

Analysis

#Union Budget 2020



Budget Analysis

Union Budget 2020-21 energizes Indian economy to make India a five trillion-dollar economy. The Budget is based on three prominent themes such as Aspirational India, Economic Development and Caring Society. Aspirational India in which all sections of the society seek better standards of living, with access to health, education and better jobs. Economic development for all, entail reforms across swathes of the economy. Simultaneously, it would mean yielding more space for the private sector. Together, they would ensure higher productivity and greater efficiency. Ours shall be a Caring Society that is both humane and compassionate. Antyodaya is an article of faith. Budget seeks economic empowerment of citizens, economic reforms as well as policy-driven good governance, clean and sound financial sector.

Corporate Taxation

Abolition of Dividend Distribution Tax and Concessional Corporate Tax

- The move will encourage more distribution of profits by companies, thereby increasing the purchasing power of shareholders.
- Attract globally investors and more funds into the economy to set-up their operation in India.
- Deduction for the dividend received by holding company from its subsidiary to avoid cascading effect.

India stays globally competitive and a favoured destination for investment, a bold historic decision has been taken to reduce the corporate tax rate for new companies in the manufacturing sector to an unprecedented level of 15%. For existing companies, the rate has been brought down to 22%. As a result, corporate tax rates are now amongst the lowest in the world.

This initiative will create more employment and professional opportunities for the members of the profession in areas including FEMA (with respect to inbound investments), Companies Act (employment and practice opportunities through incorporation of new entities and other ancillary aspects relating to starting of business in India and its ongoing management in various areas such as Competition Act, IPR, sector specific regulatory requirements).

Governance Reforms

- The provisions of the Companies Act, 2013 will be amended to build into statutes, criminal liability for certain acts that are civil in nature.
- Cooperative Banks to be strengthened by amending Banking Regulation Act for increasing professionalism, Enabling access to capital, Improving governance and oversight for sound banking through the RBI.

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- Seamless delivery of services through Digital Governance.
- A corruption-free, policy driven good governance and a clean & sound financial sector to ensure ease of living to all citizens
- Setting up of National Recruitment Agency (NRA), as an independent, professional, specialist organisation for conduct of a computer-based online Common Eligibility Test for recruitment to Non-Gazetted posts.
- To evolve a robust mechanism for appointment including direct recruitment to various Tribunals and specialised bodies to attract best talents and professional experts.
- Build Data Centre parks Policy Enablefirms to skilfully incorporate data in every step of their value chains.

Above governance reforms would help in making market more competitive, transparent, bring professionalism and aimed at Minimum Government & Maximum Governance.

Financial Sector

- Deposit Insurance and Credit Guarantee Corporation (DICGC) has been permitted to increase Deposit Insurance Coverage for a depositor from Rs. 1 lakh to Rs. 5 lakh per depositor.
- Proposal to amend Pension Fund Regulatory Development Authority of India Act (PFRDAI) that will also facilitate separation of NPS trust for government employees from PFRDAI.

Financial Reforms would definitely boost investors' confidence and motivate citizens to build habit of saving and plan for their old age, thereby, ensuring a robust banking as well as insurance system.

Real Estate Sector

In order to boost the supply of affordable houses in the country and to encourage developers, a tax holiday is provided on the profits earned by developers of affordable housing project approved by 31st March, 2020 as well as concession to real estate transactions.

This move will lead to revive the real estate sector and accelerate the economic growth. Revival of real estate sector will positively impact on the profession of Company Secretary as Company Secretary in Practice is authorised to act as legal representative under Real Estate Regulation and Development Act, 2016.

Ease of Doing Business

The following steps are taken towards Ease of doing Business:

- Simplification of GST returns
- No audit requirement for MSMEs with up to Rs 5 Crore turnover
- Instant issuance of PAN by furnishing Aadhaar
- Pre-filing of Tax Returns

This will attract foreign companies to set up their business operations in India. Further, it is solid steps to increase foreign investment in India and to boost 'Make in India' to ensure employment generation and expansion of professional practice in India thereby increasing the scope of the profession of Company Secretaries.

