



Union Budget 2020

Detailed analysis

February 2020



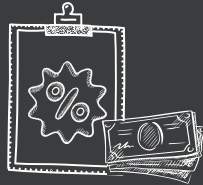
Economic Indicators

03



Direct Tax

12



Indirect Taxes

62



Regulatory Landscape

82



Policy Updates

93



Glossary

97

Economic Indicators

- Economic growth projected at 5 percent in FY 2020
- Macroeconomic fundamentals in focus
- Further rate cuts expected to be on hold
- The FM unveils Bahi-Khata



Economic growth projected at 5 percent in FY 2020

Weak demand driving slowdown

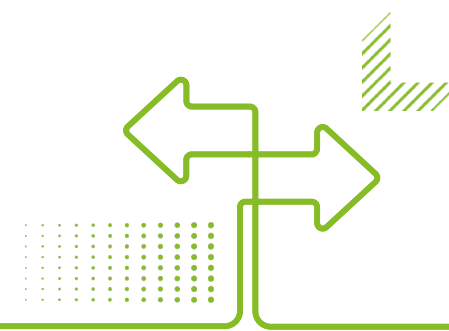
The Union Budget 2020-21 has been presented amid an economic slowdown, coupled with rising food inflation. Economic activity has been losing momentum for the past five quarters, with questions on whether the current economic headwinds have bottomed out or will stay longer.

Three of the four growth engines—private consumption, private investment, and exports—have slowed down significantly. Government expenditure growth has been doing the heavy lifting over the past few quarters as private demand has taken a breather. Several cyclical and structural factors, such as low rural wages and tightening lending conditions, have weakened growth. This slowdown has affected several

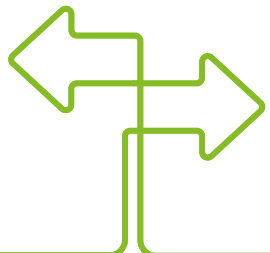
core sectors, including auto, real estate, and manufacturing.

India continues to face global headwinds due to policy uncertainties, falling growth and trade volumes, and technological changes across the world. Geopolitical tensions leading to oil price fluctuations may add to economic woes.

Leading economic indicators suggest the economic slowdown may be tapering with green shoots visible in a few quarters of the economy. The Economic Survey 2020 expects growth to rebound in H2 of FY2021 and annual growth to be in the range of 6-6.5 percent.

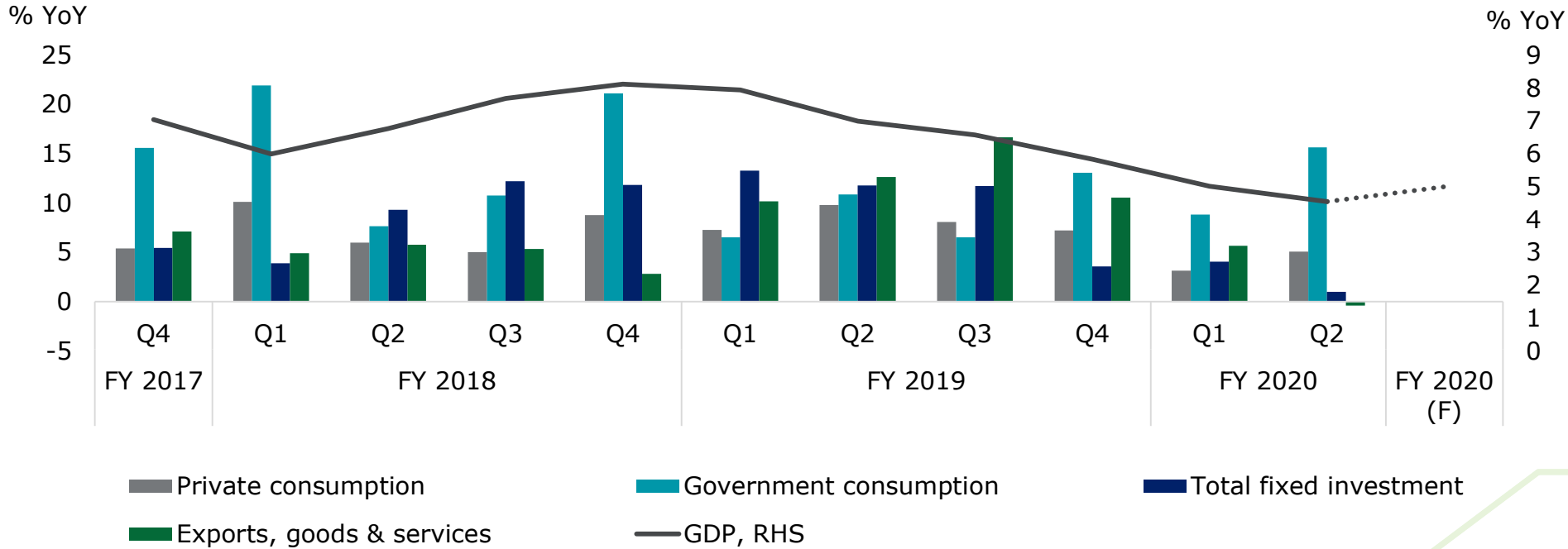


Economic growth projected at 5 percent in FY 2020

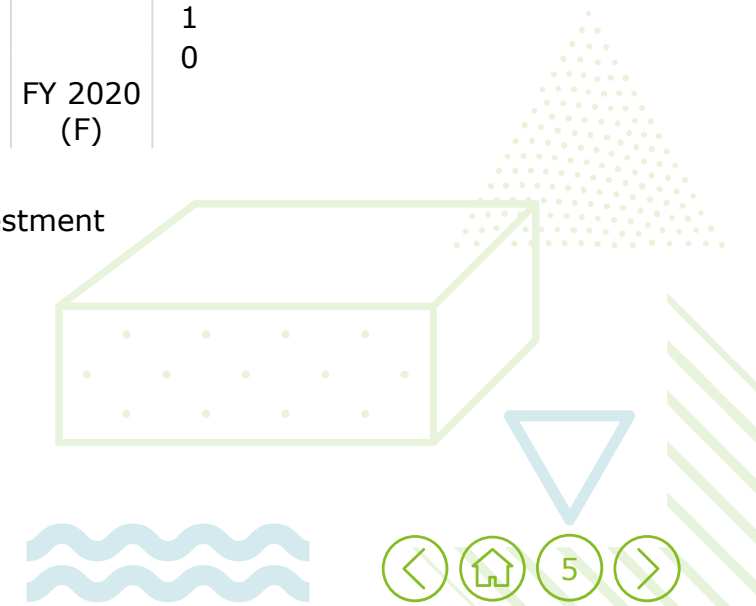


Weak demand driving slowdown

Growth in domestic demand (in real values)



Source: CMIE, RBI



Macroeconomic fundamentals in focus

Fiscal space, inflation, and currency valuation causing concerns

The fiscal deficit crossed 114.8 percent of the annual budget target in the first eight months, indicating stress on government finances. The fiscal deficit for FY 2020 was revised to 3.8 percent of the GDP, up from the earlier budget target of 3.3 percent. The government used the escape clause provided under the FRBM Act to allow the relaxation of target. The FY 2021 fiscal deficit target is pegged at 3.5 percent of GDP.

Consumer price inflation averaged 4.1 percent in 2019-20 (April to December) and stood at 7.3 percent in December, primarily because of rising food prices, although core prices remained below 4 percent.

Domestic prices are further influenced by rising global food prices. The Thalnomics analysis in the Economic Survey suggests that food prices have come down since early 2000, boosting consumer affordability.

The exchange rate touched 72 rupees per dollar twice in early January. While factors such as slowing economic growth and a rising fiscal deficit weigh on sentiments, the recent geopolitical tensions and their possible impact on oil prices and the economy may have added to its vulnerability.

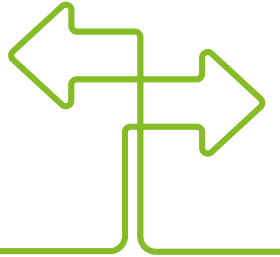
Government security yield rates have come down markedly to 6.6 percent in January 2020 from its peak (above 8 percent) in September 2018. However, yield rates have seen an uptick in the past two months over concerns regarding the economic slowdown. This may raise financing costs for private-sector borrowers. Sectors with high capital market borrowing, such as power and telecom, may get affected.

The current account deficit narrowed to 1.5 percent of GDP in H1 FY 2020 from 2.1 percent in H1 FY 2019, due to a contraction in the merchandise trade deficit. It fell to 0.9 percent in December 2019. However, CAD may come under

Source: CMIE, RBI, Economic Survey 2020, Union Budget 2020.



Macroeconomic fundamentals in focus



Fiscal space, inflation, and currency valuation causing concerns

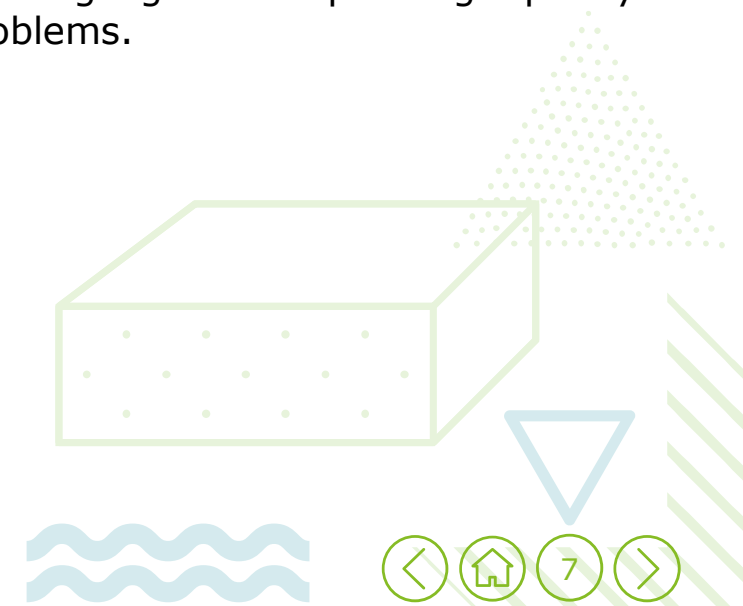
pressure if oil prices increase as India is a net oil importer. Every US\$10 a barrel rise in crude oil prices is estimated to expand CAD by 0.4 percent of GDP.

The industrial production index in November suggests a rebound in the industry sector with manufacturing registering solid growth. On the use-based front, the consumer durables and capital goods indices, which are often tracked to gauge medium-term growth and the strength of consumer demand, improved on a month-on-month basis.

FDI inflows remained strong with a net inflow of US\$24.4 billion investments during April-November 2019. FPI flows were vulnerable, but their share in total investment declined by 6 percent since 2015. This bodes well for the economy because direct investments are more stable and help create real assets on a long-term basis. The trend may continue as India embarks on an ambitious infrastructure project to spur economic growth.

NPAs have declined for the first time in 10 years and one of the reasons cited has been quick resolutions under the IBC Act. After rising to 11.2 percent of the gross advances, the ratio fell to 9.1 percent in September 2019. The economic survey suggested maintaining a health score for NBFCs that can provide an early-warning signal of impending liquidity problems.

Source: CMIE, RBI, Economic Survey 2020, Union Budget 2020.



Further rate cuts expected to be on hold

Further rate cut dependent on the RBI's inflation expectation

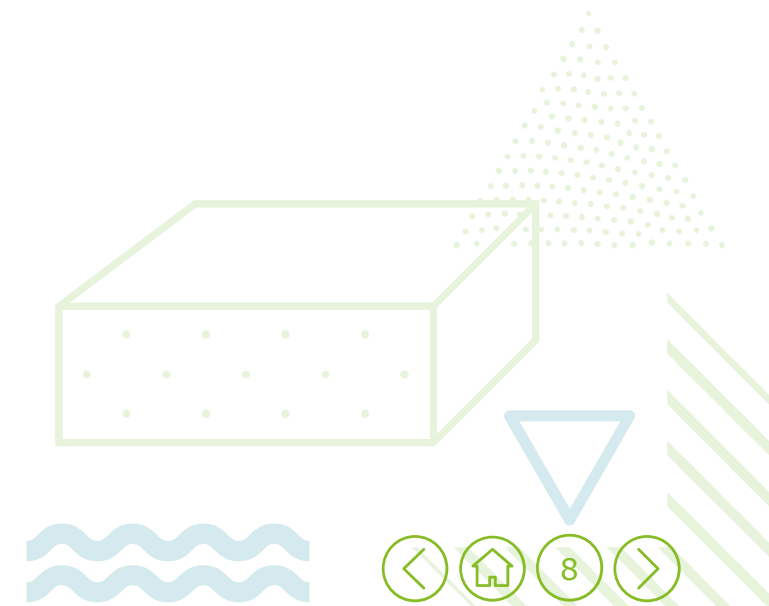
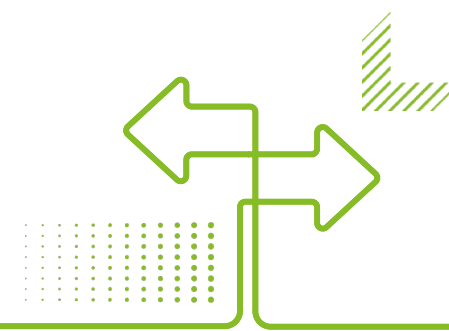
The RBI cut rates for five consecutive times by 135 basis points in 2019, bringing the rates to their lowest since 2010. In addition, the RBI has maintained its accommodative monetary policy stance and signaled that the stance would remain unchanged "as long as it is necessary to revive growth."

The RBI has taken steps to improve cash flow to shadow lenders. These steps include allowing banks to lend more, providing partial credit guarantees and easing banks' mandatory liquidity ratios. The RBI is also closely monitoring the top NBFCs, which contribute about 20 percent of the total credit, to improve liquidity and credit growth in the economy.

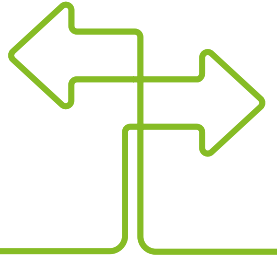
The MPC kept the key policy rate unchanged at 5.1 percent with an accommodative stance in its December meeting, citing concerns over rising prices. This suggests that the current decision was taken keeping in mind the objective of keeping prices within the target range even though investment and credit growth have declined.

However, the fall in repo rates has not translated into cuts in lending rates. Banks' margins remain stressed, which together with high NPAs, have led to reluctance among banks to reduce lending rates further.

With credit growth failing to pick up, there is demand from the industry to keep the monetary policy accommodative. However, any further rate cuts will be contingent on the rise in prices and inflation expectations.



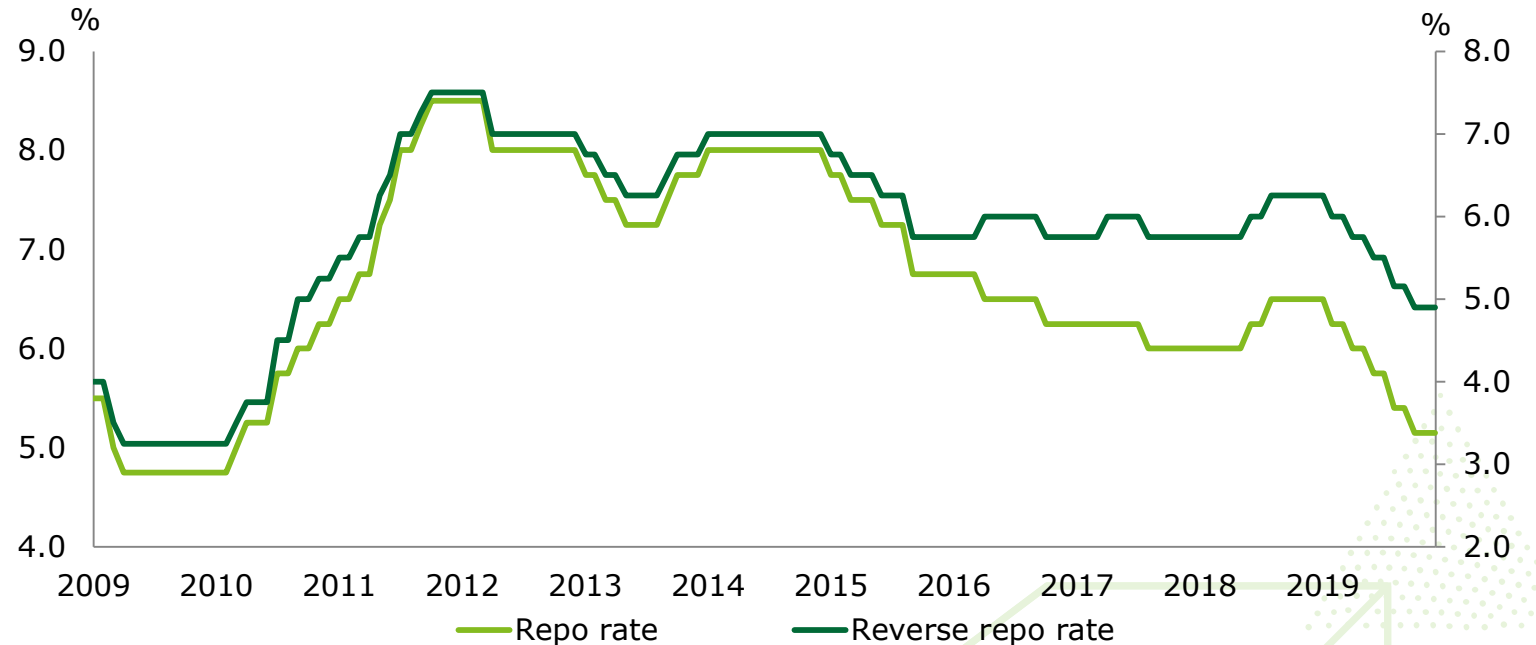
Further rate cuts expected to be on hold



Further rate cut dependent on the RBI's inflation expectation

Apart from the near-term growth-inflation dynamics, a lot will also depend on what measures the government might take to boost the economy in the upcoming budget, and how these measures will translate into the fiscal situation in the economy. As the market is now expecting a much-delayed easing, the growth-inflation dynamics will keep the MPC on its toes.

Policy rates



Source: CMIE, RBI.

The FM unveils Bahi-Khata

Budget 2020 focuses on some key sectors

Fiscal expansion can be beneficial if it enhances capital formation. To this end, the Budget 2020 has announced significant outlays in key sectors, such as agriculture, industry, infrastructure, education, and skill development.

The following provides snapshot of some of the key announcements:

Agriculture

FM lists 16 action points to boost agriculture infrastructure and income

- Allocating INR 2.83 lakh crore for agriculture and allied activities for FY 2021

- Providing farmers insurance (a total of 6.11 crore farmers insured under Fasal Bima)
- Incentivising farmers to go solar
- Making agriculture credit worth INR 15 lakh crore available

Digitisation

- INR 6,000 crore will be allocated for the BharatNet programme in 2020-21 to further enhance broadband connectivity in rural areas. The FTTH connection through BharatNet will link 100,000 gram panchayats this year.

Education and skill development

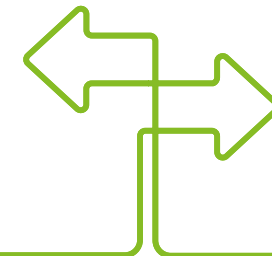
- Emphasis on improving skill-sets; a total of INR 3,000 crore to be given for skill development
- The FM allocated INR 99,300 crore for education

Industry and infrastructure

- Proposed allocation of INR 27,300 crore for industry and commerce in FY21
 - 6500 projects under National Infrastructure Pipeline to encompass
 - A total of 9,000 km of economic corridor to set up and a total of 12 lots of highway bundles to be monetised by 2024



The FM unveils Bahi-Khata



Budget 2020 focuses on some key sectors

- Allocation of INR 1.7 lakh crore for transport infrastructure in FY 2021
- Five new smart cities to be developed
- 100 more airports to be developed by 2025 to make travel easier and support the UDAAN scheme
- 150 trains to run under the PPP mode

The Budget 2020 had some significant announcements, especially for MSMEs and start-ups.

Start-ups

FM says entrepreneurship has always been the "strength of India"

- A proposal of deferment of tax payment by employees on ESOPs from start-ups by five years
- The turnover limit raised from existing INR 25 crore to INR 100 crore for an eligible start-up to avail a deduction of 100 percent of its profits for three consecutive assessment years from a total of seven years
- The government to create a single investment cell to expedite the grant of licences and promote entrepreneurship

MSMEs

- The government has asked the RBI to consider extending the restructuring scheme for MSMEs by another year until 31 March 2021.
- National Logistics Policy will be launched soon to make MSMEs more competitive.
- Amendments will be made to enable NBFCs to extend invoice financing to MSMEs.
- A scheme announced to provide subordinate debt to entrepreneurs of MSMEs; the debt will be provided by banks as quasi equity and would be fully guaranteed through credit guarantee trust for medium and small entrepreneurs.

