning to the diversity, it is the target to uplift the poorest, development, and a huge focus on rural segment. Here are some of these: 100 new airports by 2025; 150 private trains which will have a multiplier effect; privatization of railway stations; development push for both the new Union Territories: The FM announced Rs 30757 cr for J&K and Rs 5958 Cr for Ladakh; Rs 22,000 Crores to Power & Renewable Energy sector in 2020–21; solar panels across railway tracks; total ban on manual scavenging; decision to develop medical colleges at the district hospital level - a good idea provided these are self-sustainable at least after the incubation period; India is embarking on rapid electrification of the rail network and by 2024, the rail network will be 100% electrified.

A bird’s eye view of corresponding sectoral allocations proposed by the FM so far in #Budget2020 are: Transport infrastructure - Rs 1.7 Lakh Cr; Healthcare - Rs 69,000 Cr; Education – Rs 99,300 Cr; Backward Castes- Rs 85,000 Cr; Scheduled Tribes - Rs 53,700 Cr ; Nutrition Programs - Rs 35600 Cr; Women Centric Programs- Rs 28,600 Cr; power and renewable energy – Rs 22,000 Cr; Swachh Bharat Mission - Rs 12,300 Cr; Senior Citizens - Rs 9,500 Cr; Culture Ministry- Rs 3,150 cr; skill development – Rs 3,000 Cr.



In a tacit admission of the slow down, the main cause has been correctly identified: Credit flow is diagnosed as the major problem and the Govt is trying to address it, especially towards the MSME (Micro Small Medium Enterprises). Significantly MSMEs constitute the backbone of the economy. Other relief given to the MSME includes, scheme to provide subordinate debt, removing audit and taking the limit to Rs 5 cr, ESOP relief is a big thing and will benefit start-ups. FM Nirmala Sitharaman has said that start-ups are an engine of growth and she propose to increase turnover limit for startups from Rs 25 crores to Rs 100 crores. There is a massive push for technology. Automatic, instant PAN (Permanent Account Number) based on Aadhar, a policy for Data Centre Parks, State Govts to replace electricity meters with prepaid smart meters in 3 yrs are some of elements that will give a push for data and technology and start-ups. Huge exemption to sovereign wealth funds will give a gush of inflows. And the FPI limit to invest in corporate bonds upto 15 percent from 9 percent.

Not surprisingly, the Union Budget addresses civilizational issues: 5 archaeological sites would be developed as iconic sites with on-site museums – Rakhigarhi (Haryana), Hastinapur (UP), Shivsagar (Assam), Dholavira (Gujarat), and Adichanallur (Tamil Nadu). The Hon Prime Minister Shri Narendra Modi, in January 2020, announced the recreation of the Indian Museum in Kolkata, the oldest in the country: Indian Institute of Culture & Heritage is to come up. These are “awesome” in a country that seriously suffers from the legacy of “distorians” since independence.

Defence capital budget has got a "massive" increase of Rs 3,340 Cr over revised budget, and Rs 10,340 cr over last year's allocation. The Airforce actually has lesser provision than the revised budget by Rs 1588 Cr, the Navy gets 532 Cr more to buy the carriers, subs, minesweepers, choppers etc that it needs. As mentioned earlier, the series of issues addressed even included social issues: setting up a committee to revisit the marriageable age for women.



Direct tax proposals saw personal tax cuts leading to one of the lowest tax regimes in the world. Someone with Rs 15 lakh income saves about Rs 78k, while one with Rs 10 lakh income around Rs 50k. “Tax terrorism” has been done away with, and this could be the item of loudest cheer for corporate world. At last those who earn dividends of Rs 100 cr etc will pay tax at the appropriate rate - no dividend distribution tax by companies which we have been arguing for years as one of most regressive taxes.