Policies Measures

Few policies will be implemented towards good governance:

- National Policy on Official Statistics lay down a roadmap towards modernized data collection, integrated information portal and timely dissemination of information. Policy to enable private sector to build Data Centre parks throughout the country would enable firms to skill fully incorporate data in every step of their value chains. National Policy on official statistics to use latest technology to enable real time monitoring of increasingly complex economy.
- National Logistics Policy to create a single window e-logistics market and will focus on generation of employment, skills and making MSMEs competitive. A National Logistics Policy will be released soon and it will clarify the roles of the Union Government, State Governments and key regulators. It will create a single window e-logistics market and focus on generation of employment, skills and making MSMEs competitive.
- New Education Policy: Our education system needs greater inflow of finance to attract talented teachers, innovate and build better labs. Therefore, steps would be taken to enable sourcing External Commercial Borrowings and Foreign Direct Investment so as to able to deliver higher quality education.
- This in turn, will enhance research and innovation, attract better quality faculties by paying them better as well as attract high caliber professionals such as Company Secretary from the industry.
- National Skill Development Agency to give special thrust to infrastructure-focused skill development opportunities.

Small and Medium Sector Enterprises (MSMEs)

- A new scheme to provide subordinate debt to MSME entrepreneurs has been proposed to mitigate the issues of working capital credit. This subordinate debt, to be provided by banks, would count as quasi-equity.
- Extension of debt restructuring window for MSMEs till March 31, 2021.
- The above schemes will enhance economic and financial sustainability of MSMEs.
- In order to reduce the compliance burden on small retailers, traders and MSME sector, the auditing threshold from Rs 1 Crore in turnover to Rs 5 Crore. This would be applicable to only those MSMEs that transact less than 5% in cash.

Disinvestment

In order to provide greater access to financial markets, unlock its true value and induce market discipline, Government has proposed to sale a part of its holding in LIC by way of Initial Public Offer (IPO). This will provide an opportunity for retail investors to participate in the wealth so created.

It is proposed to sell the balance holding of Government of India at IDBI Bank to private, retail and institutional investors through the stock exchange.

Non-Banking Financial Companies

The limit for NBFCs to be eligible for debt recovery under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act 2002 has also been relaxed. It is proposed to reduce the asset size limit from Rs 500 crore to Rs 100 crore or loan size from existing Rs 1 crore to Rs 50 lakh.

Start Ups

ESOPs have become instrumental in Indian corporate and startup ecosystem to woo high-value employees and retain talent. The start-ups Companies have already announced their ESOP plans and even the buybacks. Exemption of taxes on ESOPs will further encourage companies to introduce ESOPs in their companies at a large level, which in turn will allow them to attract world-class talent while keeping employee costs in check. It is proposed to ease the tax burden of ESOP on employees by deferring the tax payment by 5 years or till they leave the company or when they sell their shares, whichever is earliest.

The government has proposed to increase in the turnover limit for tax exemption for startups from Rs 25 crore to Rs 100 crore.

An eligible startup with a turnover of upto Rs 25 Crore is allowed a deduction of 100% of its profits for 3 consecutive assessment years out of 7 years. In order to extend this benefit to larger startups, it is proposed to increase the upper limit of revenue to Rs 100 Crore and tax benefit time period to 10 years is another big push for start-ups.

International Bullion Exchange

The government has proposed to set up an international bullion exchange at IFSC in GIFT City, Ahmedabad. This will lead to better price discovery of gold, create more jobs and enhance India's position in such market.

Corporatization of major Port and lists through IPO

To improve the efficiency of ports in the country, the government will set up a framework and look at corporatisation of at least one major port followed by subsequent listing on stock exchanges through IPO.

App-Based Invoicing Platform for MSMEs

It is proposed to launch App-based invoice financing platform for MSMEs.

Invoice financing is a way for businesses to borrow money against the amounts due from customers. Invoice financing helps businesses improve cash flow, pay employees and suppliers, and reinvest in operations and growth earlier than they could if they had to wait until their customers paid their balances in full. Startups like Lendingkart, Indiffi, Izito are already operational in this segment.

Intellectual Property Laws

A digital platform would be promoted that would facilitate seamless application and capture of Intellectual Property Rights (IPR).

New Age Technologies to push future growth

It is proposed that a policy to enable setting up of data centre parks across the country. It will skillfully incorporate data in every step of the data chain 100,000 gram panchayats will be linked with Fibre to the Home (FTTH) connections through Bharatnet. This will fulfill the vision of providing digital connectivity to all public institutions like Anaanwadis, health and wellness centres, government schools, etc. at Gram Panchayat level. A large part of this growth has been contributed by the use of Artificial Intelligence (AI), Machine Learning (ML) and data analytics.

The infusion of technology in processes like credit assessment, underwriting, collections, and other areas of reaching out to the consumer and offering a valuable experience is encouraging people to adopt the new age banking, investment and credit platforms, leaving the traditional middle man approach. Push for new technologies is certainly the need of the hour.

Entrepreneurship

Entrepreneurship has always been the strength of India. The government recognise knowledge skills and risk-taking capabilities of youth. They are not job seekers, but job creators.