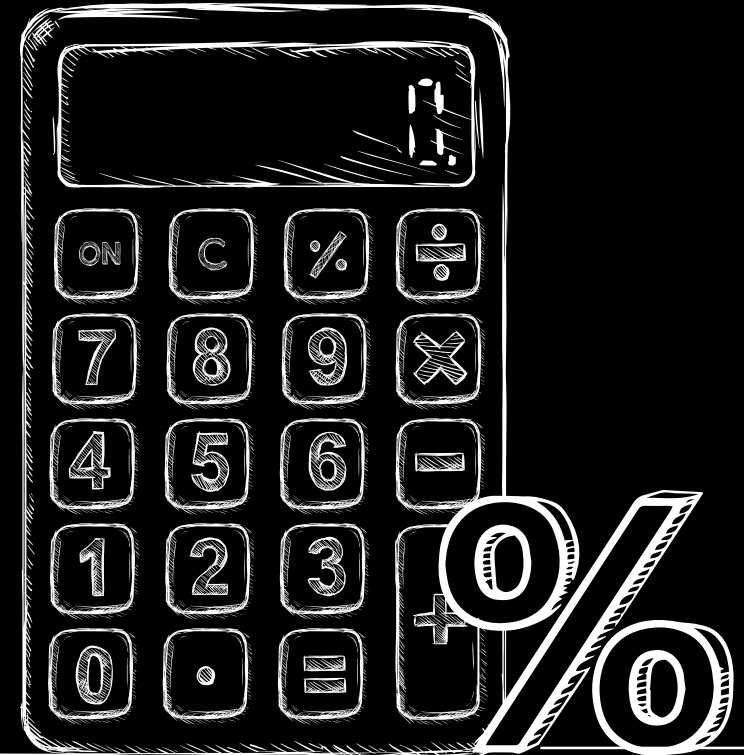
Source: The Union Budget 2020



Direct Tax

- Individual taxation
- Corporate taxation
- Non-resident taxation
- Capital gain
- Procedural
- Transfer pricing

Note: Unless otherwise specified, income tax proposals will be effective from AY 2021-22.



Individual taxation

Simplified tax regime - Option to the tax payer [Section 115BAC]

- An individual/HUF tax payer can opt for simplified regime with lower tax rates. The new tax slab rates under this simplified regime are as follows:

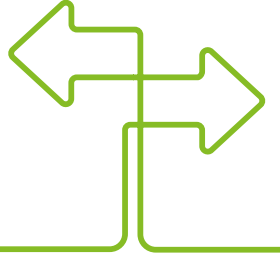
Income slabs (in INR)	Rate of Tax (percent)
Up to 250,000	NIL
250,000 to 500,000	5
500,000 to 750,000	10
750,000 to 1,000,000	15
1,000,000 to 1,250,000	20
1250000 to 1,500,000	25
Above 1,500,000	30

- If the taxpayer has opted for this simplified tax regime, such taxpayer will not be eligible for certain deductions / exemptions such as:
 - Chapter VIA (other than employers' contribution to NPS under section 80CCD(2) and deduction for employment of new employees under section 80JJAA)
 - Section 10 such as LTA, HRA, income of minor child, and certain exemptions provided under section 10(14), etc.
 - Standard deduction, professional tax

- Interest paid on housing loan on self-occupied house property
 - Standard deductions for family pension under section 57(ia)
 - Set-off of loss from house property with any other heads of income
 - Certain eligible deduction against business income
- Such taxpayer will also not be subject to alternative minimum tax.



Individual taxation



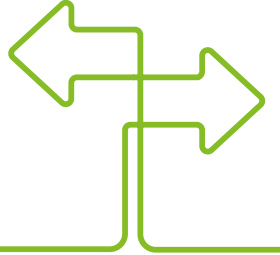
Change in residency rules [Section 6]

- Currently, an Indian citizen/person of Indian origin is considered to be resident in India if:
 - He has been in India for an overall period 365 days or more within four years preceding that year; and
 - He is in India for overall period of 182 days or more in that year
- Likewise for qualifying to be a 'Not Ordinarily Resident', the assessee needs to be a non-resident in India in 7 out of 10 previous years as against the dual conditions earlier namely -
 - He has been a non-resident in India in nine out of ten previous year, or
 - He has been in India for 729 days or less in seven previous years
- Indian citizens not liable to tax in any other jurisdiction (by reason of his domicile or residence) shall be deemed to be resident in India.

This provision is now tightened by reducing the Indian citizen / person of Indian origin's stay in India to an overall period of 120 days or more (instead of 182 days).



Individual taxation



Employer contributions to retirals in excess of specified limits now liable to tax [Section 17(2)]

Currently, employer contribution to following retirals are liable to tax only if:

- Provident Fund contribution is in excess of 12 percent of the salary
- NPS contribution is in excess of 14 percent of salary for the Central Government employees and 10 percent of salary in any other case
- Superannuation Fund contribution is in excess of INR 150,000

Also, employee is not taxable on accruals on such contributions.

Proposed Amendment

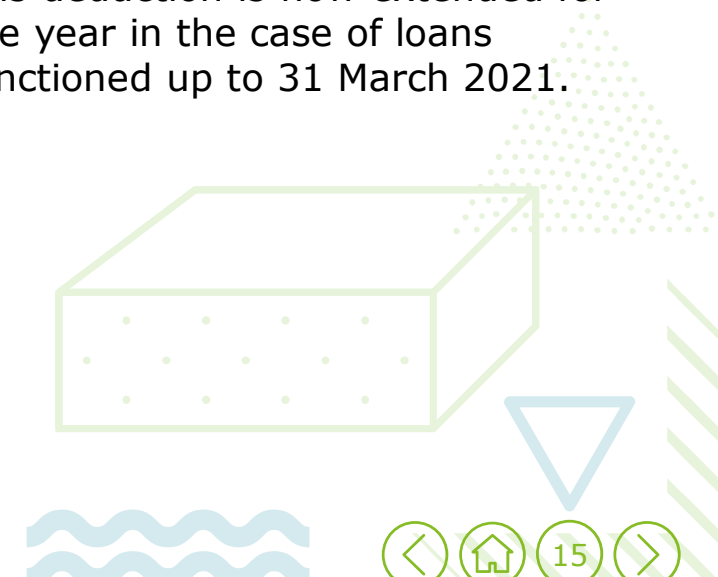
It is proposed to introduce an aggregate monetary limit of INR 750,000 in respect of employer contribution to above schemes. Any contribution in excess of such monetary limit would be taxable as perquisite.

Further the annual accretion on these contributions (in excess of monetary limits) will be treated as a perquisite.

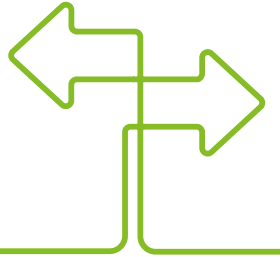
Tax Relief for affordable housing [Section 80EEA]

Home buyers (not owning any other property at the time of sanction of loan) can claim deduction for interest on home loan up to INR 150,000 subject to fulfilment of prescribed conditions.

This deduction is now extended for one year in the case of loans sanctioned up to 31 March 2021.



Individual taxation



Deferment of tax on stock benefits of start-ups [Section 191/192]

Currently, specified security and sweat equity shares are taxable as perquisite at the time of exercise.

To ease the tax burden of employees of 'eligible start-ups', it is proposed to defer the taxation of this perquisite to the earlier of the three events namely:

- Expiry of 48 months from end of the relevant assessment year or
- Sale of shares by employee or
- An employee's resignation

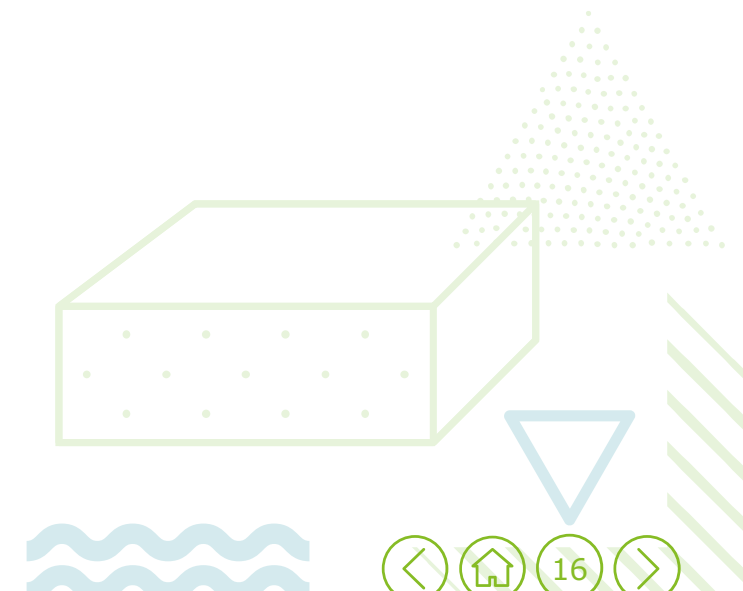
Appropriate changes are proposed to facilitate payment of taxes by the employee through self-assessment in cases where there is no tax withholding or a demand is raised.

Withdrawal of exemption on certain perquisites or allowances to members of UPSC and Election Commission [Section 10(45)/ section 8 of the Election Commission Act]

- Currently, the Chairman and members of Union Public Service Commission (UPSC), Chief Election Commissioner and Election Commissioner are eligible for tax exemption on certain

allowances/perquisites by virtue of section 10(45) of the Act. These tax exemptions are now proposed to be withdrawn.

- For this purpose, amendments are also being made to the relevant Acts (which govern the services of these officials) besides the Income tax Act.

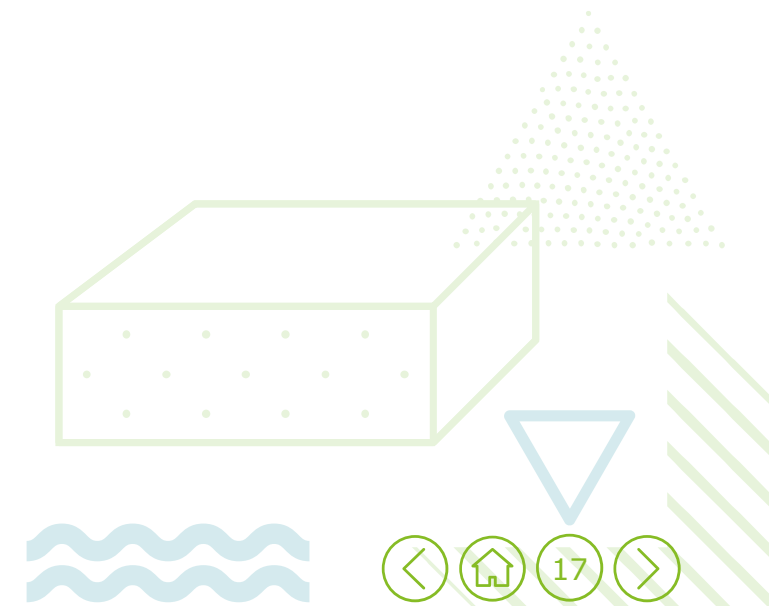
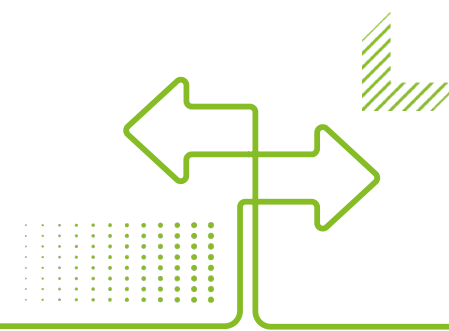


Corporate taxation

Carry forward of business losses and unabsorbed depreciation

Extending the benefit of carry forward of business losses and unabsorbed depreciation to the amalgamation of nationalised public sector banks and general insurance companies

- Currently (under section 72AA of the Act), business losses and unabsorbed depreciation of an amalgamating banking company is allowed to be carried forward to the amalgamated banking company/banking institution/nationalised bank, etc.
- It is proposed to also extend this benefit to the following:
 - Amalgamation of nationalised banks with each other
 - Amalgamation of nationalised general insurance companies with each other



Corporate taxation

Corporate tax rate card

Types of companies	Income up to INR10 million		Above INR10 million up to INR100 million		Above INR100 million	
	Surcharge rate	Effective tax rate	Surcharge rate	Effective tax rate	Surcharge rate	Effective tax rate
Domestic - turnover not exceeding INR 4,000 million in FY 2018-19 (claiming exemption/ incentives)	Nil (Nil)	26.00% (26.00%)	7% (7%)	27.82% (27.82%)	12% (12%)	29.12% (29.12%)
All domestic companies not claiming tax exemption/incentives*	10% (10%)	25.17% (25.17%)	10% (10%)	25.17% (25.17%)	10% (10%)	25.17% (25.17%)
New domestic manufacturing (set up and registered on or after 1 March 2016)**	Nil (Nil)	26.00% (26.00%)	7% (7%)	27.82% (27.82%)	12% (12%)	29.12% (29.12%)
New domestic manufacturing (set up and registered on or after 1 October 2019)***	10% (10%)	17.16% (17.16%)	10% (10%)	17.16% (17.16%)	10% (10%)	17.16% (17.16%)
Other domestic	Nil (Nil)	31.20% (31.20%)	7% (7%)	33.38% (33.38%)	12% (12%)	34.94% (34.94%)
Foreign	Nil (Nil)	41.60% (41.60%)	2% (2%)	42.43% (42.43%)	5% (5%)	43.68% (43.68%)

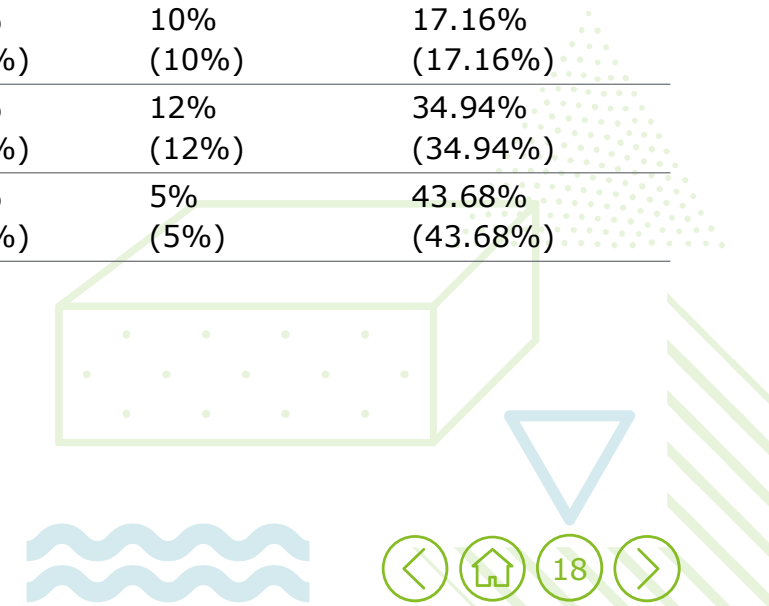
*Compliant with prescribed conditions under section 115BAA;

**Compliant with prescribed conditions under section 115BA

***Compliant with prescribed conditions under section 115BAB

Note:

- Health and education cess of 4 percent has been considered for determining the tax rates mentioned above.
- Figures in bracket represent existing tax rates.



Corporate taxation

Tax rate card – Co-operative societies

There is no change in the tax slabs and tax rates for co-operative societies. The tax rates are mentioned below:

Income slabs (in INR)	Rate of tax (%)
Up to 10,000	10
10,000 to 20,000	20
Above 20,000	30

*Surcharge at the rate of 10 percent shall be applicable where total income exceeds INR 10 million. Health and education cess of 4 percent shall also be applicable on the amount including surcharge.

An optional regime for taxation has been introduced vide section 115BAD; this has been subsequently discussed

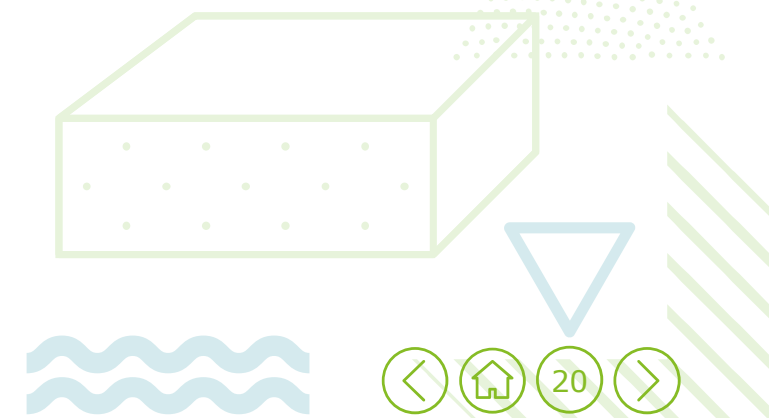


Corporate taxation

DDT abolished

DDT abolished and taxability of dividend income shifted to the hands of recipient

- Under the existing provisions of sections 115-O and 115R of the Act, a company/mutual fund is required to pay DDT on the income distributed to shareholders/unit holders.
- It is proposed to abolish DDT on dividends declared, distributed, or paid on or after 1 April 2020. Dividend is now proposed to be taxed in the hands of the recipient of income, i.e., shareholders/unit holders.
- Section 80M has been introduced to remove the cascading effect of taxes on inter-corporate dividend. The section will allow set off only for dividend distributed by the company up to one month before the due date of filing of return.
- Section 57 has been amended to provide that other than deduction for interest expenses, no other deduction shall be allowed from dividend income or income in respect of units of mutual fund. Also, the deduction shall not exceed 20 percent of the dividend income.
- Currently, section 115BBDA taxes dividend income in excess of INR 1 million in the hands of specified shareholders at a rate of 10 percent. This provision will apply only to dividends declared, distributed or paid by a domestic company on or before 31 March 2020.
- Consequential amendments are made for withholding tax on distribution of such dividends and in other related provisions.



Corporate taxation

Expenditure on scientific research

Expenditure on scientific research

- Section 35 provides for deduction of expenditures on scientific research, including any sums paid to an approved research association, university, college, another institution, or a company.
- Under the current provisions, even if the approval granted to any of the entities (mentioned above, excluding a company) is withdrawn, the taxpayer is still allowed a deduction under section 35 if payment to the entity has been made before the withdrawal of such approval. A similar provision is now being made in case of withdrawal of approval granted to a company

- Subject to above-mentioned entity submitting the intimation within the prescribed time limit, its approval shall be deemed to be valid for another five years
- It is also proposed that approvals granted in future shall, at any one time, have effect for such years, not exceeding five assessment years as may be specified in the notification.
- It is also proposed that the entities mentioned above shall:
 - prepare and deliver statements to the income tax authority; and

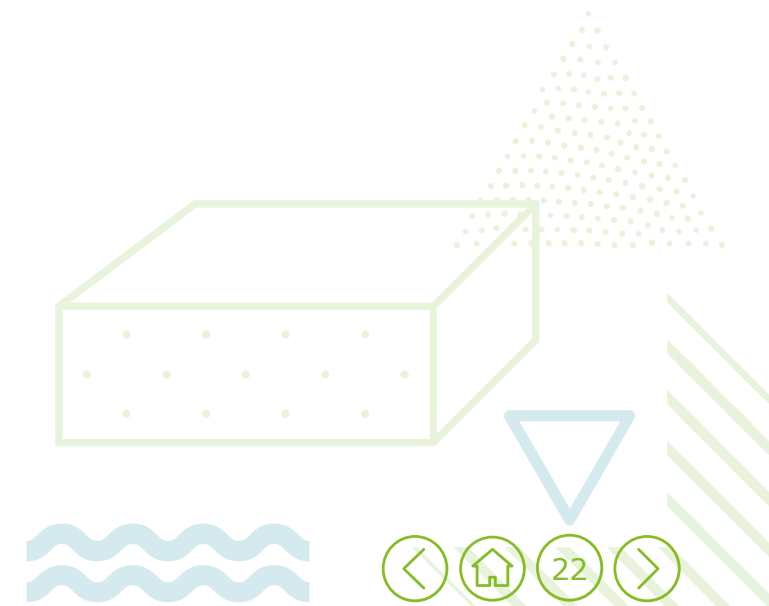
- furnishes to the donor, a certificate specifying the amount of donation in such manner, containing such particulars and within such time from the date of receipt of sum, as may be prescribed.
- These amendments are proposed to be applicable from 1 June 2020.