One has to record some of the so-called left out areas, and the bloomers, that lead to unhappiness in certain sections. No attention to long term capital gains tax holding period. Increasing tax slabs from 3 to 6 and then having two systems to pick from (one with exemptions & one without, trying to calculate in which you save small amounts) was called “simplifying the direct tax regime”; when the real estate sector is struggling then the need of the hour was the increase of deductions paid on interest on housing loan, but if one opts for a new regime then there are no deductions; dividend which was tax free will now be taxed at your IT rate, will only benefit FIIs and not domestic investors

Looking to the determination that it is “not the business of government to be in business”, and the grass root focus of the changes, the short-term shortcomings, can be easily be ignored, and the country will stand to benefit from the largest push ever, to development and freedom from poverty.



## **2. EXECUTIVE SUMMARY**

### **DIRECT TAXES**

- No change in the tax rates of all class of assessees except cooperative societies
- Optional reduced tax rates for foregoing deductions and exemptions for individuals & HUFs
- Increase in tax audits turnover limits from Rs. 1 crore to Rs.5 crores where cash receipts and payments are less than 5% of the turnover
- Abolition of Dividend Distribution Tax (DDT)
- Dividend to be taxed in hands of recipient
- Exemption for startups for three consecutive years out of 10 years
- ESOP's taxation eased
- Penalty for fake invoice accounting to the extent of hundred percent of the value
- Number of days of stay in India reduced to 120 days from 182 days for determining residential status
- TDS to be paid by E-commerce operator on all transactions at the rate of 1% on gross amount of sale or service
- Insertion of tax payer charter in the Act
- Tax dispute settlement scheme introduced without any levy of Interest and penalty

### **INDIRECT TAXES**

#### **Customs**

It is proposed to amend section 11 to include any other good which shall be notified in addition to gold and silver

It is proposed to add new chapter VAA under the act setting up the procedures where an importer making claim for preferential rate of duty in terms of any trade agreement



### **3. DIRECT TAX PROPOSALS**

#### **3.1 TAX RATES**

There are no changes in Income Tax rates for any class of assesses except cooperative societies.

##### **Optional For Some Individuals And Hufs**

However, a new section 115BAC is proposed in respect of tax slabs in respect of such individuals/HUFs who do not wish to claim any deductions or exemptions:

The option is to be exercised for every year except in case of individuals or HUFs who do not have business income but in case of individuals having Business income it is for a life time except it can be withdrawn once.

The proposed Slab Rates are as under:

<b>Income</b>	<b>Income Tax Rate</b>
Upto Rs. 2.5 Lakhs	Nil
Rs. 2.5 Lakhs to Rs. 5 Lakhs	5%
Rs. 5 Lakhs to Rs. 7.5 Lakhs	10%
Rs. 7.5 Lakhs to Rs. 10 Lakhs	15%
Rs. 10 Lakhs to Rs. 12.5 Lakhs	20%
Rs. 12.5 Lakhs to Rs. 15 Lakhs	25%
Above Rs. 15 Lakhs	30%

To claim the above reduced tax slabs the assesee has to forgo the following deductions/exemptions:

1. Leave Travel Concession under clause (5) of section 10
2. House Rent Allowance under clause (13A) of section 10
3. Transport allowance, Conveyance Allowance, tour travel Allowance and Daily Allowance under clause (14) of section 10
4. Allowance for MPs/MLAs under clause (17) of section 10
5. Allowance for income of minor as contained in clause (32) of section 10
6. Exemption for SEZ unit contained in section 10AA



7. Standard deduction, deduction for entertainment allowance and employment/professional tax as contained in section 16
8. Interest under section 24 in respect of self-occupied or vacant property referred to in sub section (2) of section 23(Loss under the head income from house property for rented house shall not be allowed to be set off under any other head and would be allowed to be carried forward as per law)
9. Additional Depreciation under clause (iia) of sub-section 1 of section 32
10. Deduction under section 32AD, 33AB and 33ABA
11. Deduction for donation for or expenditure on scientific research contained in sub clause (ii) or (iia) or (iii) of subsection (1) or 2AA of section 35
12. Deduction under section 35AD or section 35CCC
13. Deduction from family pension under clause (iia) of section 57
14. Any deduction under chapter VIA except deduction under sub-section 2 of 80CCD(employer contribution in notified pension scheme on account of employee)
15. Exemption in respect of free food and beverage through vouchers provided to employees by employer as under rule 3

It is further proposed to amend section 115JC and 115JD so as to provide the provisions relating to AMT and carry forward and set off of AMT credit shall not apply to individual or HUF having business on exercising the option under new section 115BAC.