The government proposed to create an Investment Clearance Cell, which will provide end-to-end support including facilitating clearances on centre and state level.

India is become start-up hub based on the number of start-ups. The introduction of Investment Clearance Cell, will certainly help start-ups which are part of the DPIIT list. But ways must be identified to make more start-ups DPIIT recognised.

Charitable Institutions

It is proposed to make the process of registration of charitable institutions completely electronic under which a Unique Registration Number (URN) shall be issued to all new and existing charity institutions. Further, to facilitate the registration of the new charity institution which is yet to start their charitable activities, it is proposed to allow them provisional registration for three years. It may create opportunities for the company secretaries.

Stimulus to Environment and Climate Change and Tourism

It is impressive to note that Union Budget 2020 has enhanced budgetary allocation for the environment ministry in comparison to last fiscal by approximately 5 percent. A noteworthy fact is that control of pollution has been conceptualised to offer financial succour to Pollution control Boards/ Committees and funding to National Clean Air Programme (NCAP). Further, a massive amount of INR 4,400 Crore (FY 2020-21) have been earmarked for parameters for the incentives that would be notified by the Ministry of Environment, Forests and Climate Change.

Similarly, to strengthen the tourism sector, a sunrise sector of Indian economy, an unique and innovative proposal of establishing an institute for heritage and tourism have been espoused in the budget to strengthen archaeology and history. In this regard, the proposal to identify 5 sites, i.e. Rakhigadi (Haryana), Hastinapur (Uttar Pradesh), Shiv Sagar (Assam), Dholaveera (Gujarat) and Adichanallur (Tamil Nadu) that would be developed as 'Iconic Sites' with in-site museums will definitely prove to be a cornerstone in development of tourism. Moreover, the proposal to set up a tribal museum at Ranchi, Jharkhand and Maritime museum at Lothal will definitely augment tourism in India.

Thus, the initiatives proposed under environment and climate change and tourism are progressive. With reference to environment it aims for a clean and green India, thereby mitigating the hazards of population and creating congenial ecosystem to live and be healthy.

Similarly, by promoting tourism through the above mentioned measures it will be enhance revenues for the government, especially through inflow foreign exchange.

Taxation - Direct Tax

- Change in Tax Rates** : The Finance Bill, 2020 has provided a new tax rates (optional) for Individual and HUF as follows:

Income	Current tax rate	Proposed tax rate
Upto Rs 2.5 lakh	Nil	Nil
Between Rs 2.5 lakh and Rs 5 lakh	5%	5%
Between Rs 5 lakh and Rs 7.5 lakh	20%	10%
Between Rs 7.5 lakh and Rs 10 lakh		15%
Between Rs 10 lakh and Rs 12.5 lakh	30%	20%
Between Rs 12.5 lakh and Rs 15 lakh		25%
Above Rs 15 lakh		30%

This options is available for the Individuals / HUF and can be availed subject to fulfilling certain conditions, such as if they do not claim certain exemptions or deductions. These include standard deductions, leave travel allowance, house rent allowance, interest payment on housing loan, and deductions under Chapter VI-A (investments in provident fund, insurance premium, donations to charities, etc.). More than 70 exemptions / deduction are removed under new scheme. Once the option is exercised, it will be applicable for all subsequent years.

The new tax rates scheme is beneficial for those taxpayer who basically does not claim the deduction of Chapter VI-A (PPF, LIC etc.), Housing Loan Deduction, and Medical Insurance etc.

2. **Determination of Residential Status in India for Indian Citizen / Person of Indian Origin** : The current provisions provide that an Indian citizen or a person of Indian origin shall be Indian resident if he is in India for 182 days instead of 60 days in that year. This provision provides relaxation to an Indian citizen or a person of Indian origin allowing them to visit India for longer duration without becoming resident of India. This has been reduced to 120 days. In addition, any Indian citizen who is not liable to tax in any other country or territory by reason of domicile or residence shall be deemed to be a resident of India and is required to pay tax on his global income.

This will curb the practices adopted by Individuals, who are actually carrying out substantial economic activities from India, manage their period of stay in India, so as to remain a non-resident in perpetuity and not be required to declare their global income in India.

3. **Housing incentives** : Currently, an exemption is provided on profits or gains arising out of building affordable houses if the project was approved by March 31, 2020. Further, an additional tax deduction of up to Rs. 1,50,000 is provided on interest paid on loans for self-occupied house owners if the loan was sanctioned by March 31, 2020. The deadline in both cases has been extended to March 31, 2021.

The extension of an additional deduction of Rs. 150000 till March, 2021 will encourage the tax payer to invest in affordable housing scheme and will support the government objectives i.e. Housing for All.