Corporate taxation

Option for not availing deduction for specified businesses

Providing an option of not availing deduction under section 35AD

- Section 35AD of the Act provides for a 100 percent deduction of capital expenditure (other than expenditure of land, goodwill, and financial assets) incurred in certain specified businesses.
- This deduction is allowable during the previous year in which such expenditure has been incurred. Further, in respect of this expenditure incurred by the assessee for specified business, no deduction is allowed under any other provision.
- At present, an assessee does not have any option to forego claiming this incentive.
- It is proposed to amend the provision to make the deduction optional and the limitation of no deduction under any other provision shall only apply if the assessee has exercised the option to avail the deduction under this section.
- This amendment will apply from AY 2020-21

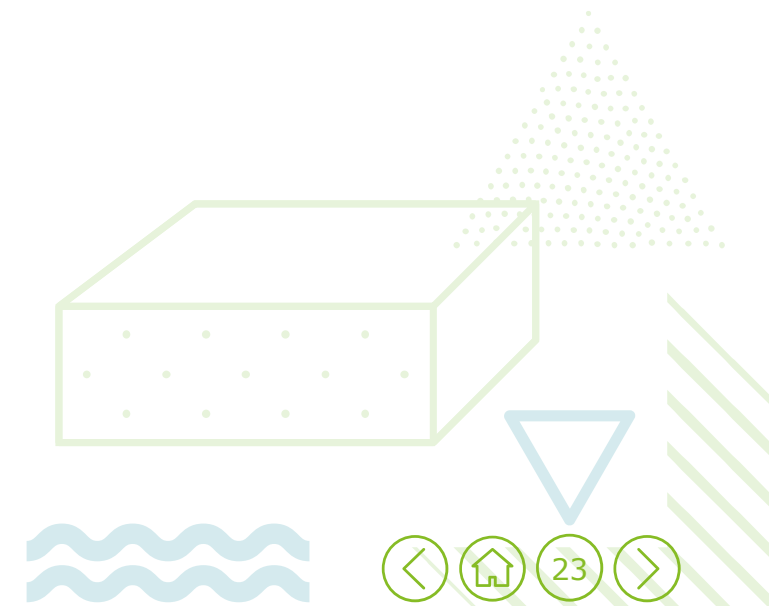
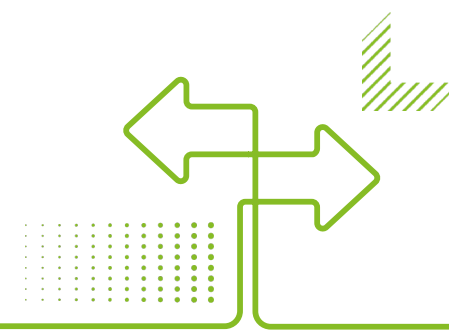


Corporate taxation

Taxation of real estate transactions

Enhanced safe harbour limit for deemed taxation

- Under the current regime, for computing the income arising from transfer of land or building or both under the head business or profession, capital gains and income from other sources, the consideration for such transfer is deemed to be the value adopted for stamp duty purposes, if the sale consideration is less than the stamp duty valuation.
- The deeming provisions to substitute actual consideration with stamp duty valuation are not applicable, if the difference between actual sale consideration and stamp duty valuation does not exceed a safe harbor of 5 percent.
- It is now proposed to expand the harbour of 5 percent to 10 percent by amending the provisions of Section 43CA, Section 50C and Section 56(2)(x).

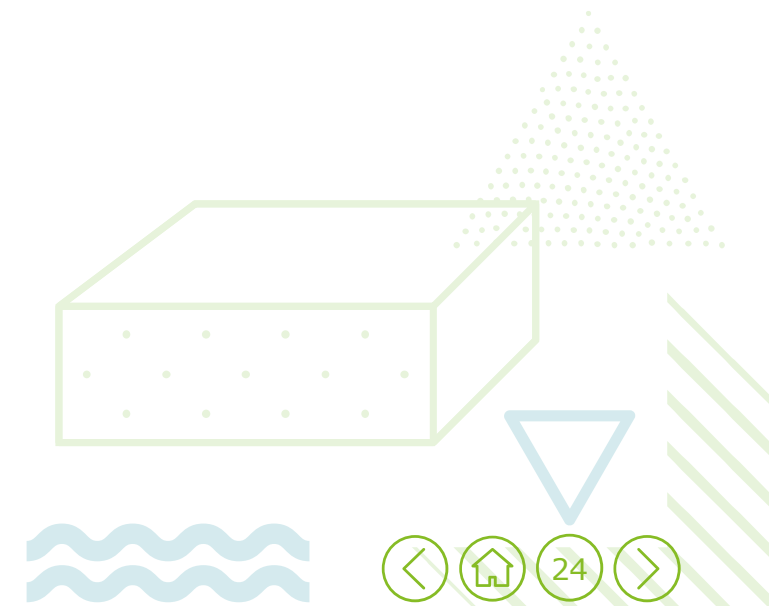


Corporate taxation

Tax holiday for start-ups

Rationalisation of tax holiday provisions for start-ups

- Currently, tax holiday provisions under Section 80-IAC provide a 100 percent deduction of the profits earned by 'eligible start-ups' for a period of 3 consecutive years out of 7 years from year of incorporation provided that the turnover of the business does not exceed INR 250 million.
- It has been proposed to enhance the turnover limit for eligibility from existing INR 250 million to INR 1,000 million.
- Considering that start-ups may not be in profits for the initial phase to be able to take the benefit of the tax holiday, it has now been proposed to increase the block period of 7 years to 10 years.

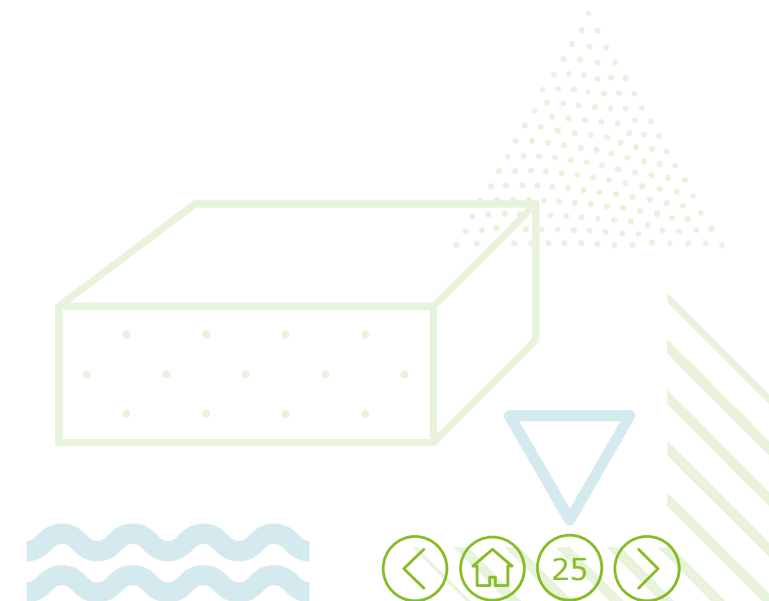
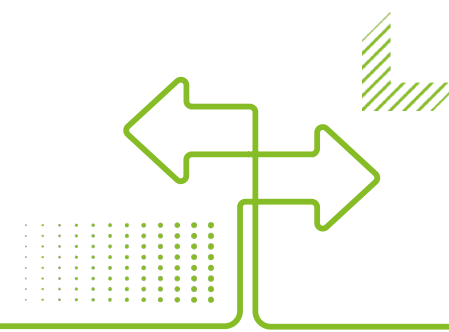


Corporate taxation

Tax holiday for affordable housing

Incentive to affordable housing extended

- Under the existing provisions of Section 80-IBA, assessee engaged in the business of developing and building affordable housing projects are eligible for a 100 percent deduction of the profits and gains derived from such business, subject to the fulfilment of certain conditions.
- Currently, the tax holiday provisions of section 80-IBA relating to affordable housing apply to the projects approved by competent authority during the period from 1 June 2016 to 31 March 2020
- To incentivise building affordable housing, the date by which the competent authority can approve the project is proposed to be extended to 31 March 2021.



Corporate taxation

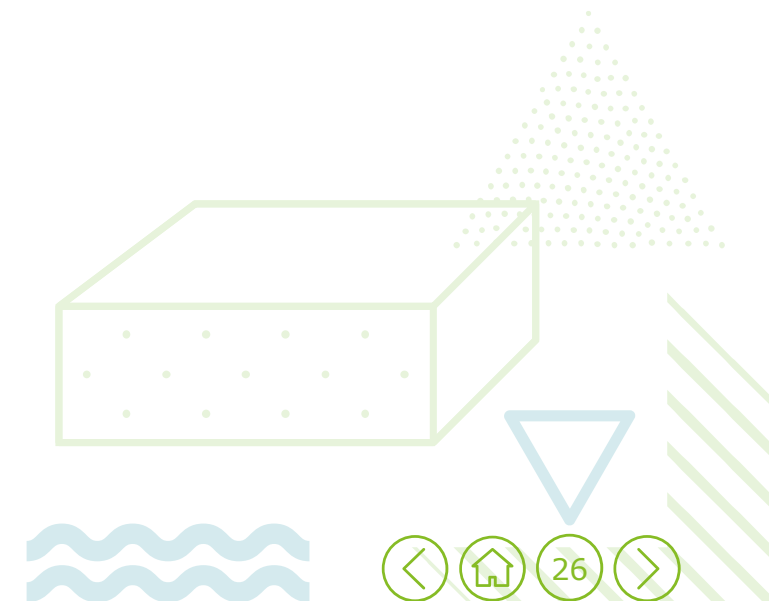
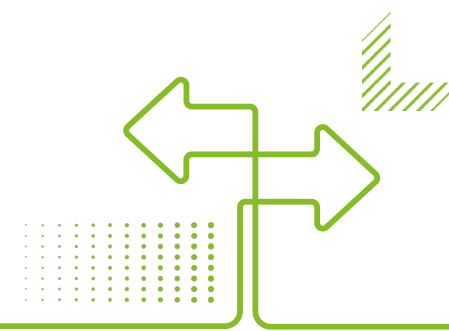
Business trust and unit holders

Modification of the definition of “business trust” under section 2(13A)

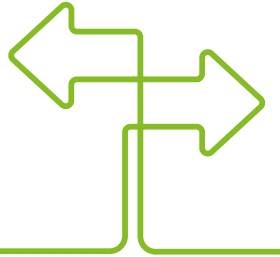
- Section 2(13A) of the Act currently defines “business trust” as a trust registered as an InvIT or REIT (under the relevant SEBI regulations of 2014), and the units of such trust are also required to be listed on a recognised stock exchange.
- SEBI has amended the 2014 Regulations (in 2019), and done away with the requirement of mandatory stock exchange listing of InvIT units.
- It is proposed to amend the definition of “business trust” to exclude reference to mandatory listing of units of the business trust on the stock exchange.

Exemption of dividend received by business trust from SPV

- Under the existing provisions of the Act, dividend received by a business trust from its SPV was subject to DDT under section 115-O.
- With the abolition of DDT, dividends received by a business trust from the SPV are proposed to be made tax exempt in the hands of business trust and shall be taxable in the hands of unit holders.



Corporate taxation



Tax Exemption on certain income of Indian Strategic Petroleum Reserves Limited

- It is proposed to provide exemption for any income accruing or arising to Indian Strategic Petroleum Reserves Limited (ISPRL) (a wholly owned subsidiary of Oil Industry Development Board), for its income arising from arrangement/ replenishment of crude oil stored in its storage facility in pursuance to directions of the Central Government in this behalf.
- The exemption is subject to the condition that the crude oil is replenished in the storage facility within three years from the end of the financial year in which the crude oil was removed from the storage facility for the first time.
- The tax exemption will take effect from AY 2020-21.



Corporate taxation

Exemption for promoting investment by sovereign wealth funds in infrastructure companies

Exemption of income of sovereign wealth funds from equity and debt investments in Indian infrastructure companies

- To promote investments by sovereign wealth funds (including the wholly owned subsidiary of Abu Dhabi Investment Authority) in Indian infrastructure companies, it is proposed to insert a new clause to exempt dividend, interest, or long-term capital gains from their investments in Indian companies engaged in developing, or operating and maintaining, or developing, operating or maintaining specified infrastructure facilities or other business as may be notified.

- The investment is required to be made on or before 31 March 2024 and held for at least three years.
- The sovereign fund would need to satisfy the following conditions:
 - It should be wholly owned and controlled (directly or indirectly) by government of a foreign company.
 - It should be set up and regulated under laws of the foreign country.
 - Its earnings are credited either to the account of the government of the foreign country or any other account designated by that Government and does not inure to any private person.

- Its assets upon dissolution should vest with the government of the foreign country.
- It should not undertake any commercial activity in or outside India.
- It is notified by the Central Government in the Official Gazette.

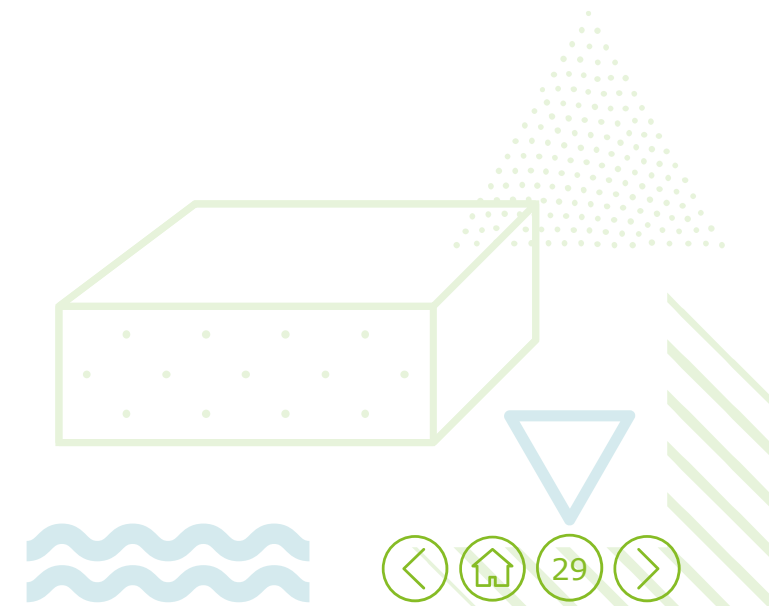
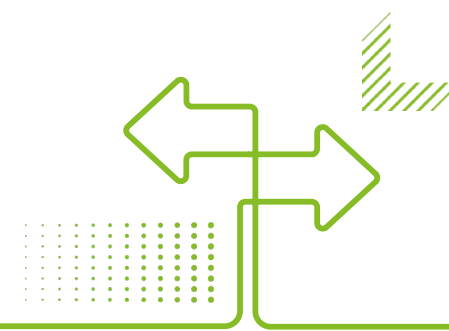


Corporate taxation

Rationalisation of tax deduction for donations

Amendment in Section 80GGA

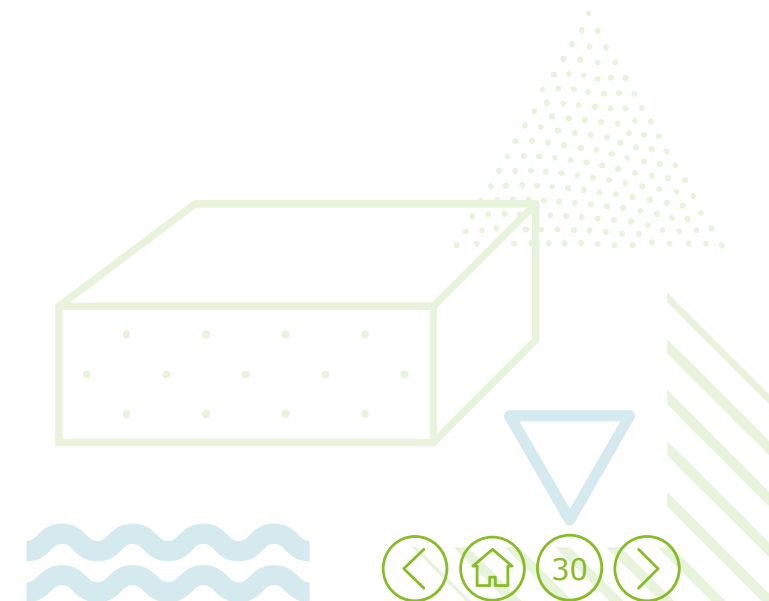
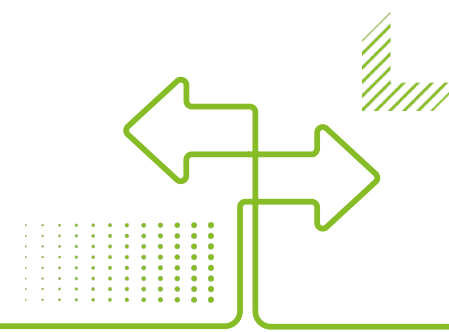
- Section 80GGA provides for deduction in respect of donations given to an approved research association, university, college, or another institution for specified purposes.
- To further promote the agenda of digitalisation and less cash economy, the existing threshold of INR 10,000 for cash donations has been reduced to INR 2,000.
- Further deduction under section 80GGA to a donor shall be allowed only if the prescribed statement is furnished by the donee in respect of donations received. In the event of failure to do so, a fee or penalty shall be levied.
- The amendment is proposed to be effective from 1 June 2020.



Corporate taxation

Amendment to Rule 5 of First Schedule

- Section 44 read with Rule 5 to the First Schedule is a separate code for taxation of insurance companies other than life insurance companies.
- Currently, as is the case for any other taxpayer, any expenditure debited to profit and loss account not admissible under the provisions of section 30 to 43B is to be added back in computing taxable income of such insurance companies. However, correspondingly, the expenditure added back is currently not being allowed subsequently when actually paid.
- It is proposed to provide that any sum payable for certain specified expenses in section 43B by such insurance company be allowed as deduction in computing the income in the previous year in which such sum is actually paid.
- The amendment is to take effect from AY 2020-21.



Corporate taxation

Taxation of co-operative societies

New taxation regime for co-operative societies

- The Government vide Taxation Laws Amendment Act, 2019 provided for an optional regime of taxation for a domestic company, wherein it can opt for paying taxes at the rate of 22 percent, subject to certain conditions.
- To remove the disparity between companies and co-operative societies, a concessional taxation regime similar to companies has been introduced by inserting Section 115BAD for a resident co-operative society.
- The optional tax regime is applicable for AY 2020-21 and onwards.
- Any resident co-operative society shall be eligible to a reduced income-tax rate of 22 percent, if it opts for not availing specified incentives.
- The applicable surcharge rate for such co-operative societies is 10 percent.
- If the co-operative society fails to satisfy the conditions specified, the option shall become invalid in respect of the assessment year relevant to that previous year and subsequent assessment years.
- The total income of the co-operative society is computed:
 - without claiming the specified deductions and incentives, such as tax holiday under section 10AA, additional depreciation under section 32(1)(iia) etc.;
 - without set off of any loss carried forward or depreciation from any earlier assessment year attributable to the above deductions or incentives; and
 - by claiming the depreciation, except additional depreciation, in the manner prescribed.
- Units located in IFSC can continue to avail the benefit of the concessional taxation regime without foregoing the deduction specified under Section 80LA.
- The co-operative society needs to exercise the option on or before the due date prescribed for filing the return of income.
- The option is irrevocable and cannot be withdrawn once opted.
- Provisions relating to AMT would not be applicable and consequently no credit of AMT would be available.



Corporate taxation

Amendments to the Finance Act, 2013

Commodity transaction tax

- The Finance Act, 2013 had introduced CTT on the sale of commodity derivatives based on non-agricultural commodities traded in recognised associations.
- To align the provisions of CTT with changes in the commodity derivative market (on account of introduction of new products, such as “option in goods”), it is proposed to charge CTT on the new commodity derivatives product as under:

S. No.	New commodity derivative products	Rate	Payable by	Value of taxable commodities transaction
1	Sale of commodity derivatives based on prices or indices of prices of commodity derivatives	0.01%	Seller	Price at which commodity derivative is traded
2	Sale of option in goods	0.05%	Seller	Option Premium
3	Sale of option in goods, where option is exercised resulting in actual delivery of goods	0.0001%	Purchaser	Settlement Price
4	Sale of option in goods, where option is exercised resulting in a settlement otherwise than by the actual delivery of goods	0.125%	Purchaser	Difference between settlement price and strike price

- The transactions in new commodity derivative products, which are subject to CTT shall not be deemed as speculative transactions under section 43(5) of the Act.
- The amendment is proposed to be effective from AY 2020-21..