#### **Rate of Tax - Firm/LLP, Co-Operative Society, Local Authorities**

There is no change in the tax rates or surcharge in the case of firm/LLP, Co-operative Societies and local authorities.

For Co-operative society option has been proposed under new section 115BAD to pay tax at the rate of 22% + 10% surcharge + 4% cess

For being eligible following exemption/deduction shall not be available:-

1. Deduction under provision of section 10AA
2. Deduction under provision of clause (iia) of subsection (1) of section 32
3. Deduction under provision of section 32AD
4. Deduction under provision of section 33AB or section 33ABA
5. Deduction under provision of sub-clause ii or iia or iii of subsection 1 or subsection 2AA of section of section 35
6. Deduction under provision 35AD or 35CCC
7. Deduction under provision of chapter VIA

It is further proposed to amend section 115JC and 115JD so as to provide the provisions relating to AMT and carry forward and set off of AMT credit shall not apply to co-operative society on exercising the option under new section 115BAC.





### **3.2 NEW TAX INCENTIVES AND RELIEFS**

#### **Tax Audit Limits**

It is proposed to reduce compliance burden of SMEs in respect of Tax Audit under section 44 AB to increase the turnover limit to Rs. 5 Crores provided the total cash receipts and total cash payments are less than 5%.

It is further proposed to amend section 139 (1) to extend due date of filing return in case of all assesses required to get Tax Audit to 31<sup>st</sup> October. However, the Tax Audit report in form 3CA or 3CB along with form 3CD is required to be filed on or before 30<sup>th</sup> September.

It is further proposed to remove the distinction of Working and Non-Working Partner for due date of filing of return of Income.

Consequential amendments have been made with regard to Tax deduction / Collection in all such cases.

**The above amendment is applicable from assessment year 2020-21.**

#### **Cost of acquisition.**

It is proposed to amend section 55 wherein the stamp duty valuation as of 1st April 2001 will be substituted as fair market value for land or/and building acquired prior to 1st April 2001.

#### **Dividend Distribution Tax (DDT)**

It is proposed to abolish sections 115 O and 115 R in respect of dividend distribution tax and dividend shall be taxed in the hands of recipient for dividend declared on or after 1st April 2020.

Consequential amendments have been made in sections 10(23D), 10(23FC), 10 (23FD), 10 (34), 10(35), 57, 80M, 115A , 115AC, 115ACA , 115AD, 115BBDA , 115C, 115UA (3), 194K , 194LBA, 195, 196A and 196C.

**Consequential amendments have also been made in section 194 and 196 D which are applicable from assessment year 2020-21.**

#### **Modification In Concessional Tax Rates Scheme**

Taxation Law Amendment Act 2019 inserted section 115BAA for domestic companies to opt for reduced tax rate of 22% and 115BAB for new manufacturing companies to be taxed at 15%, without availing any deductions and incentives under the provisions of Chapter VI A except deductions under section 80JJAA.

It is proposed to amend section 115BAA and 115BAB to claim deductions under section 80M apart from 80JJAA if a domestic company opt for concessional rate of tax.

**The above amendment is applicable from assessment year 2020-21.**



### **Tax Rationalization for Startup**

It is proposed to amend section 80IAC whereby the eligible startup companies/LLP can claim a deduction of 100% of its profits in three consecutive assessment years out of 10 assessment years instead of 7 assessment years from the date of incorporation. Further the turnover limit has been proposed to be increased from Rs. 25 crores to Rs. 100 crores for eligible startups to claim deduction.