4. **Tax benefits for start-ups** : Start-ups are allowed to get a full tax waiver on profits for any three consecutive years out of their first seven years, if they are incorporated between April 1, 2016 and March 31, 2021, and their turnover does not exceed Rs 25 crore. The waiver has been extended to start-ups for any three years out of their first ten years. In addition, the turnover threshold has been increased from Rs 25 crore to Rs 100 crore.

Further, the tax on ESOPs (stock options) held by employees of start-ups will be payable only on the earliest of the following events: (i) expiry of 4 years from the end of the assessment year, (ii) sale of the options, or (iii) till the employee leaves the company.

In order to extend this benefit to larger start-ups, is another big push for start-ups and will boost the economy.

5. **Option for lower tax rates for Co-operative Societies** : The Income Tax Act was recently amended to give an option to domestic companies to avail of 22% tax rate if they did not claim certain deductions. The list has been expanded to include other deductions, such as those under Section 80G (donations to charities). Further, Cooperative society current tax at 30% plus surcharge and cess. The new option tax at 22% plus 10% surcharge plus 4% cess with no deductions has been extended to co-operatives also.

This will encourage the economic / social activities of the co-operative societies. This would be directly proportionate to trade and commerce activities even in the remotest part of the country.

- 6. Threshold Limit for Tax Audit :** MSMEs currently having business turnover above 1 crore need to get accounts audited. The turnover threshold is now increased to 5 cr. The increased limit shall apply only to those businesses which carry out less than 5% business transaction in cash either receipt or payment.

This will reduce the compliance burden for small retailers, traders and MSME sector, and will also support the government objective i.e. Ease of Doing Business.

- 7. Vivad se Vishwas Scheme :** Under this scheme, the taxpayers whose tax demands are locked in dispute in multiple forums can pay due taxes by March 31, 2020, and get complete waiver of interest and penalty. Further, if a taxpayer is not able to pay within the March 31, 2020, he gets a further time till June 30, 2020 but in that case he would have to pay 10 per cent more on the tax. Taxpayers in whose cases appeals are pending at any level can benefit from this scheme.

Impact : This will reduce the litigation and settle down the cases that are in dispute and pending at multiple forum.

- 8. E-Appeal Scheme :** In order to impart greater efficiency, transparency and accountability to the assessment process under the Act a new e-assessment scheme has already been introduced. With the advent of the e-assessment scheme, most of the functions/ processes under the Act, including of filing of return, processing of returns, issuance of refunds or demand notices and assessment, which used to require person-to-person contact between the taxpayer and the Income-tax Department, are now in the electronic mode. All these processes are now not only faceless but also taxpayer-friendly. Now a taxpayer can manage to comply with most of his obligations under the Act without any requirement for physical attendance in the offices of the Department. The filing of appeals before Commissioner (Appeals) has already been enabled in an electronic mode. However, the first appeal process under the Commissioner (Appeals), which is one of the major functions/ processes that is not yet in full electronic mode. A taxpayer can file appeal through his registered account on the e-filing portal. However, the process that follows after filing of appeal is neither electronic nor faceless. In order to ensure that the reforms initiated by the Department to eliminate human interface from the system reach the next level, it is imperative that an e-appeal scheme be launched on the lines of e-assessment scheme.

This will have greater efficiency, transparency and accountability to the appeals process under the Act.

Indirect Tax

- 1. Simplified GST Returns :** With features like SMS based filing for Nil Return, return pre-filing, improved input tax credit flow and overall simplification the GST returns would be simpler than before. Dynamic QR-code will further make the process transparent.
- 2. Refund Process :** Refund process has been simplified and has been made fully automated with no human interface.
- 3. Electronic Invoice :** Electronic invoice is another innovation wherein critical information shall be captured electronically in a centralized system. It will be implemented in a phased manner starting from February month itself on optional basis.
- 4. Custom Duty increased on Footwear and Furniture :** Labour intensive sectors in MSME are critical for employment generation. Cheap and low-quality imports are an impediment to their growth.

5. **Nominal health cess** : To achieve the twin objectives of giving impetus to the domestic industry and also to generate resource for health services, it is proposed to impose a nominal health cess, by way of a duty of customs, on the imports of medical equipment.
6. **Reduction of custom duty on imports of news print and light-weight coated paper** : It is proposed to reduce basic customs duty on imports of newsprint and light-weight coated paper from 10 per cent to 5 per cent.
7. **Increased excise duty on Cigarettes and other tobacco products** : To promote better health of citizens of India excise duty is increased on Cigarettes and other Tobacco products.

Source : Budget Speech 2020-21