Non-resident taxation

Applicability of SEP deferred and definition revised

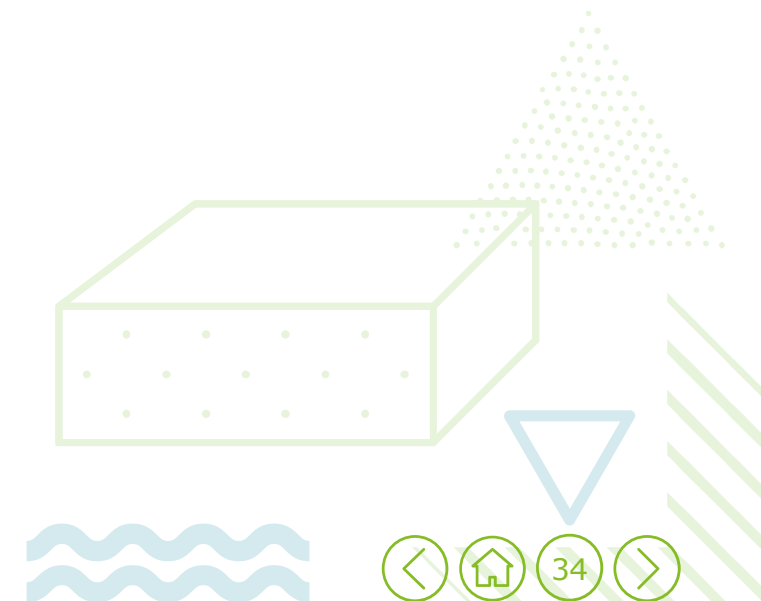
- Through Finance Act, 2018, explanation 2A was added to section 9(1)(i) to clarify that SEP of an NR in India will constitute a "business connection" in India. SEP was also defined to include certain transactions and activities carried on beyond thresholds to be prescribed.
- In view of the pending discussion under Pillar 1 (public consultation paper issued by the OECD Secretariat), the applicability of SEP is proposed to be deferred to AY 2022-23 and onwards.
- A new definition is proposed for SEP (largely similar to the existing one) to cover:
 - transactions in respect of any goods, services, or property carried out by an NR with any person in India that includes provision of download of data or software in the country provided the revenue therefrom exceeds monetary threshold as may be prescribed; or
 - systematic and continuous soliciting of business activities or engaging in interaction with users (exceeding the number as may be prescribed) in India.
- These transactions or activities will constitute SEP irrespective of whether:
 - the agreement for such transactions or activities is entered in India
 - the NR has a residence or place of business in India
 - the NR renders services in India
- Further, the income deemed to accrue or arise in India in relation to a SEP will be only so much as is attributable to the transactions and activities as specified earlier.
- Revised definition is proposed to be applicable from AY 2022-23 and onwards.



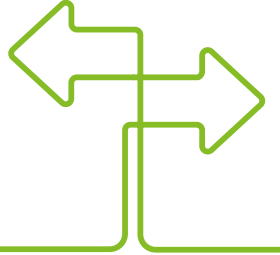
Non-resident taxation

Extension of source rule in respect of income from advertisement and use of data of Indian consumers/users

- Under Explanation 1 to section 9(1)(i), for an NR, the income of a business deemed to accrue or arise in India, where all operations are not carried out in India, will be only be such part of the income as is reasonably attributable to the operations carried out in India.
- It is proposed to extend the source rule for NR taxpayers by adding a new Explanation 3A to section 9(1)(i) to provide that income attributable to the operations carried out in India will include income from:
 - such advertisement that targets a customer who resides in India or a customer who accesses the advertisement through internet protocol address located in India;
 - sale of data collected from a person who resides in India or from a person who uses internet protocol address located in India; and
 - sale of goods or services using data collected from a person who resides in India or uses internet protocol address located in India.
- It is also proposed to extend this source rule to cases covered under SEP.
- Explanation 3A is proposed to be applicable from AY 2021-22 and onwards, whereas attribution of income relating to cases of SEP is to be applicable from AY 2022-23 and onwards.



Non-resident taxation



Exemption from indirect transfer provisions to NR investors in FPIs

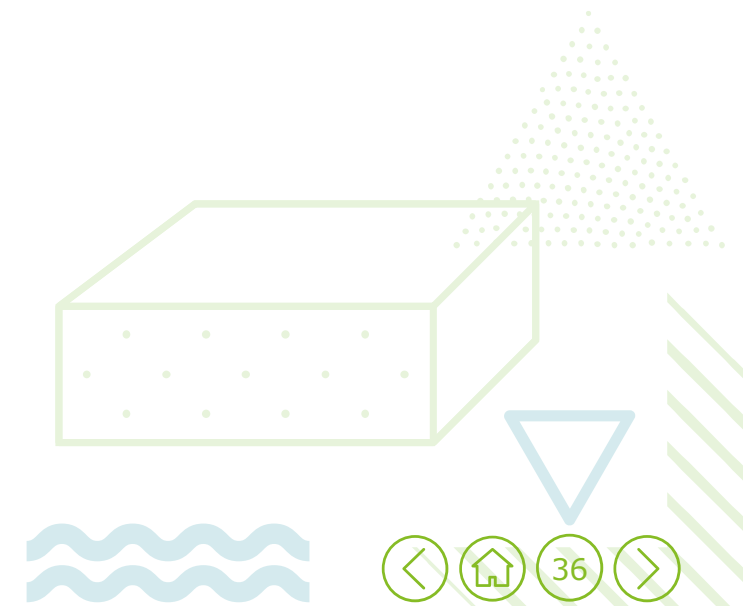
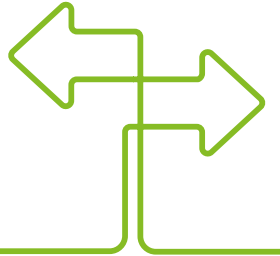
- NR investors are currently exempted from the levy of indirect transfer tax in respect of an investment held in Category-I or Category-II FPI under the SEBI (FPI) Regulations, 2014. Last year, SEBI (FPI) Regulations, 2019, notified by SEBI, repealed the 2014 regulations. Under the 2019 regulations, SEBI has done away with the broad basing criteria and reduced the categories of FPIs from three to two.
- In line with the changes made by SEBI to the FPI regulations, it is proposed that:
 - exemption granted to Category-I and Category-II FPIs under the erstwhile regulations be grandfathered
 - exemption be granted to Category-I FPI under the 2019 regulations
- This amendment is proposed to be applicable from AY 2020-21.



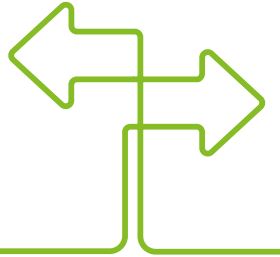
Non-resident taxation

Consideration for sale, distribution, or exhibition of cinematographic films proposed to be taxed as royalty

- Explanation 2 to section 9(1)(vi) defines royalty to include consideration for transfer of all or any rights (including the granting of a licence) in respect of any copyright, literary, artistic or scientific work including films or video tapes for use in connection with television or tapes and for radio broadcasting, **but not including consideration for the sale, distribution, or exhibition of cinematographic films.**
- The exclusion of cinematographic films is not there in the definition of 'royalty' under India's tax treaties. Accordingly, it is proposed to amend the definition of royalty to delete this exclusion of consideration for the sale, distribution, or exhibition of cinematographic films from the definition of royalty.
- This amendment is proposed to be applicable from AY 2021-22 and onwards.



Non-resident taxation



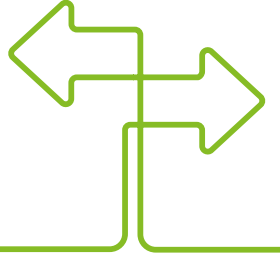
Conditions for offshore funds' exemption from "business connection" relaxed

- Section 9A provides that in case of certain offshore funds (an eligible investment fund), the fund management activity carried out through an eligible fund manager (situated in India) acting on behalf of such fund will not constitute a business connection in India. This is subject to several conditions.
- Two of the several conditions for the offshore funds are proposed to be relaxed in view of representations:

Condition	Relaxation	Rationale
Aggregate participation or investment in the fund, directly or indirectly, by persons resident in India to not exceed 5% of the corpus of the fund	For calculation of aggregate participation or investment in the fund, directly or indirectly, by an Indian resident, contribution of the eligible fund manager during the first three years up to INR 250 million is not to be accounted for	This existing condition is difficult to comply with in the initial years for the reason that eligible fund manager, who is resident in India, is required to invest his/her money as "skin in the game" to create reputation to attract investment
Monthly average corpus of the fund to not be less than INR 1 billion except where the fund is established in the previous year in which case, the corpus of fund to not be less than INR 1 billion at the end of a period of 6 months from the last day of the month of its establishment or incorporation, or at the end of such previous year, whichever is later	If the fund has been established or incorporated in the previous year, the condition of monthly average of the corpus of the fund to be at INR 1 billion is to be fulfilled within 12 months from the last day of the month of its establishment or incorporation	The period for fulfilling the requirement of monthly average of the corpus of INR 1 billion ranges from 6 months to 18 months. This wide variation based on mere date of establishment of the fund is discriminatory and hence, is to be corrected.



Non-resident taxation



Section 90 and 90A aligned with revised preamble of the DTAA as amended by MLI

- Sections 90 and 90A empower the CGT to enter into an agreement with another country or specified territory respectively for: (a) granting relief on income on which income-tax has been paid both, in India and that other country or specified territory; (b) avoidance of double taxation; (c) exchange of information; and (d) recovery of income-tax under the Act or laws of the other country or specified territory.
- India is a signatory to the MLI under the OECD G20 project to tackle BEPS. Article 6 of the MLI provides for modification of a CTA to include text of the preamble that will modify India's DTAA's to curb revenue loss through treaty abuse and BEPS strategies by ensuring that profits are taxed where substantive economic activities generating the profits are carried out.
- With a view to align the enabling provisions of the Act with those of the MLI, it is proposed to amend sections 90 and 90A to include the text of the preamble in Article 6 of MLI in these sections. It is proposed that CGT may enter into an agreement with another country or specified territory for, inter alia, the avoidance of double taxation of income under the Act and the corresponding law in force in that country or specified territory without creating opportunities for non-taxation or reduced taxation through tax evasion or avoidance (including through treaty-shopping arrangements aimed at obtaining reliefs provided in this agreement for the indirect benefit of residents of any other country or territory).
- This amendment is proposed to be applicable from AY 2021-22 and onwards.

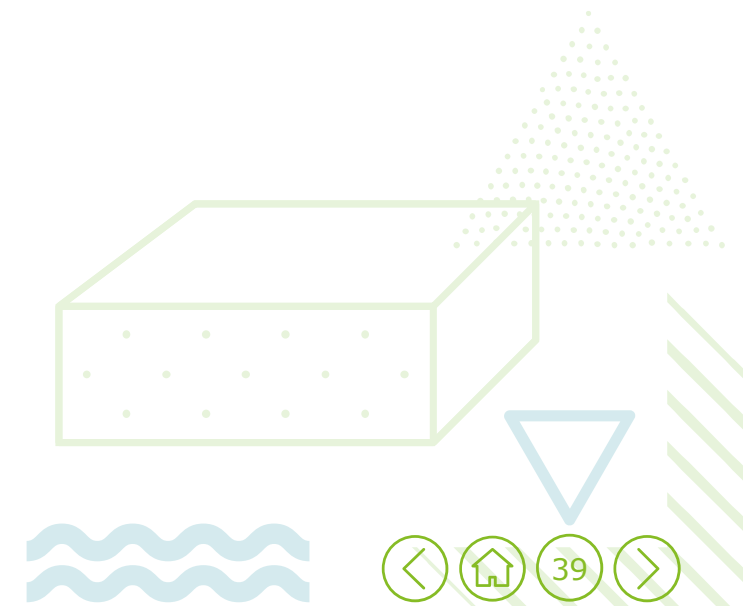


Non-resident taxation

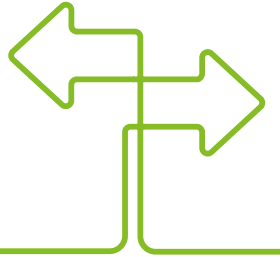


Section 94B: Interest paid to PE of an NR bank to be excluded from interest disallowance

- Section 94B of the Act disallows the deduction of interest exceeding the specified limit and subject to other thresholds mentioned in the section in case of an Indian company (or a PE of a foreign company in India) if the interest is paid to an AE. Section 94B does not apply where the payer of interest is an Indian banking company or a PE of a foreign company engaged in the banking business.
- Also, in cases where the lender is a PE of a foreign company (which has extended loans aggregating to 51% or more of the book value of the total assets of the borrowing company), the lender and the borrower are deemed to be AEs for the purposes of section 94B.
- It is proposed to amend section 94B to provide that the provisions of deemed AE (and consequently the disallowance of interest deduction) under section 94B will not apply in a situation:
 - where the borrower is an Indian company/ Indian PE of a NR company; and
 - lender is the Indian PE of an NR engaged in the business of banking.



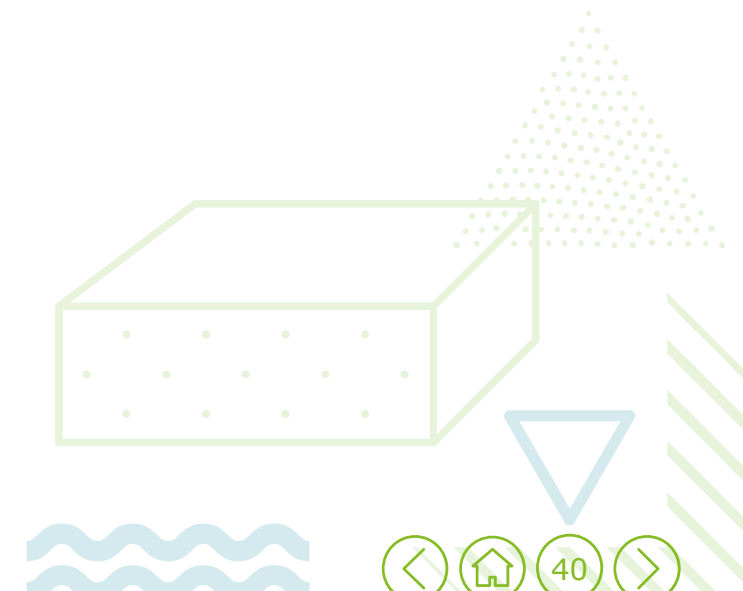
Non-resident taxation



Exemption to NRs from filing return of income

- Section 115A of the Act provides special rates of taxation for income in the nature of dividend, interest, royalty, and FTS earned by an NR (including foreign companies). Under sub-section (5), such an NR is exempted from the requirement to file a return of income in India if its total income consists only of specified interest or dividend income and appropriate taxes have been withheld at source on such income.
- It is proposed that the exemption from the requirement to file a return of income in India will be applicable to income in the nature of specified royalty and fees for technical services, besides interest and dividend income as noted above.
- The additional condition proposed to be imposed in applicability of this exemption is that the taxes on such income (i.e., specified interest, dividend, royalty, and FTS) have been deducted under

- the provisions of Chapter XVII-B of the Act at rates, which are not lower than the rates prescribed under section 115A(1) of the Act.
- The amendment will take effect from AY 2020-21. .



Capital gains

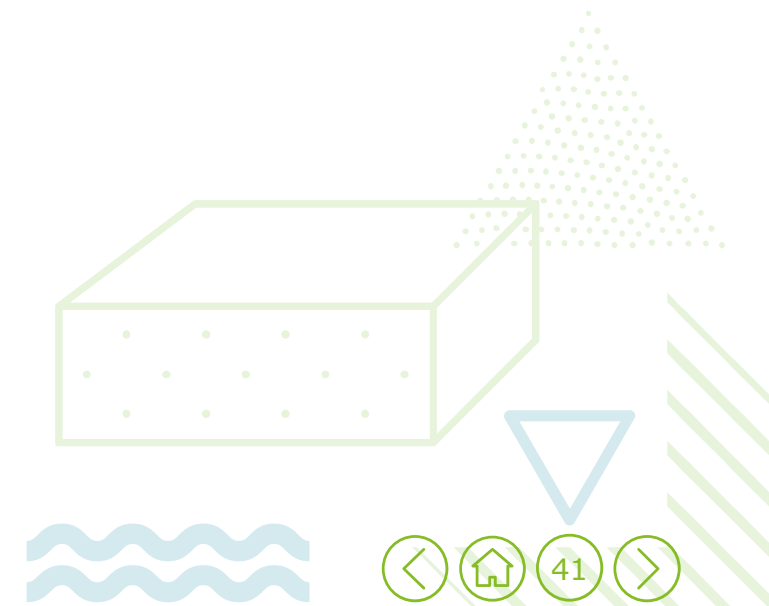


Provisions regarding units in segregated portfolios in mutual fund schemes:

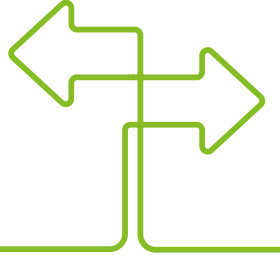
- SEBI now permits creation of segregated portfolios within the debt and money market mutual fund schemes. The unit holders in the main scheme are allotted the same number of units in the segregated portfolio.
- Therefore, for taxation purposes, the period of holding of the units in the segregated portfolio will include the earlier period of holding of the units in the main scheme. Further, for computing

the “cost of acquisition” of the units in the segregated portfolio, the “cost of acquisition” of the units in the main scheme will be pro-rated in the ratio of the NAV of the assets transferred to the segregated portfolio. Simultaneously, the “cost of acquisition” of the units in the main scheme will be reduced by the “cost of acquisition” of the units in segregated portfolio.

- **These amendments will apply in relation to the assessment year 2020–21 and subsequent years.**



Capital gains



Capping the “fair market value” of land or building (acquired before 1 April 2001) at its “stamp duty value” as on 1 April 2001

- Currently, (under section 55(2)(b)(i) and (ii) of the Act), an assessee can opt to take the “cost of acquisition” of a capital asset (acquired before 1 April 2001) at either its actual cost of acquisition or “fair market value” as on 1 April 2001.
- Where the capital asset is land or building, it is now proposed to cap the “fair market value” of the capital asset at its “stamp duty value” as on 1 April 2001.



Procedural and miscellaneous

Other miscellaneous proposals

Period and scope of concessional withholding tax rate under section 194LC extended

- Currently, the concessional withholding tax rate of 5 percent is applicable to borrowings made by an Indian company or a business trust until 30 June 2020 from a source outside India by way of foreign currency loans/long-term bonds or rupee denominated bonds.
- It is now proposed to extend the above period until 30 June 2023.

- Further, a concessional withholding tax rate of 4 percent will apply to borrowings from a source outside India by way of long-term bonds or rupee denominated bonds on or after 1 April 2020 until 30 June 2023 that are listed on a recognised stock exchange in any IFSC.

Period and scope of concessional withholding tax rate under section 194LD extended

- Currently, the concessional withholding tax rate of 5 percent is applicable to interest on

government securities and rupee denominated bonds of an Indian company payable until 30 June 2020 to FIIs and QFIs.

- It is now proposed to extend the above period until 30 June 2023.
- Further, it is proposed that this concessional withholding tax rate will also apply to interest on municipal debt securities payable on or after 1 April 2020 until 30 June 2023 to FIIs and QFIs.



Procedural and miscellaneous

Other miscellaneous proposals

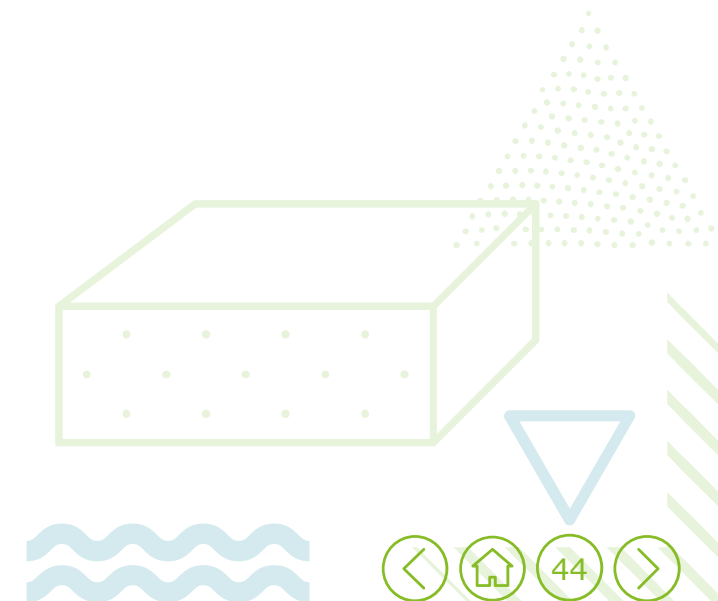
Withholding tax rate reduced to 2% on fees for technical services paid to residents (Section 194J)

- Currently, the withholding tax rate applicable to fees for technical services payable to residents (except residents who are engaged only in the business of operating a call centre) is 10 percent. It is now proposed to reduce the withholding tax rate on applicable to fees for technical services (excluding fees for professional services) to 2 percent.