**The above amendment is applicable from assessment year 2020-21.**

### **Extension of time limit for approval of affordable housing project**

It is proposed to extend the sunset clause, for approval from competent authority in section 80IBA, from 31st March, 2020 to 31st March, 2021, for claiming 100% deduction on profits and gains from affordable housing projects.

### **Extension of time limit for buyers of affordable house**

It is proposed to extend the sunset clause in section 80EEA for eligible assesses to claim a deduction of interest up to Rs. 1,50,000/- on account of loan taken for affordable housing from 31st March, 2020 to 31st March, 2021.

### **Increase in the deemed consideration limit**

It is proposed to increase the variance from 5% to 10% in sections 43CA, 50C and 56, wherein the value of consideration for transfer of land/building is adopted at stamp duty valuation, if actual consideration is less.

### **Tax benefits for ESOP's of startups**

It is proposed to amend section 17 wherein presently employees of startups are taxed for ESOPs in the nature of perquisites in two stages, viz. (i) at the time of exercising their rights; and (ii) at the time of sale of such shares. In case of eligible startups, the tax shall now be deducted/paid within 14 days of earliest of the following:

- after expiry of 48 months from end of the assessment year in which it is allotted; Or
- date of sale of such ESOP; Or
- employee ceases to be employed.

Consequential amendments have been carried out in sections 191, 192, 156 and 148.

**The above amendment is applicable from assessment years 2020-21.**

### **Reduction in rate for TDS for fees for technical services**

It is proposed to amend section 194J where an assessee other than individual or HUF needs to deduct tax at 2% instead of 10% on fees for technical services (other than professional services).

**The above amendment is applicable from assessment years 2020-21.**



**Amendments to Safe Harbour Rules and Advance Pricing Agreements**

It is proposed to amend sections 92CB and section 92CC to include attribution of profits to permanent establishment of a non-resident as provided under section 9(1)(1) also under safe harbor rules and advance pricing agreements.

**The above amendment is applicable from assessment years 2020-21.**



### 3.3 ADDITIONAL TAX BURDEN

#### Penalty for fake invoice

It is proposed to insert a new section 271 AAD to levy penalty in case where it is found that a person has made false entry or omitted to make any genuine entry whereby false input credit is availed for GST. The penalty shall be equal to total false or omitted entries. Similar penalty shall also be levied on person providing such false entry.

For this purpose, false entry would mean to include

- forged/falsified documents; or
- providing document without providing goods/services or both; or
- Documents to or from person who do not exist.

**The above amendment is applicable from assessment year 2020-21.**

#### Modification of residency provisions

It is proposed to amend section 6 as under:

- In explanation (1), clause (b) the presence in India is reduced to 120 days from existing 182 days;
- A new clause (1A) is inserted to include a person who is citizen of India to be deemed to be resident in India if he is not liable to tax in any country by reason of his domicile or residence or any other criteria of similar nature;
- Clause (6) is amended to the extent that for an individual or manager of HUF, the requirement to be non-resident is now 7 out of 10 years instead of 9 out of 10 years earlier.

#### TDS On E-Commerce Transaction

- It is proposed to insert section 194 O to tax deducted at source at the rate of 1% on the gross amount of sales or service or both and pay to the credit of the e-commerce participant (excepts individuals /HUF having transactions of less than Rupees five lakhs) for transactions made by an e-commerce operator through digital platform.
- For the purpose of this section an ecommerce operator has been defined as “any person who owns, operates or manages digital or electronic facility or platform for electronic commerce and is a person responsible for paying to e-commerce participant”.
- Further “e-commerce participant” is defined to mean “a person resident in India selling goods or providing services or both, including digital products, through digital or electronic facility or platform for electronic commerce”.
- “electronic commerce” is defined to mean “the supply of goods or services or both, including digital products, over digital or electronic network”.
- “services” is defined to “include fees for technical services and fees for professional services, as defined in section 194J”.
- Consequential amendments are proposed in sections 197, 204 and 206AA.

**The above amendment is applicable from assessment years 2020-21.**



### **3.4 PROCEDURAL CHANGES**

#### **Rationalisation of provision relating to Form 26AS**

It is proposed to insert a new section 285 BB replacing Section 203 AA whereby the Income Tax Authority will upload annual information statement to the Registered Account of the Assessee regarding tax deducted or collected at source as uploaded by the detector.

**The above amendment is applicable from 1<sup>st</sup> June 2020.**

#### **Changes in trust, institution and funds**

It is proposed to amend certain sections/clauses relating to charitable trust/institutions registered under sections 12A or 12AA and claiming exemption u/s 10(23C)(1) or (46) if certain conditions are not complied with. The effective amendments are as follows

- The provisional registration shall be granted for a period of 3 years for fresh registrations;
- For existing entities such registration will be valid for a period of 5 years at a time.
- Entity receiving donation is required to furnish statement of receipt of donation to the income tax authority for donor to be able to claim deduction u/s 80G;

**The above amendment is applicable from 1<sup>st</sup> June 2020.**

#### **Amending definition of “work” in section 194C of the Act.**

It is proposed to amend section 194 C by adding to the existing meaning of “work”, the words “manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from a person being associate of such customer”. The word associate will have same meaning as in section 40A(2)(b).

#### **Insertion of Taxpayer’s Charter in the Act.**

It is proposed to insert new section 119A to empower Board to adopt and declare Taxpayer’s Charter for administration purpose and to issue orders, instruction, directions or guidelines to income tax authorities.

**The above amendment is applicable from assessment year 2020-21.**

#### **Provision for e-appeal**

It is proposed to insert new sub-sections under section 250 to facilitate process of hearing of appeals filed before CIT(A) in a faceless manner.

**The above amendment is applicable from assessment year 2020-21.**

#### **Amendment in Dispute Resolution Panel (DRP)**

It is proposed to amend section 144 C to bring under assessing officer’s scope to make draft assessment order in all cases of variations which are prejudicial to the interest of the revenue and expand the scope of the section to non-residents not being a company.

**The above amendment is applicable from assessment year 2020-21.**



#### **Modification of e-assessment scheme**

It is proposed to bring best judgment assessments u/s 144 in a faceless manner as provided under sub-section 3A of section 143.

**The above amendment is applicable from assessment year 2020-21.**

#### **Exemption for non-residents from filing of income tax returns**

It is proposed to amend section 115A, whereby presently non-residents are not required to file return of income in India for income earned by way of interest or dividend, if TDS on such income are deducted as per provisions of Chapter XVII -B of the Act. It is proposed to include royalty and fees for technical services also in the above exemption for non-residents on full filing same condition.

#### **Tax Dispute Settlement Scheme**

It is proposed to introduce a tax dispute settlement scheme wherein all the matters before any appellate authority shall be settled by paying only the disputed tax if opted before 31<sup>st</sup> March, 2020. However, the scheme can also be opted up to 30<sup>th</sup> June, 2020 with the payment of additional tax burden.

**Where ever not specified the amendment is applicable from Assessment Year 2021-22.**



## **4. INDIRECT TAX PROPOSALS**

### **4.1 CUSTOMS DUTY**

It is proposed to amend section 11 to include any other good which shall be notified in addition to gold and silver.

It is proposed to add new chapter VAA under the act setting up the procedures where an importer making claim for preferential rate of duty in terms of any trade agreement.



## **5. OTHER MAJOR POLICY INITIATIVES**

- The Finance Minister has proposed for a simplified GST return from 1<sup>st</sup> April, 2020.
- The FM has proposed IPO for LIC
- The FM has proposed sale of Government of India's stake in IDBI to convert it into a private Financial Institution.
- Insurance cover for bank depositors raised from Rs.1.00 lakh to 5.00 lakhs





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