Rationalisation of provisions relating to provision of tax-related information to assesseees (section 285BB)

- Currently, (under section 203AA), income tax authorities provide tax-related information (including details of tax deducted at source or tax collected at source) to an assessee electronically through Form 26AS.

- It is now proposed to drop this mechanism. A new mechanism will be introduced under which an annual statement of tax-related information will be uploaded to a registered account of the assessee.
- This change will be effective from 1 June 2020.



Procedural and miscellaneous

Other miscellaneous proposals

Widening the applicability of TCS under section 206C

To widen the tax net, it is proposed to amend section 206C to levy TCS on overseas remittance and overseas tour package as under:

- Authorised dealer (dealing in foreign exchange) receiving an amount of INR 0.7 million or more in financial year for remittance under LRS of RBI, shall be liable to collect TCS at the rate of 5 percent on sum received from a buyer remitting such amount out of India.
- A seller of an overseas tour package shall be liable to collect TCS at the rate of 5 percent on any amount received from buyer of such package.

- In both the above cases, if the buyer does not have PAN/Aadhar, the rate of applicable TCS shall be 10 percent.

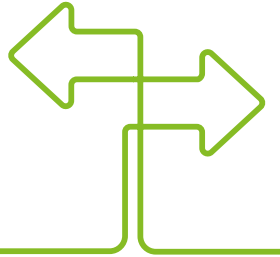
It is proposed to amend section 206C to levy TCS on sale of goods above specified limit stated below:

- A seller, whose turnover from business exceeds INR 100 million during the immediately preceding financial year, shall be liable to collect TCS at the rate of 0.1 percent on consideration received from a buyer in excess of INR 5 million. In non-PAN/Aadhar cases, the rate shall be 1 percent.

- The above TCS provision shall not be applicable on certain buyers, such as government authorities and other buyers notified by the Government.
- The above amendment will take effect from 1 April 2020.



Procedural and miscellaneous



Other miscellaneous proposals

Proposed amendment in provision of section 206AA

- Section 206AA of the Act provides for the requirement to furnish PAN and withholding tax rates in case PAN is not furnished. This section is proposed to be amended to include reference to newly inserted section 194-O and the prescribed withholding rate (in no PAN/Aadhaar cases) is proposed to be 5 percent for section 194-O.

Insertion of new sections 234G and 271K

- New section 234G is proposed to be inserted that provides for a fee of INR 200 for every day of failure to furnish newly prescribed statement/certificate under section 35(1)(ii)/(iia)/(iii) of the Act. In addition to this fee, a penalty of INR 10,000 that may extend to INR 1,00,000 may be levied under section 271K for such failure.

E-Appeal Scheme proposed (Section 250)

- An appeal to CIT(A) can be filed online through a registered account on the e-filing portal.

- Similar to the introduction of the e-assessment scheme in 2019, it has been proposed to implement the e-appeal scheme for appeals filed to the CIT(A) to impart greater efficiency, transparency, and accountability by:
 - eliminating interface between CIT(A) and appellant to the extent technologically feasible;
 - optimising utilisation of resources through economies of scale and functional specialisation; and
 - introducing an appellate system with dynamic jurisdiction in which appeal shall be disposed of by one or more CIT(A).



Procedural and miscellaneous

Other miscellaneous proposals

- To give effect to above scheme, the Central Government may by way of notification, direct any of the existing provisions relating to jurisdiction and procedure for disposal of appeals shall not apply or shall apply with such exceptions, etc. Such direction may be issued until 31 March 2022.

Proposed amendment in provision of section 253

- Section 253(1) of the Act provides for the orders that are appealable before the Income Tax Appellate Tribunal. This section is proposed to be amended to include reference

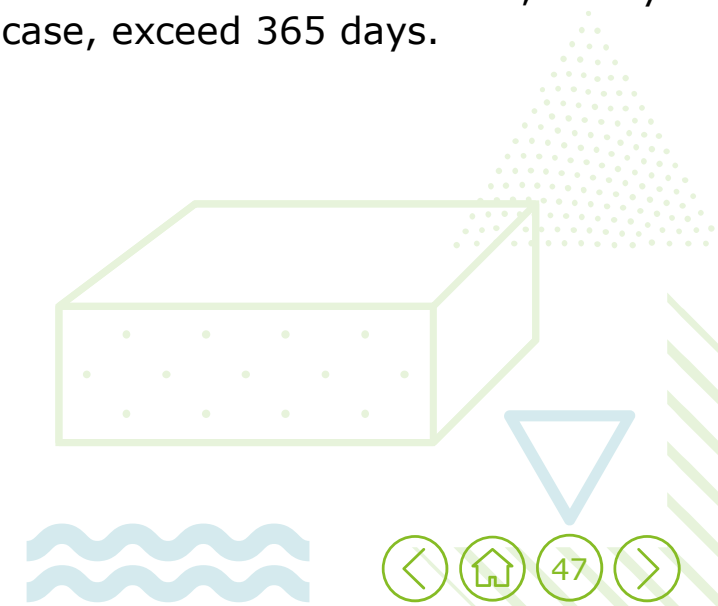
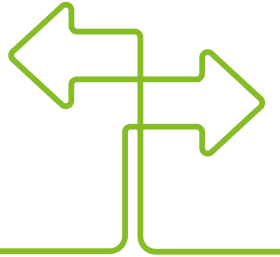
to the newly inserted section 12AB (regarding registration or cancellation of trust) in addition to the existing section 12AA

Proposed amendment in provision of section 254

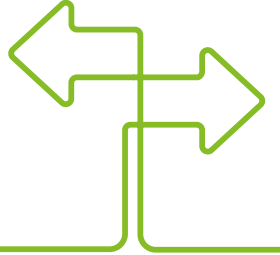
- ITAT power to grant stay of demand is proposed to be amended as under:
 - For initial stay of 180 days – Upon deposit by the assessee of an amount not less than 20 percent of the amount of tax, interest, fee, penalty, or any other sum payable, or furnish security of equal amount in respect thereof.

- For period before 180 days not exceeding 365 days – ITAT on being satisfied that the assessee has deposited aforesaid amount not less than 20 percent and the delay is not attributable to the assessee.

- The total period of stay that includes extension shall not, in any case, exceed 365 days.



Procedural and miscellaneous



Other miscellaneous proposals

Proposed insertion of new section 271AAD

To deal with the issue of fake and fraudulent invoices under GST regime, it is proposed to introduce a new section to provide for a levy of penalty equal to the aggregate amount of false entries or omitted entry on a person, if it is found during any proceeding under the Act that in the books of accounts maintained by him there is a:

- i. false entry or
- ii. any entry relevant for computation of total income of such person has been omitted to evade tax liability.

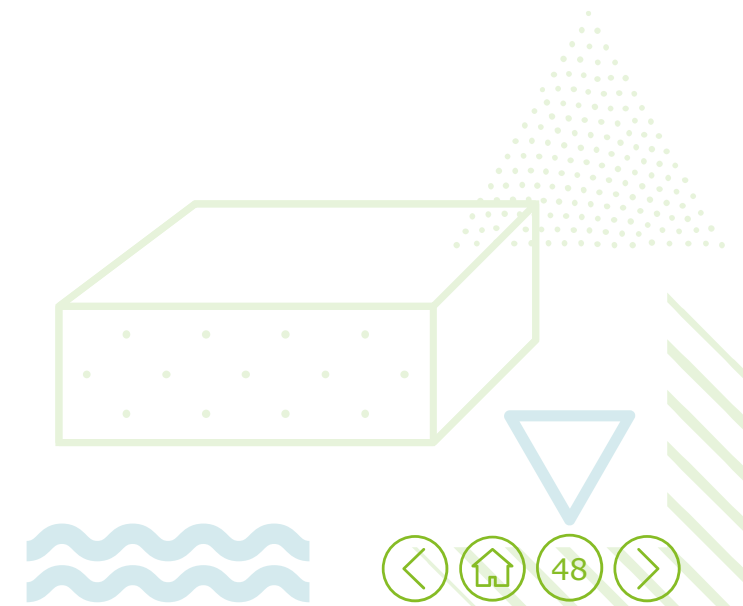
It is also proposed to provide a person who causes to make or cause to make a false entry or omits or causes to omit any entry, shall also pay by way of penalty a sum, which is equal to the aggregate amounts of such false entries or omitted entry.

The false entries is proposed to include use or intention to use –

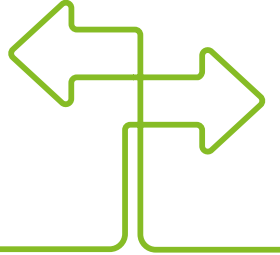
- a) forged or falsified documents, such as a false invoice or, in general, a false piece of documentary evidence; or
- b) invoice in respect of supply or receipt of goods or services or both issued by the person or any other person without actual supply or receipt of such goods or services or both; or

- c) invoice in respect of supply or receipt of goods or services or both to or from a person who do not exist.

This amendment will take effect from 1 April 2020.



Procedural and miscellaneous



Other miscellaneous proposals

Provision for e-penalty under section 274 (2A)

The e-penalty scheme will be launched on the lines of the E-assessment Scheme-2019. Under the proposed section 274 (2A), the Central Government may notify an e-scheme for the purpose of imposing penalty to impart greater efficiency, transparency, and accountability by:

- eliminating the interface between the Assessing Officer and the assessee in the course of proceedings to the extent technologically feasible;
- optimising utilisation of the resources through economies of scale and functional specialisation;

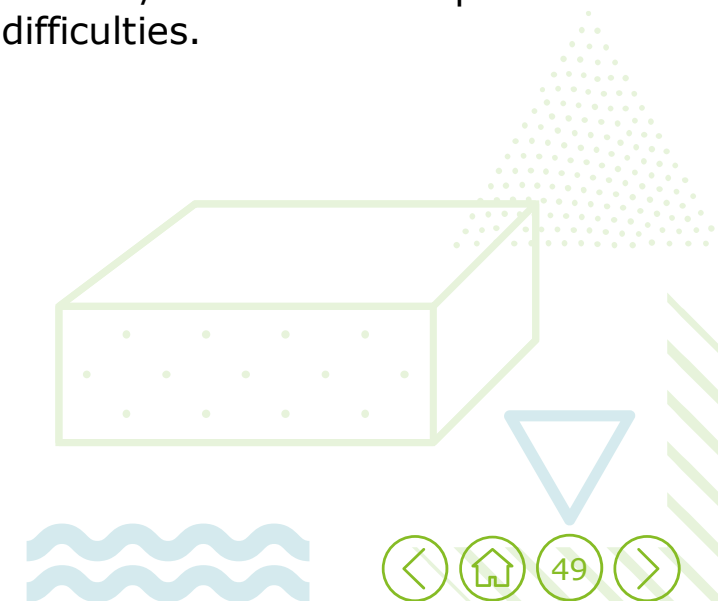
- introducing a mechanism for imposing of penalty with dynamic jurisdiction in which penalty shall be imposed by one or more income-tax authorities.

This amendment will take effect from 1 April 2020.

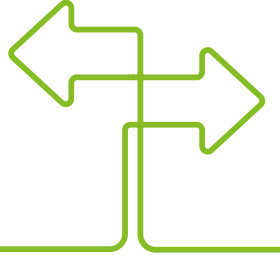
Amendment in list of authorised representative (Section 288)

- Section 288(2) of the Act provides a list of persons who are entitled to be 'authorised representative' of the assessee to appear before any income tax authorities or appellate tribunal in connection with any proceeding under this Act.

- At present, there is no explicit reference under the section allowing Insolvency Professional to act as an authorised representative of a company under Insolvency Proceedings.
- Accordingly, a residuary category as 'any other person, as may be prescribed' has been inserted to remove/overcome such practical difficulties.



Procedural and miscellaneous



Other miscellaneous proposals

Widening the applicability of tax deducted at source (TDS)

TDS on e-commerce transactions i.e., payment by e-commerce operator to e-commerce participant for sale of goods or provision of services facilitated by it, has been proposed to be introduced (New section – 194-O). The main features of this section are as follows:

- E-commerce operator would deduct TDS @1% on gross amount of sales or services or both made by e-commerce participant (who sells goods or provides services through electronic facility).
- TDS needs to be deducted at the time of credit or payment (whichever is earlier) of such

amount to the account of e-commerce participant. This would also be the case where payment is made directly by the purchaser to the e-commerce participant.

- Exemption from TDS if the gross amount of sales or services or both made during the year by an e-commerce participant (being individual or HUF) does not exceed INR 5 Lakhs and such participant provides his PAN or Aadhaar to the e-commerce operator.
- Transaction would not be subject to TDS under any other provision of Chapter XVII-B of the Act if (a) TDS has already been deducted by e-commerce operator under this

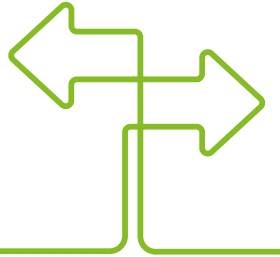
section; or (b) No TDS needs to be deducted by virtue of above exemption (as discussed in previous bullet).

This exemption will not apply to any amount received by an e-commerce operator for hosting advertisements or providing other services which are not in connection with the sale of goods or services.

Consequential amendment are proposed in section 197 for lower TDS, section 204 to define person responsible for paying any sum in case of person not resident in India and section 206AA to provide for higher deduction @5% in case of non PAN/Aadhaar cases



Procedural and miscellaneous



Other miscellaneous proposals

TDS on income in respect of units

- Income distributed by mutual funds to its unitholders is currently subject to additional income tax in the hands of mutual funds. It is now proposed to shift the incidence of tax on income from mutual funds to unit holders.
- Therefore a new section 194K has been proposed to be inserted to levy TDS on such distributions.

- This section provides that any person responsible for paying to a resident unit holder, any income in respect of units of a Mutual Fund specified under clause (23D) of section 10 or units from the administrator of the specified undertaking or units from the specified company, shall withhold tax at the rate of 10 percent, if the such income exceeds INR 5,000/- in a financial year.

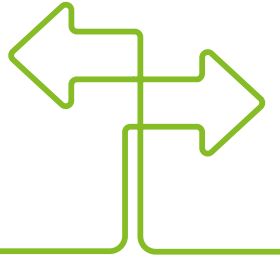
Amendment in TDS provisions - section 194, 194LBA, 195, 196A, 196C and 196D

In view of the removal of DDT and taxability of dividend income in the hands of shareholders / unit holders, the following new TDS provisions have been proposed to be introduced:

- Section 194 - include TDS at the rate of 10% on dividend. Threshold limit for TDS on payment of dividend to be increased from INR 2,500/- to INR 5,000/-



Procedural and miscellaneous



Other miscellaneous proposals

- Section 194LBA - provide for TDS at the rate of 10% on dividend paid by business trust to its unitholder (both resident and non-resident)
- Section 195 - to delete exemption provided to dividend income referred to in section 115-O from withholding tax
- Section 196A - To revive the section's applicability on TDS on income in respect of units of mutual funds
- Section 196C and 196D have been amended to remove exclusion provided to dividend income referred to in section u/s 115-O
- Further, it is proposed that TDS on dividend / income from units under the above provision shall be applicable irrespective of mode of payment of dividend / income from units

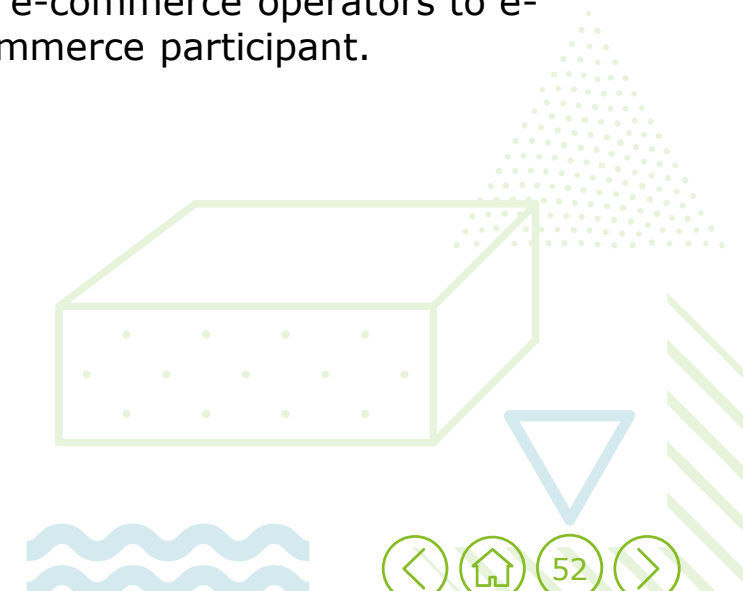
Proposed amendment in provision of section 115TD

Section 115TD of the Act provides for special provisions relating to tax on accreted income of certain trusts and institutions

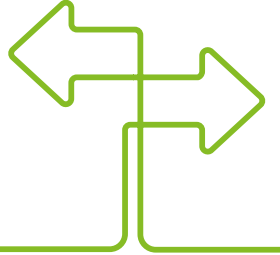
This section is proposed to be amended to include reference to the newly inserted section 12AB in addition to the existing section 12AA

Proposed amendment in section 197

Section 197 of the Act provides for a certificate for deduction of TDS at a rate lower than that prescribed under different TDS provisions. This section is proposed to be amended to include reference to the newly inserted section 194-O, i.e., an amount paid by e-commerce operators to e-commerce participant.



Procedural and miscellaneous



Other miscellaneous proposals

Proposed amendment in section 204

Section 204 of the Act defines the phrase 'person responsible for paying' for the purpose of Chapter XVII and section 285. Consequent to proposed insertion of section 194O, this section is also proposed to be amended to provide meaning of 'person responsible for paying' in case of a non-resident. The phrase in this context would mean, the person himself or any person authorised by such person or the agent of such person in India including any person treated as an agent under section 163."

Registration of trusts, institutions, and funds for tax exemption [section 10(23C)]

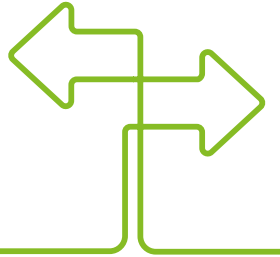
- The power of granting approval for registration of trusts, institutions, and funds was earlier with the commissioner of income tax (exemptions). This has now been extended to include principal commissioner or commissioner of income tax.
- New timelines for filing application for registration (by trusts, institutions, and funds) and approval by the principal commissioner/commissioner have been prescribed.

Approval of trusts, institutions, and funds (section 80G)

- The power of granting approval for registration of trusts, institutions, and funds has been extended to principal commissioner or commissioner.
- Trust/institution/fund (i.e., donee) will now have to furnish a prescribed statement providing prescribed particulars of donors under section 80G.
- The donee will also furnish a certificate specifying particulars of the donation (within the prescribed time), to the donor.
- Income-tax deduction under section 80G shall be allowed to the donor only on the basis of above information furnished by the donee.



Procedural and miscellaneous



Other miscellaneous proposals

Approval of survey operation under section 133A of the Act

- Currently, an income-tax authority (below the rank of joint director or joint commissioner of income-tax) can conduct a survey (section 133A) after taking prior approval of a joint director/joint commissioner.
- These provisions have now been amended so that a higher level of income-tax authority is involved in approving such a survey. Accordingly, a survey (133A) is now proposed to be conducted by a subordinate income-tax authority only with prior approval of the higher authority, i.e., commissioner/director of income tax.

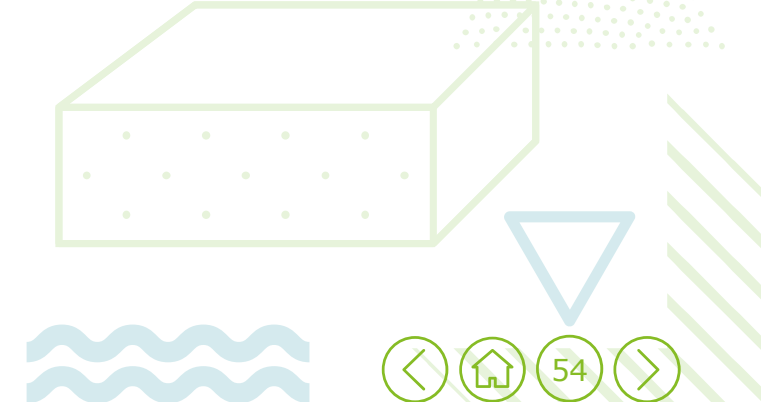
Expansion in the scope of DRP scheme (section 144C)

- Currently, under the DRP Scheme, an AO has to forward a draft assessment order to the assessee, if he/she proposes to make any variation in the income or loss returned by the assessee. In such a case, the assessee may file an objection to the DRP.
- It is proposed that if the AO proposes any change, which is prejudicial to the interest of the assessee (even if such change does not affect the income/loss returned), such draft order will also be sent to the assessee. The assessee can take up this order before the DRP.

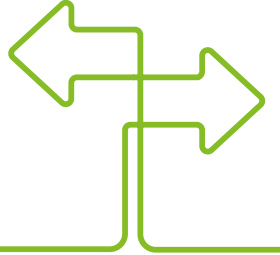
- The scope of “eligible assesses” is extended to include non-residents.
- These provisions will apply to any variation proposed by the AO after 1 April 2020.

E-appeal scheme proposed (section 250)

- Until now, only the appeal can be filed online through registered account on the e-filing portal. However, the process that follows after filing of appeal before CIT(A) is neither electronic nor faceless.



Procedural and miscellaneous

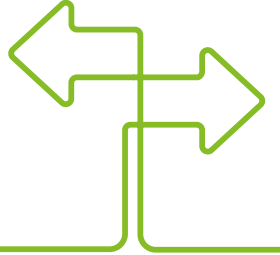


Other miscellaneous proposals

- Similar to the introduction of e-assessment scheme in 2019, it has been proposed to implement the e-appeal scheme for appeals before CIT(A) to impart greater efficiency, transparency, and accountability by:
 - eliminating interface between CIT(A) and appellant to the extent technologically feasible;
 - optimising utilisation of resources through economies of scale and functional specialisation; and
 - introducing an appellate system with dynamic jurisdiction in which appeal shall be disposed of by one or more CIT(A).
- To give effect to the above scheme, the Central Government may (by way of notification) direct any of the existing provisions relating to jurisdiction, and the procedure for disposal of appeals may apply with such exceptions, etc. Such a direction may be issued until 31 March 2022.
Scope of the e-assessment scheme expanded (section 143)
 - Currently, the e-assessment scheme covers only the assessment under section 143(3) of the Act. The scheme shall now be extended to “best judgment assessment” passed under section 144 of the Act.
- The time limit for issuing any directions by the Central Government to ensure proper implementation of the e-assessment scheme has been extended from 31 March 2020 to 31 March 2022.
Amendment in person responsible for verification of return of income (section 140)
 - Under section 140 of the Income-tax Act, income tax return of a company should be signed or verified by the managing director of the company or any other director if the managing director cannot verify due to unavoidable reasons.



Procedural and miscellaneous



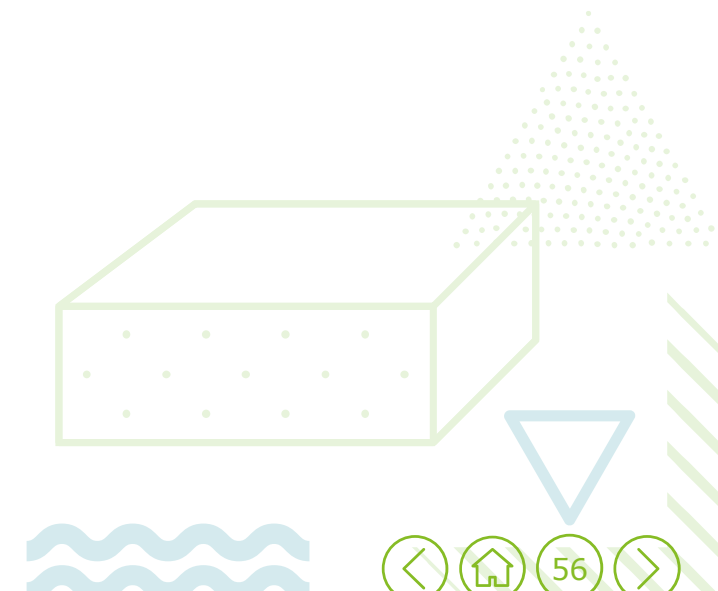
Other miscellaneous proposals

- Further, in case of LLP, the income tax return should be verified by the designated partner or any other partner (in case there is no such designated partner).
- To ensure ease of compliance, it is proposed to amend section 140 of the Income-tax Act to enable any other person, as may be prescribed by the board to verify the return of income in case of a company and LLP.

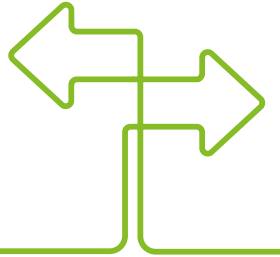
Extension of scope of deduction of TDS (section 194A)

- Currently, a cooperative society is not required to deduct tax on payment of interest by cooperative society to its member or another cooperative society. Also, the society not engaged in the business of banking is not required to deduct tax on payment of interest on deposit taken by it.

- It is now proposed that tax will be deducted at the rate of 10 percent by cooperative societies whose turnover exceeds INR 50 crores during the immediately preceding FY and the payment of interest to person concerned exceeds INR 40,000 (INR 50,000 in case of a senior citizen).



Procedural and miscellaneous



Other miscellaneous proposals

Definition of section 194C widened in case of contract manufacturing

- Currently, the definition of “work” under existing section 194C does not include manufacturing or supply of goods where (raw) materials are not supplied by customers.
- It is now proposed that if material is supplied by an associate of the customer to a contract manufacturer, that will qualify as “work” and hence, liable to TDS under section 194C.

Insertion of taxpayer’s charter

- To build trust between the taxpayers and the tax administration, it is proposed to insert a new section 119A in the Act to empower the CBDT to:
 - adopt and declare a taxpayer’s charter; and
 - issue such orders, instructions, directions, or guidelines to other income-tax authorities, as it may deem fit for the administration of the charter.

Rationalisation of provisions relating to tax audit

- Currently, every person carrying on business, if his/her total sales, turnover, or gross receipts in business exceeds INR 10 million, is

required to get his/her accounts audited by an accountant and furnish that by the due date for furnishing the return of income.

- To reduce compliance burden for MSMEs, the threshold limit for getting the accounts audited under section 44AB of the Act has been enhanced from a turnover of INR 10 million to a turnover of INR 50 million for a person carrying on business. However, cash receipts and cash payments of such a person should not exceed 5% of his/her total receipts or total payments during the year, respectively.
- This amendment apply with effect from AY 2020-21



Procedural and miscellaneous

Other miscellaneous proposals

Pre-filling of income tax returns for persons with income from business or profession or for charitable trusts

- Currently, in all cases, the tax audit report is required to be filed by the due date for furnishing the return of income.
- The Income Tax Department proposes to issue pre-filled income tax returns in case of persons with income from business or profession or charitable trusts. To facilitate this, the due date for filing tax audit report is proposed to be advanced by a month from the due date for filing the return of income. Consequently, for AY 2020-21, the due date for filing tax audit report shall be 30 September 2020.

- Further, the due date for filing accountant's reports is proposed to be advanced by a month before the due date of filing the return of income. Consequently, for AY 2020-21, the due date for accountant's reports* shall be 30 September 2020.

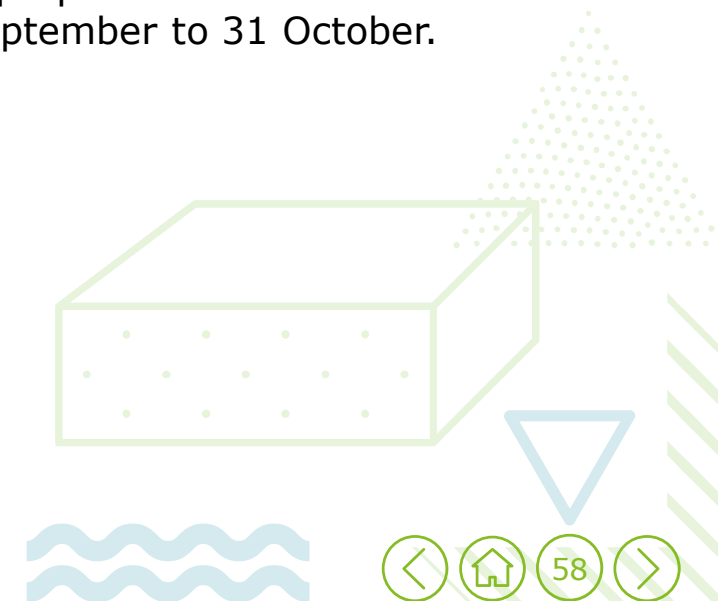
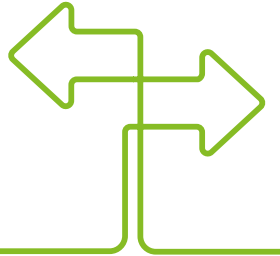
Changes in due date for filing of return of income for certain taxpayers

Currently, in case of a firm that is liable to tax audit, the due date for filing of return of income for its working partners is 30 September and other partners is 31 July.

It is now proposed that the due date for filing the return of income of the firm's partners (which is liable to tax audit) will be 31 October.

The due date for filing income tax return for companies and other assesseees (whose accounts are required to be audited under the Act) is proposed to be extended from 30 September to 31 October.

*required under section 10,10A,12A,32AB,33AB,33ABA,35D,35E,44AB,44DA,50B,80-IA,80-IB,80JJAA,92F,115JB,115JC,115VW



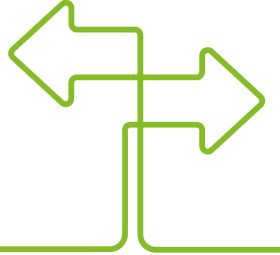
Procedural and miscellaneous

Rationalisation of provisions relating to trusts or institution

- Sections 11, 12, 12A, and 12AA provide for the registration process and taxation scheme for an eligible trust or institution and funds, and operate as a separate code.
- It is proposed to alter the registration process and time period for such eligible trust or institution. The existing registration process under section 12AA of the Act will apply until 31 May 2020, and a new section 12AB is proposed to be inserted to apply from 1 June 2020. The new registration is proposed to apply for a defined period of 3 or 5 years as applicable, unlike the unlimited time period under the existing provision.
- Further, it is proposed that any existing or new trust or institution desirous of availing the exemption regime will have to re-apply or apply, as the case may be, for exemption.
- Also, similar to the exclusion provided to a trust or institution eligible to claim benefit of exemption under section 10(23C) (relating to inter alia exemption of income of hospitals, etc.), entities eligible for exemption under section 10(46) (constituted under central or state enactments) are also proposed to avail the benefit. It is also proposed that exemption either under section

10(23C)/10(46) or under section 11/12 will be granted. In other words, benefit of both exemptions will not be granted simultaneously.

Procedural and miscellaneous



Other miscellaneous proposals

Proposed Dispute Resolution Scheme ('Vivad Se Vishwas')

The Finance Minister made the following announcements in the Budget speech:

- Currently, there are 483,000 direct tax cases pending in various appellate forums.
- In the last budget, the Sabka Vishwas Scheme was launched to reduce litigation in indirect taxes. It resulted in settling more than 189,000 cases.
- It is proposed to bring a scheme similar to the indirect tax 'Sabka Vishwas' scheme for reducing litigations related to direct taxes.
- The following are the key features of the proposed scheme:

- The proposed scheme to be called the 'Vivad Se Vishwas' scheme.
- Under the proposed scheme, a tax payer would be required to pay only the amount of the disputed taxes and get complete a waiver of interest and penalty provided he/she pays by 31 March 2020.
- Those who avail this scheme after 31 March 2020 will have to pay some additional amount.
- The scheme will remain open until 30 June 2020.
- Tax payers in whose cases appeals are pending at any level can benefit from this scheme.



Transfer pricing

Key amendments

Due date of filing accountant's report (Form 3CEB) brought forward

- To enable pre-filed annual income tax returns, the due date of filing Form 3CEB has been advanced by a month.
- Due date of filing Form 3CEB has been proposed to be one month prior to the due date of filing the annual income tax return. For FY 2019–20, the due date of filing 3CEB is proposed to be 31 October 2020.
- Consequently, for FY 2019–20, the due date for maintaining the contemporaneous TP documentation will also be 31 October 2020.

APA provisions to cover determination of profit attributable to a PE

- It was proposed to expand the scope of the Advance Pricing Agreement (APA) provisions to include determination of profit attributable [under section 9(1)(i) of the Act] to a PE. The benefit of the rollback can also be availed by such PEs.
- The provisions will apply to an APA entered into on, or, after 1 April 2020.

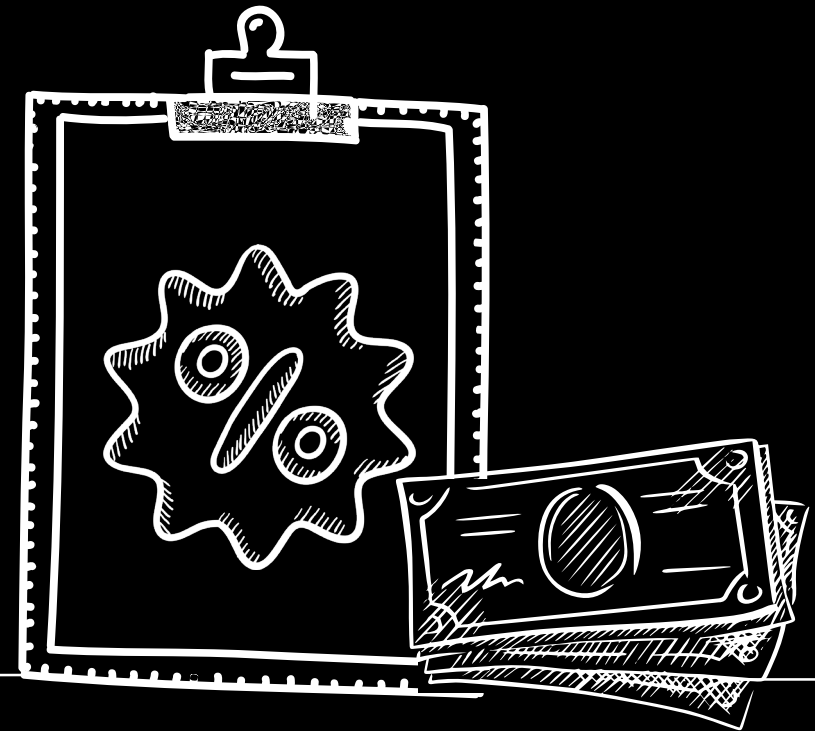
Safe harbour rules to cover determination of profit attributable to a PE

- The safe harbor rules [under section 92CB read with Rule 10TA to 10TF] have been proposed to be expanded to cover profits attributable [under section 9(1)(i) of the Act] to a PE. This will be applicable for AY 2020–21, and subsequent assessment years.



Indirect Tax

- Customs
- Goods and Services Tax
- Central Excise Duty



Customs

Important announcements on Customs

General

- With a focus to boost domestic manufacturing and entice large investments in mobile phones, electronic equipment, and semiconductor packaging, a detailed scheme will be announced. This announcement is in line with the recent 2 percent adhoc incentive granted, in addition to MEIS, to export of mobile phones during 1 January 2020 to 31 March 2020.

- Customs duty exemptions will be comprehensively reviewed by the Government by September 2020. Customs law and procedures will be reviewed for their alignment with needs of changing times and ease-of-doing business. Suggestions from trade and industry will be solicited on these aspects.

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Customs Act 1962

Legislative changes

- The Central Government is empowered to “prohibit” uncontrolled import or export of any other goods, either absolutely or conditionally, in addition to gold or silver, to prevent injury to the economy.
- Explanation inserted to Section 28 to explicitly clarify that any notice issued prior to 29 March 2018 shall continue to be governed by provisions of erstwhile Section 28 as it stood immediately before such date, notwithstanding order of any Appellate Tribunal, court, or any other law, to the contrary.
- Facility of “Electronic Duty Credit Ledger” will be provided in customs’ automated system to enable duty credit in lieu of duty remission to be given for exports

or any other benefit. Such duty credit can be used by a person to whom it is issued or transferred in a manner to be prescribed. Also, recovery of any such credit obtained by fraudulent means and subsequently transferred can be made from the person to whom such credit was issued.

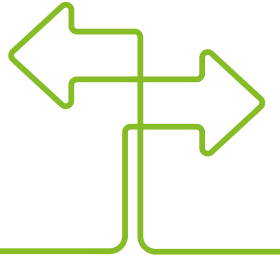
- Provisions related to administration of ROO under various FTAs have been introduced. The objective is to curb undue concessions claimed under FTAs and protect domestic industry. Few key aspects are as follows:
 - Importer to provide declaration that goods qualify for FTA benefit
 - Importer to possess sufficient information regarding origin criteria, value addition content, etc.

importer’s responsibility of reasonable care

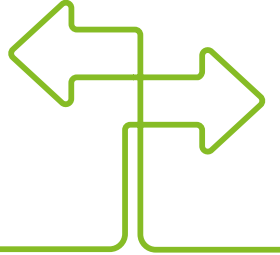
Authorities can temporarily suspend preferential tariff treatment pending verification per rules of FTA

Goods imported with undue benefit under FTA are liable for confiscation
Goods may be released on furnishing of security or deposit of differential duty in cash ledger

Request for verification to determine the origin can be made within a period of five years from date of import subject to FTA and suspension of preferential benefit under FTA and can also be extended to identical goods imported from same producer or exporter

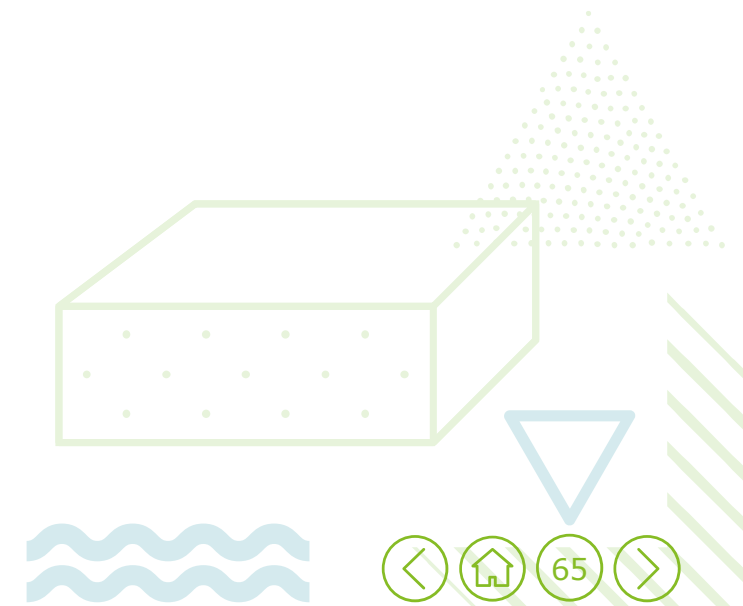


Customs Act 1962

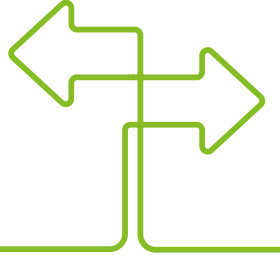


Legislative changes

- The scope of measures to safeguard domestic industry will be enhanced beyond levy of safeguard duties. The scope of “safeguard measures” will also include the following:
 - Application of tariff-rate quota
 - Such other measures as may be considered appropriateGenerally, tariff-rate quota shall not be lower than average level of import in past three representative years of which statistics is available. Such quota may be allocated to supplying countries in a manner to be prescribed.
- In line with the best international practices and to ensure level playing field for domestic industry, anti-circumvention measures are made more comprehensive and wide in scope by amending rules governing identification, assessment, and collection of following:
 - Anti dumping duty for dumped articles
 - Countervailing duty on subsidised articles



Customs Tariff – Other legislative changes



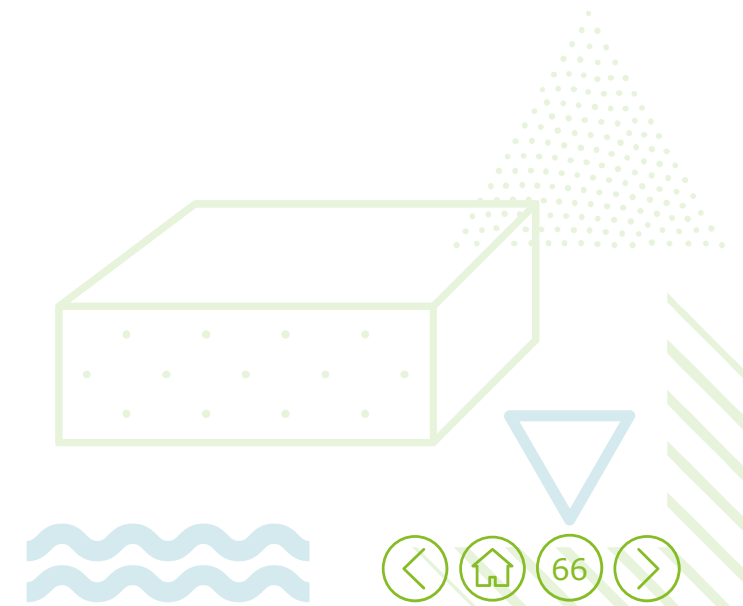
Health Cess

- A new duty of customs, 'Health Cess', has been introduced on import of medical devices falling under specified headings

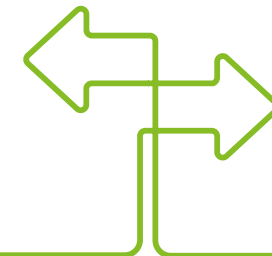
Description of goods	From 02 February 2020
All goods falling under CTH 9018, 9019, 9020, 9021 and 9022 of the First Schedule to the Customs Tariff Act, 1975	5 percent ad valorem

Notes

- Exemption from payment of Health Cess on import of above medical devices where no BCD is payable and also on inputs/parts used in the manufacturing of specified medical devices
- Value for applying ad valorem rate of Health Cess to be based on provisions of section 14 of the Customs Act



Customs



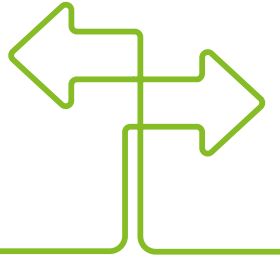
Rate movement

BCD has been increased on the following goods

Description of goods	Up to 01 Feb 2020	From 02 Feb 2020
Specified house hold items- Tableware, kitchenware, glassware, padlocks, brooms, brushes, combs, etc.	10%	20%
Specified household appliances – Fans, grinders, dryers, coffee and tea maker, fluid heaters, etc.	10%	20%
Specified footwear	25%	35%
Specified toys	20%	60%
Specified stationary items	10%	20%
Compressor of refrigerator and air conditioner	10%	12.5%
Industrial fans, railway carriage fans, air circulator	7.5%	10%
Fingerprint readers for use in mobile phone	Nil	15%
Headphones and earphones	Applicable BCD	15%
Specified freezers, specified refrigerating equipment/devices, heat pumps, ice-making machinery	7.5%	15%
Water cooler, vending machine	10%	15%
Specified gemstones, precious and semi-precious stones	Nil	0.5%



Customs



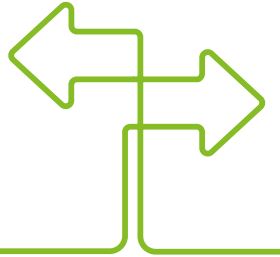
Rate movement

BCD has been increased on the following goods

Description of goods	Up to 01 Feb 2020	From 02 Feb 2020
Pressure vessels, welding and plasma cutting machines, motors like single phase AC motors, stepper motors, wiper motors	7.5%	10%
Specified goods and their parts used in manufacturing of catalytic converter including parts of catalytic converter	5%	7.5%
Noble metal solutions and compounds used in manufacturing of catalytic converter and their parts	5%	Applicable BCD
Platinum or palladium used in manufacturing of catalytic converter and their parts	5%	Applicable BCD
Other chemicals products and preparations falling under CTH 3824 99 00	10%	17.5%
Specified static converters	15%	20%
Copper and articles thereof used in manufacturing of specified electronic items	Nil	Applicable BCD



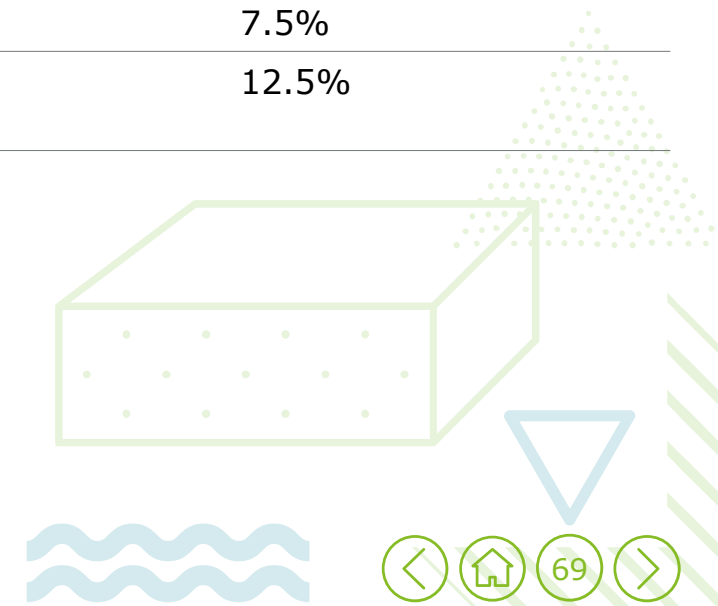
Customs



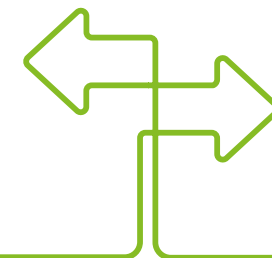
Rate movement

BCD has been increased on the following goods

Description of goods	Up to 01 Feb 2020	From 02 Feb 2020
Dip bridge rectifier; printed circuit board (populated, loaded, or stuffed)	10%	20%
Specified chargers and power adapters	Applicable BCD	20%
Specified catalytic convertor	10%	15%
Specified goods used for construction/repair of road	Nil	Applicable BCD
Specified goods used in high voltage power transmission project	5%	7.5%
Rotary tillers/weeder	2.5%	7.5%
Gold used in the manufacture of semiconductor devices or light emitting diodes	Nil	12.5%



Customs



Rate movement

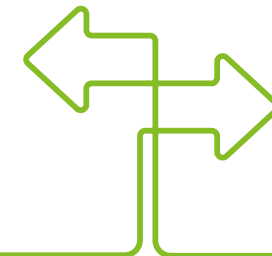
BCD has been increased on the following goods

Description of goods	Up to 31 Mar 2020	From 01 Apr 2020
PCBA of cellular mobile phones	10%	20%
Vibrator/Ringer of cellular mobile phones	Nil	10%
Completely built units of commercial vehicles under CTH 8702, 8704 (excl. electric vehicles)	30%	40%
Completely built units of commercial electric vehicles under CTH 8702, 8704	25%	40%
Semi knocked down forms of electric passenger vehicles under CTH 8703	15%	30%
Semi knocked down forms of electric vehicles – bus, trucks, and two wheelers under CTH 8702, 8704, 8711	15%	25%
Completely knocked down forms of electric vehicles - passenger vehicles, three wheelers, two wheelers, bus, and trucks under 8702, 8703, 8704, 8711	10%	15%

Description of goods	Up to 30 Sep 2020	From 01 Oct 2020
Display panel and touch assembly of cellular mobile phones	Nil	10%



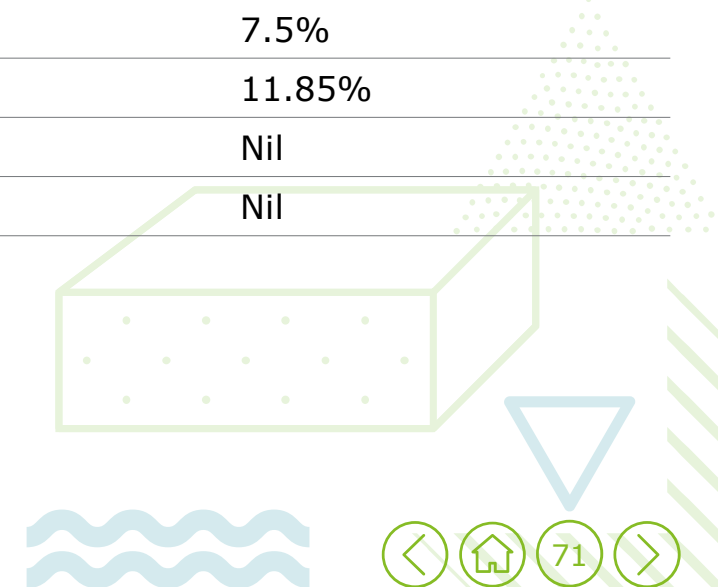
Customs



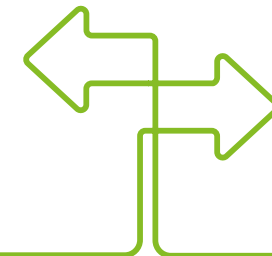
Rate movement

BCD has been decreased on the following goods

Description of goods	Up to 31 Mar 2020	From 01 Apr 2020
Newsprint, uncoated paper used for printing newspaper and lightweight coated (subject to specified conditions); calendared plastic sheets (used for smart cards)	10%	5%
Specified parts used in the manufacturing of microphone	10%	Nil
Platinum or palladium used in the manufacture of specified goods, including catalyst, metal compounds, metal solutions	12.5%	7.5%
Polyester liquid crystal polymers for use in manufacturing connectors	7.5%	Nil
Calcined petroleum coke	10%	7.5%
Spent catalyst/ash containing precious metals	12.5%	11.85%
Very low sulphur fuel oil meeting specified certification and conditions for import	10%	Nil
Micro-fuse base, sub-miniature fuse base, and their covers	7.5%	Nil



Customs



Rate movement

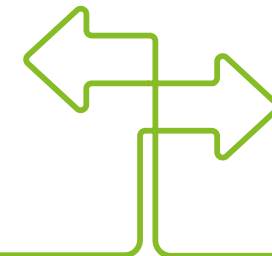
Amendment in Social Welfare Surcharge for the following products

Description of goods	Up to 01 Feb 2020	From 02 Feb 2020
Tiles, cubes of specified dimension; monumental or building stone simply cut sawn with a flat surface	10%	Nil
Marble, marble block/ tile, travertine, and alabaster	10%	Nil
Whey, almonds, walnuts, maize, specified orange juice	10%	Nil

Description of goods	Up to 01 Feb 2020	From 02 Feb 2020
Printed circuit assemblies for the following goods: Automatic teller machines, specified static convertors and inductors, specified microphones and loud speakers, telephone answering machines, specified electronic switches, specified plugs and socket for co-axial cables, proximity cards and tags, specified electrical machines	Nil	10%
Printed circuit boards for specified transmission apparatus, digital still image video cameras cameras	Nil	10%
Information technology software, falling under CTH 8523	Nil	10%



Customs

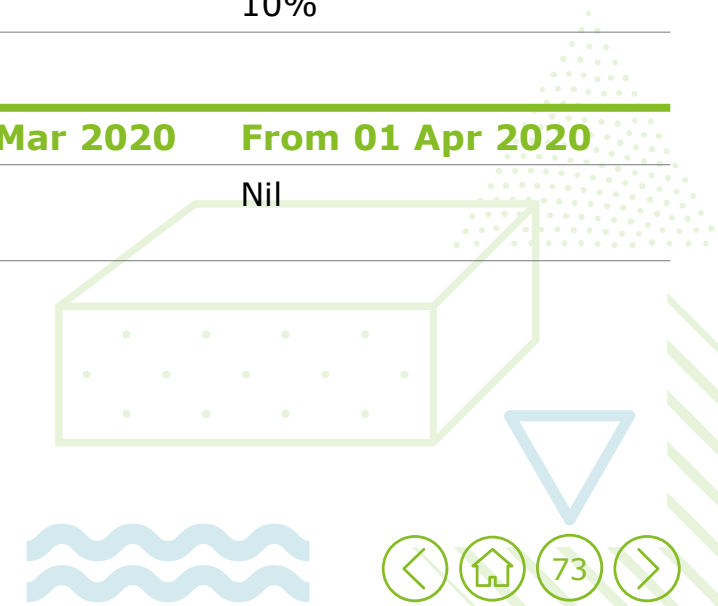


Rate movement

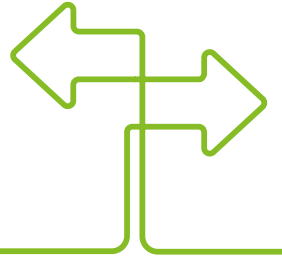
Amendment in Social Welfare Surcharge for the following products

Description of goods	Up to 01 Feb 2020	From 02 Feb 2020
Flat panel display falling under CTH 853180 and parts of indicator panel incorporating LCD & LED falling under CTH 853190	Nil	10%
Specified electronic switches, specified electro mechanical, snap-action switches	Nil	10%
Units of automatic data processing machines, facsimile machines, and tele printers	Nil	10%
Drawing and drafting machines under CTH 9017 and its printed circuit assemblies	Nil	10%
Specified electric conductors of voltage not exceeding 1,000 volts with connectors	Nil	10%

Description of goods	Up to 31 Mar 2020	From 01 Apr 2020
All commercial vehicles (including electric vehicles), if-imported as completely built unit falling under heading 8702 or 8704	10%	Nil



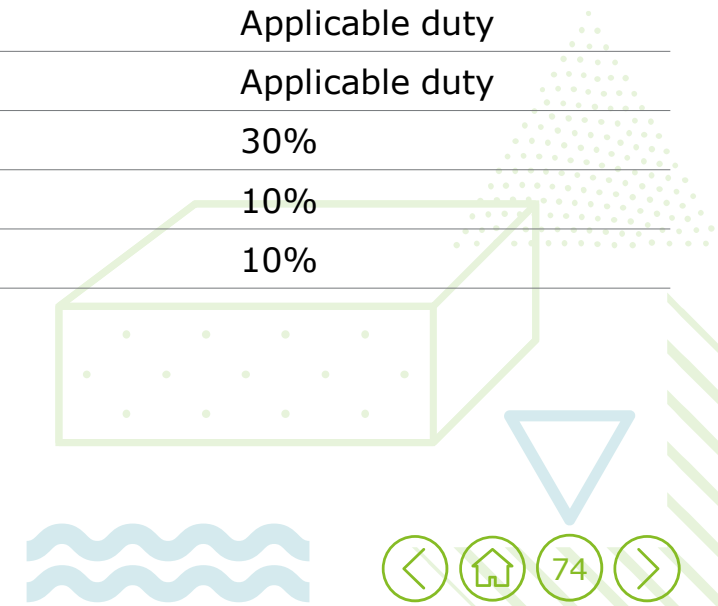
Customs



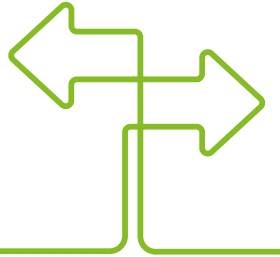
Pruning of exemptions leading to increase in effective rate of duty

Increase in effective BCD rate on account of withdrawal of exemptions and concessions

Description of goods	Up to 01 Feb 2020	From 02 Feb 2020
Specified edible oils and refined vegetable oils of edible grade under chapter 15	85%	100%
Glycerol water, glycerol iyes falling under CTH 1520	20%	30%
Parts used for manufacturing specified printers	Nil	Applicable duty
Colour television tubes	Nil	10%
Specified MP3 or MP4 or MPEG 4 player	5%	Applicable duty
Specified audio cassettes for blinds and pre-recorded cassettes	Nil	Applicable duty
Kyanite salts, in a form indicative of their use for manurial purpose	5%	Applicable duty
Isolated soya protein	10%	30%
Instant print film	5%	10%
Specified polymers of ethylene	7.5%	10%



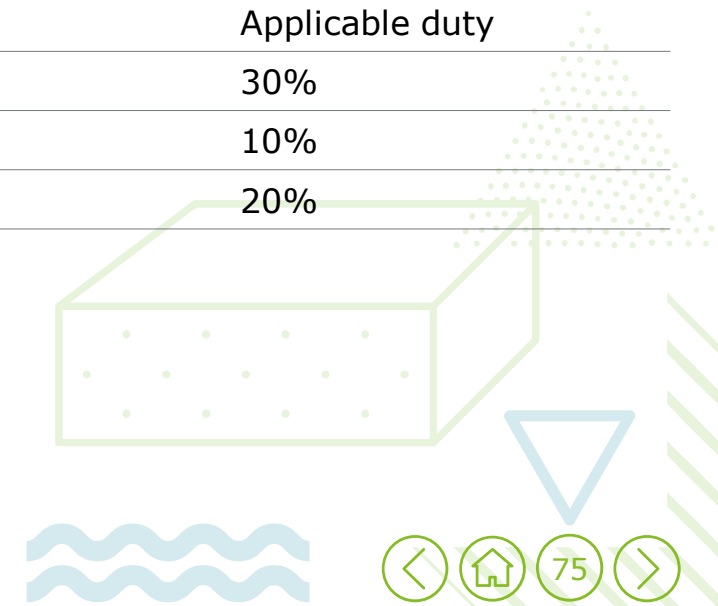
Customs



Pruning of exemptions leading to increase in effective rate of duty

Increase in effective BCD rate on account of withdrawal of exemptions and concessions

Description of goods	Up to 01 Feb 2020	From 02 Feb 2020
Polymers of styrene in primary forms	7.5%	10%
Lead bars, rods, profiles, and wires	5%	10%
Zinc tubes, pipes and tube, or pipe fittings	7.5%	10%
Tin plates, sheets, and strip of specified thickness; tin powder and flakes	5%	10%
Sprinklers and drip irrigation systems for agriculture and horticulture purposes	5%	7.5%
Specified goods for manufacturing of optical disk drives	Nil	Applicable duty
Dextrose monohydrate	20%	30%
Propane, butane	5%	10%
Phosphoric acid, for the manufacture of fertilisers	5%	20%



Customs

Rate movement

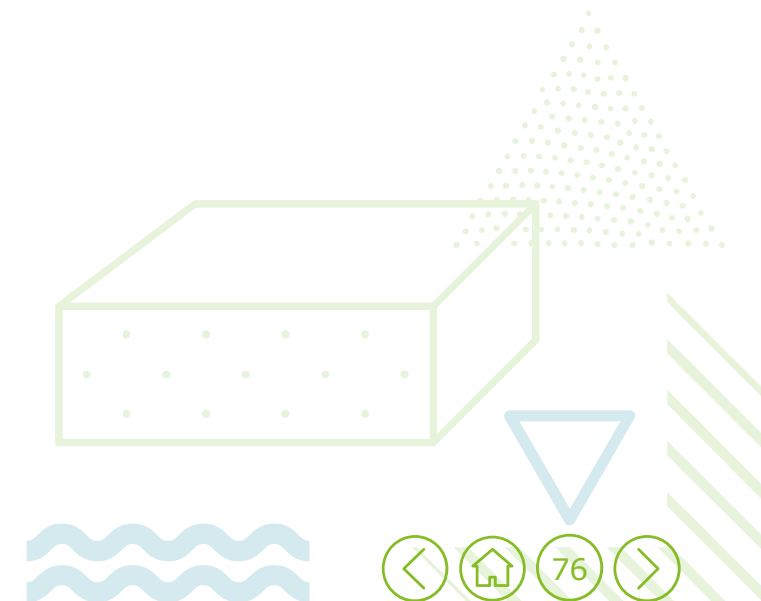
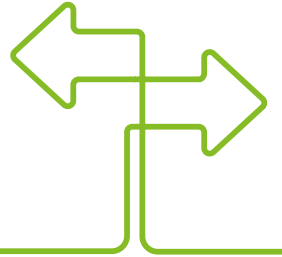
Miscellaneous Changes

- New tariff heading and relevant rates have been prescribed for wall fans, open cell for television set, unassembled solar cells, solar cells assembled in modules or made up in panels
- Certain redundant Custom Duty exemption notifications have been withdrawn
- Existing exemption notification to be pruned further after taking stakeholders' suggestion
- Anti-dumping duty withdrawn on Purified Terephthalic Acid" when imported from specified countries

Certain product-specific clarification technical in nature has been provided for the following products:

- Dyed woven fabric of yarn falling under CTH 5407 52
- Satellite/payloads
- Scientific and technical instruments

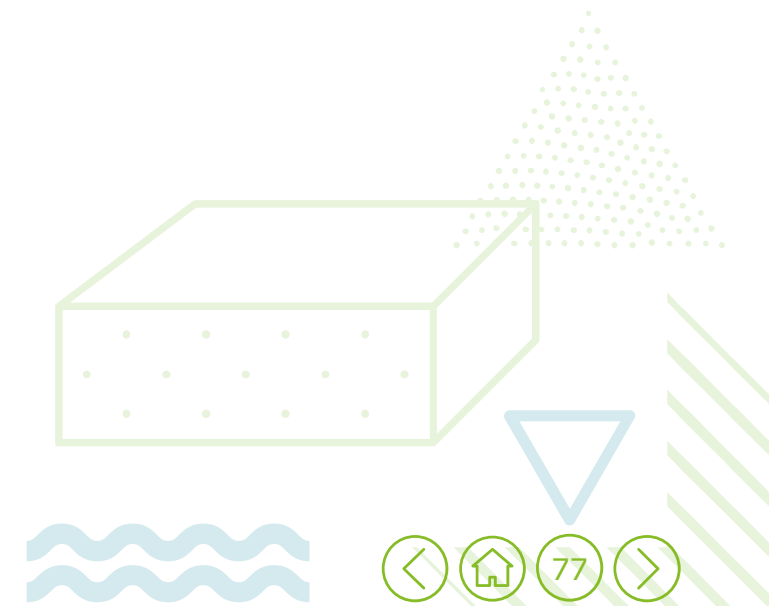
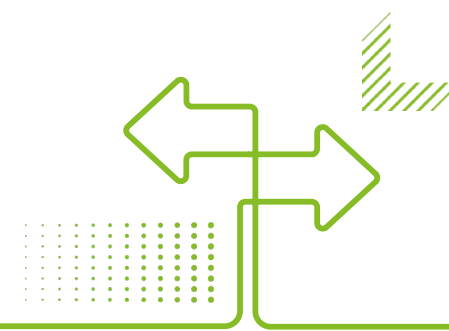
*Only key rate amendments have been captured



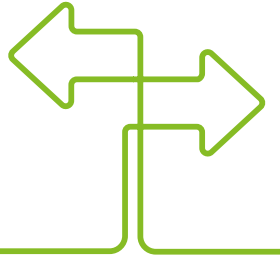
Goods and Services Tax

Introduction

- The FM termed GST as a historic structural reform in India.
- Key benefits of GST highlighted by the FM in her speech included the following:
 - Reduction in turnaround time of trucks due to abolition of check posts
 - 10 percent reduction in overall tax incidence with an average of 4 percent household savings
 - Increase in tax base with addition of 6 million taxpayers after certain teething issues in the initial two years
- The budget announcements contemplate a complete overhaul of the technological and compliance framework around GST, including the following:
 - Introduction of new simplified returns from 1 April 2020
 - Implementation of e-invoicing in phased manner
 - Aadhaar based verification of taxpayers
 - Dynamic quick response code for B2C invoices
 - Use of data analytics and AI tools for crackdown on fraudulent cases, including input tax credit and refunds
 - Review of GST rate structure to address issues, such as inverted duty structure



Goods and Services Tax



Legislative changes

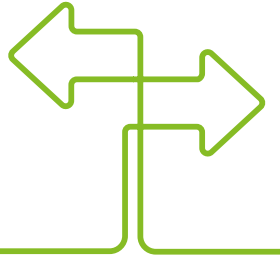
- Input tax credit: The time limit for availing input tax credit on debit notes is relaxed. This is done by delinking the date of issuance of debit note from the date of original invoice. The amendment can be understood with the help of the following example:

Particulars	Invoice date	Debit note date	Credit Eligibility
Prior to Amendment	31 March 2019	01 November 2019	Credit not available as the last date was 30 September 2019 basis the date of original invoice
Post amendment	31 March 2019	01 November 2019	Credit now available till 30 September 2020 basis the date of debit note (being treated as an independent document)

- Offences and penalties: The provisions governing offences and penalties are made more stringent. This has been done by broadening the scope of penal and prosecution provisions wherein, the beneficiaries are gaining benefits out of the specified offences and at whose instance such offences are conducted/committed will be:
 - Liable for penalty equivalent to tax evaded or credit availed/passed on
 - Liable for imprisonment with fine
- Fraudulent availment of input tax credit without an invoice or bill is now prescribed to be cognizable and non-bailable offence.
- Transition provisions: Enabling provisions governing the timelines of availment of transitional credit have been inserted in the GST law with retrospective effect from 1 July 2017, to overcome the argument of excessive legislation.



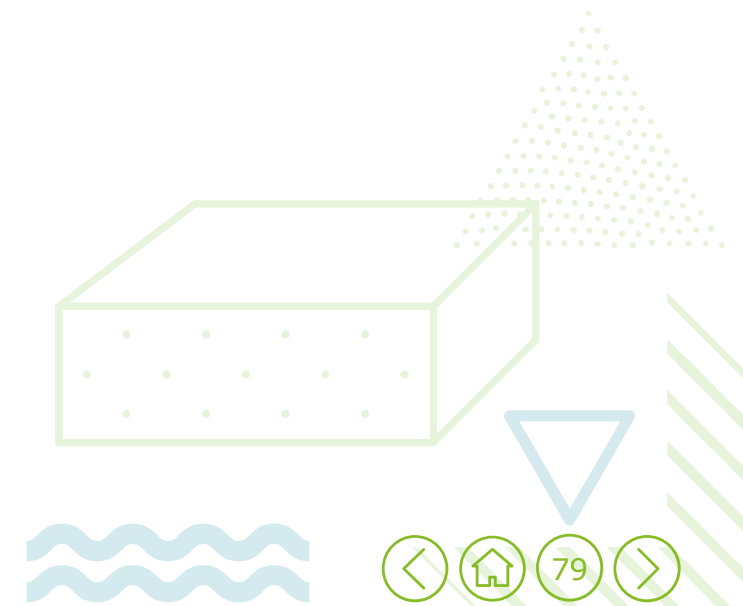
Goods and Services Tax



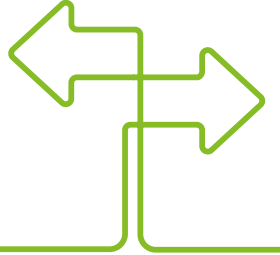
Legislative changes

Miscellaneous/procedural changes

- Taxpayers voluntarily registered under the GST laws are now allowed to apply for cancellation of registration.
- Additional/joint commissioner, commissioner empowered to extend the timelines for filing an application for revocation of cancellation of registration
- Enabling provision is inserted to provide for time and manner of issuance of invoice for specified category of supplies or services
- Provision prescribing time limit for issuance and resultant late fee for non issuance/delay in issuance of TDS certificate by the deductor is omitted. The government will prescribe a form and manner in which the TDS certificate shall be issued.
- Timelines, enabling the government to issue orders for removal of difficulties in implementation of provisions under GST laws, are extended from three years to five years from the date of commencement of the relevant GST statutes.
- The refund of accumulated credit of compensation cess on tobacco products arising out inverted duty structure disallowed with effect from 1 July 2017. This has been done by giving retrospective effect to the relevant notification dated 30 September 2019.



Goods and Services Tax



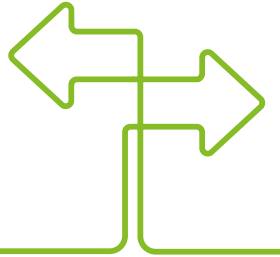
Tariff related changes

The following retrospective changes in tax rates have been made:

- Exemption granted for fishmeal from 1 July 2017 to 30 September 2019
- GST rate reduction on pulley, wheels, and other parts falling under Chapter heading 8483 and used as parts of specified agricultural machinery to 12 percent for period 1 July 2017 to 31 December 2018
- Under the aforesaid scenarios, no refund shall be granted if the tax has already been collected by the supplier

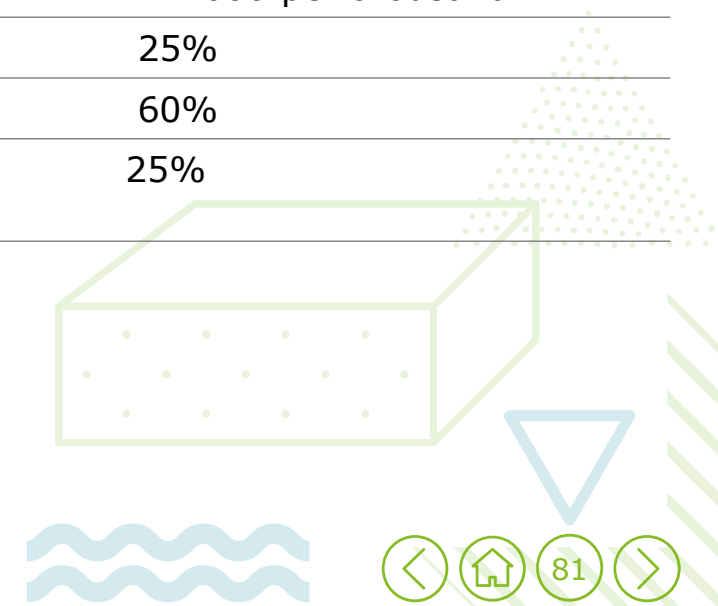


Central Excise Duty



Rate movement: Increase in NCCD rate for cigarettes and tobacco products

Description of goods	Rate up to 1 February 2020	Rate from 2 February 2020
Other than filter cigarettes of length: <ul style="list-style-type: none">• Not exceeding 65 mm• Exceeding 65 mm but not exceeding 70 mm	INR 90 per thousand INR 145 per thousand	INR 200 per thousand INR 250 per thousand
Filter cigarettes of length: <ul style="list-style-type: none">• Not exceeding 70 mm• Exceeding 70 mm but not exceeding 75 mm• Other	INR 90 per thousand INR 145 per thousand INR 235 per thousand	INR 440 per thousand INR 545 per thousand INR 735 per thousand
Cigarettes of tobacco substitutes	INR 150 per thousand	INR 600 per thousand
Hookah or gudaku tobacco	10%	25%
Smoking mixtures for pipes and cigarettes	45%	60%
Other manufactured tobacco products, such as chewing tobacco, Jarda scented tobacco, snuff, tobacco extracts, essence, etc.	10%	25%



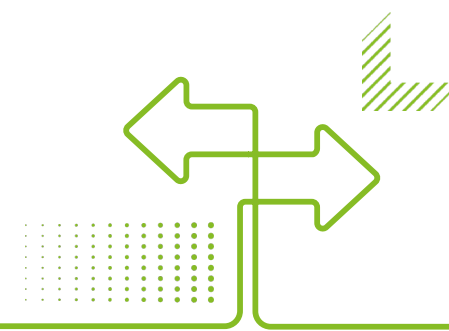
Regulatory Landscape

- Banking and finance sector
- Changes in FDI
- Securities laws
- Insolvency for financial service providers under IBC



Banking and finance sector

Guidelines for “on-tap” licensing for small finance banks in the private sector issued by RBI



Eligible promoters

- Individuals (Indian resident) with 10 years in FSI at senior level
- Private sector companies/societies, NBFC, MFI, LAB, Payments Bank (controlled by residents) with five years of experience
- Not allowed:
 - JV by different promoter group
 - Public sector entities and large business house (> INR 50 billion assets)¹
 - AIF

Scope of activities

- Can undertake basic banking services
- Non-risk sharing activities subject to RBI approval
- Act as Category II authorised dealer
- Promoters’ financial and non-financial services to be ring-fenced

Minimum capital requirement

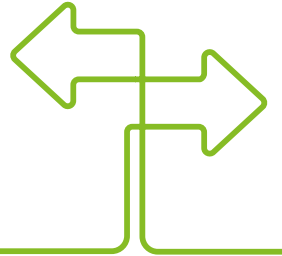
- Minimum paid-up capital of INR 2 billion
- Initial minimum capital requirement for Urban Cooperative Banks converting into SFB is INR 1 billion, which should be raised to INR 2 billion within five years of business commencement
- Minimum capital adequacy ratio of 15 percent of risk-weighted assets

¹ Non-FSI business accounting for > 40 percent in terms of total assets / gross income



Banking and finance sector

Guidelines for “on-tap” licensing for small finance banks in the private sector issued by RBI



Promoter's contribution

- Minimum initial paid-up voting equity capital of at least 40 percent² with a lock-in period of five years
- Minimum promoter contribution for converting NBFC, MFI, LAB, and UCB is capped at 26 percent instead of 40 percent with lock-in period of five years
- Promoter's stake to be reduced to 40 percent within five years to 30 percent within 10 years and 15 percent in 15 years
- Material change (10 percent or more) between the time of application till grant of bank license should be brought to RBI's prior notice. Further, any material change post grant of bank license will require prior RBI approval



Corporate structure

- Can either be set up as a standalone entity or under a holding company
- For holding company:
 - Promoter to set up an NOFHC or
 - Promoter to be registered as an NBFC – CIC
- Payments bank can function together with a SFB under the NOFHC structure
- SFB and NBFC/MFI cannot co-exist



Others

- Applicants to furnish viable business plans
- Preference to applicants who set up in a cluster of unbanked states/regions, such as north-east, east, and central regions
- Minimum 50 percent of loan portfolio constitute of loans of INR 2.5 million
- To meet CRR and SLR as maintained by commercial banks
- 75 percent priority sector lending requirement, with 40 percent Adjusted Net Bank Credit in various sub-sectors

² NBFC/MFI/LAB with promoter shareholding between 26 percent and 40 percent allowed to apply



Changes in FDI

Bifurcation of powers between the Government and RBI

- With a view to give the Government greater control over equity inflows in the country, Foreign Exchange Management (Non-debt Instruments) Rules, 2019 (NDI Rules) were notified on 17 October 2019 by MoF.
- Power to regulate debt instruments will continue to be under RBI's domain and will be governed by Foreign Exchange Management (Debt Instruments) Regulations, 2019 (DI Regulations).

Key features of new regime are summarised below:

- List of debt and non-debt instruments are specified as under:

Debt instruments (governed by RBI)

- Government bonds
- Corporate bonds
- All tranches of securitisation structure, which are not equity tranche
- Borrowings by Indian firms through loans
- Depository receipts whose underlying securities are debt securities

Non-debt instruments (governed by the Central Government)

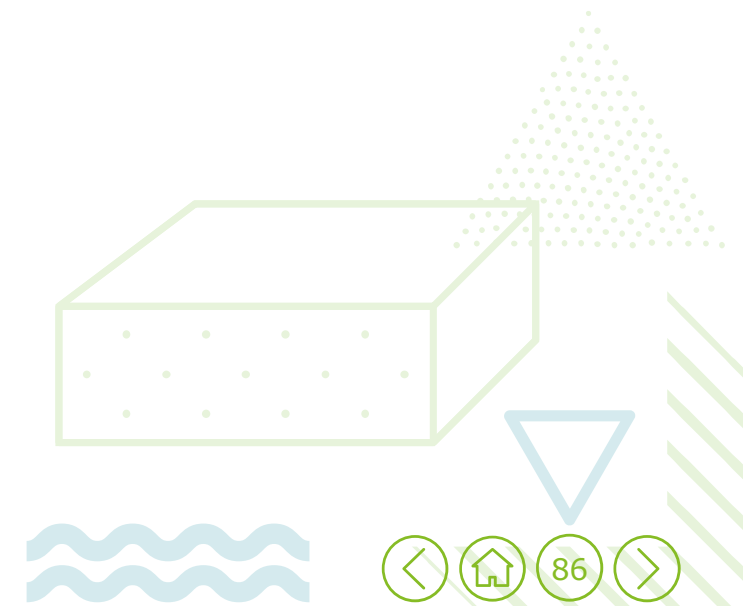
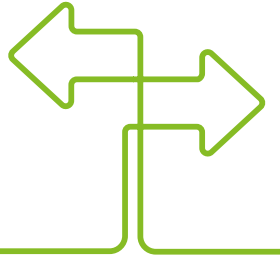
- All investments in equity in incorporated entities (public, private, listed, and unlisted)
- Capital participation in LLPs
- All instruments of investment as recognised in the FDI policy as notified from time to time
- Investment in units of AIFs, REITs and InVITs
- Investment in units of mutual funds and ETFs, which invest more than 50 percent in equity
- The junior-most layer (i.e., equity tranche) of securitisation structure
- Acquisition, sale of or dealing directly in immovable property
- Contribution to trusts
- Depository receipts issued against equity instruments



Changes in FDI

Bifurcation of powers between the Government and RBI

- FVCIs have been permitted to invest in equity, equity linked instruments or debt instruments of Indian start-ups (irrespective of the sector in which the start-up is engaged in).
- NRIs and OCI can also purchase or sell units of domestic mutual funds, which invest more than 50 percent in equity both on repatriation and non-repatriation basis, without any limit.
- Aggregate limit of investment by FPI of 24 percent in Indian company increased to respective sectoral cap/statutory ceiling, as applicable to the Indian Company, with effect from 1 April 2020. The companies may, however, increase or decrease the aggregate limit with the approval of its board of directors and its shareholders by a special resolution.
- NRIs and OCI can also purchase or sell exchange traded funds, which invest less than or equal to 50 percent in equity on repatriation and non-repatriation basis without any limit.



Changes in FDI

Sector-specific changes

The Government has liberalised the FDI in following sectors with effect from 5 December 2019:

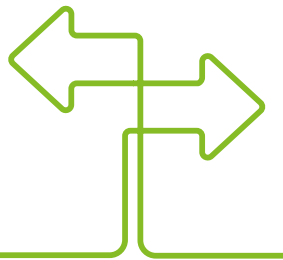
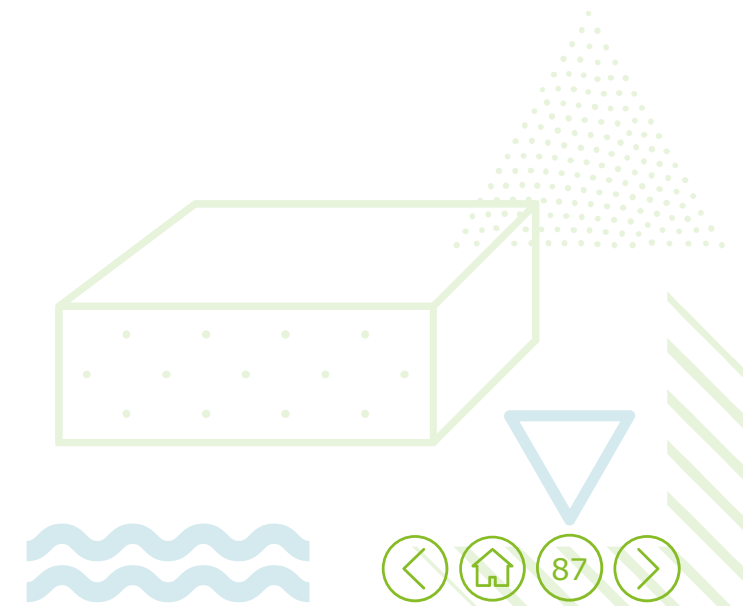
Coal and lignite: 100 percent FDI under automatic route permitted for the following:

- Sale of coal
- Coal mining activities, including associated processing infrastructure (which would include coal washery, crushing, coal handling, and separation [magnetic and non-magnetic])

Manufacturing: 100 percent FDI under the automatic route permitted in “contract manufacturing”

Digital media: FDI up to 26 percent permitted under government route for uploading or streaming of news and current affairs through digital media

E-commerce: E-commerce marketplace entity with FDI shall have to obtain and maintain a report of statutory auditor by 30 September every year for the preceding financial year confirming compliance of the e-commerce guidelines



Changes in FDI

Sector-specific changes

Single Brand Product Retail

Trading (SBRT): 100 percent FDI under automatic route is permitted:

- For FDI of more than 51 percent, sourcing of 30 percent of value of goods procured shall be done from India. Further, the local sourcing requirements can be met as an average during the first five years, and thereafter on an annual basis towards its India operations. Further, local sourcing requirements can be met as under:
 - All procurements made from India by the SBRT entity for that single brand shall be counted towards 30 percent local sourcing, irrespective of whether the goods procured are sold in India or exported

- Sourcing of goods from India for global operations can now be done directly by the entity undertaking SBRT or its group companies (resident or non-resident) or indirectly by them through a third party under a legally tenable contract; and
- To consider the entire sourcing from India for global operations for meeting the 30 percent local sourcing requirements

- Retail trading through e-commerce can also be undertaken prior to opening of brick and mortar stores, subject to the condition that the entity opens brick and mortar stores within two years from date of start of online retail



Securities laws

Relaxation in debt investment norms for FPIs and re-opened the VRR

On 23 January 2020, RBI announced a few relaxations in the General Investments Limits route. It increased the limits under VRR and re-opened the allocation of investment limits under VRR.

General Investment Limits route:

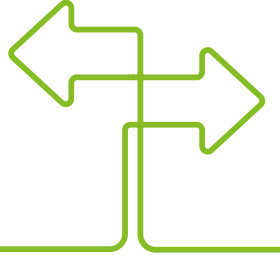
- **Existing framework:** At any point in time, an FPI's investment in bonds maturing within one year should not exceed 20 percent of its total investment in the respective category of bonds (e.g., government securities, corporate bonds)

- **Relaxation:** The 20 percent threshold mentioned above has been increased to 30 percent, which means an FPI's investment in bonds maturing within one year can go upto 30 percent of the FPI's total investment in the respective category of bonds
- **Existing framework:** FPI investments in security receipts are not subject to following restrictions applicable to corporate debt investments:
 - At the time of investment, the debt instrument should have minimum residual maturity of at least one year

- At any point in time, investments in securities maturing within one year should not exceed 20 percent (now 30 percent) of FPI's total portfolio in corporate debt securities
- Investment by a single FPI or a group of related FPIs should not exceed 50 percent of the issue size of a debt security



Securities laws



Relaxation in debt investment norms for FPIs and re-opened the VRR

- **Relaxation:** Henceforth, the above mentioned exemptions will also apply to investments in the following securities:
 - Investments in debt instruments issued by asset reconstruction companies
 - Debt instruments issued by an entity under the CIRP as per the resolution plan approved by the NCLT under the IBC

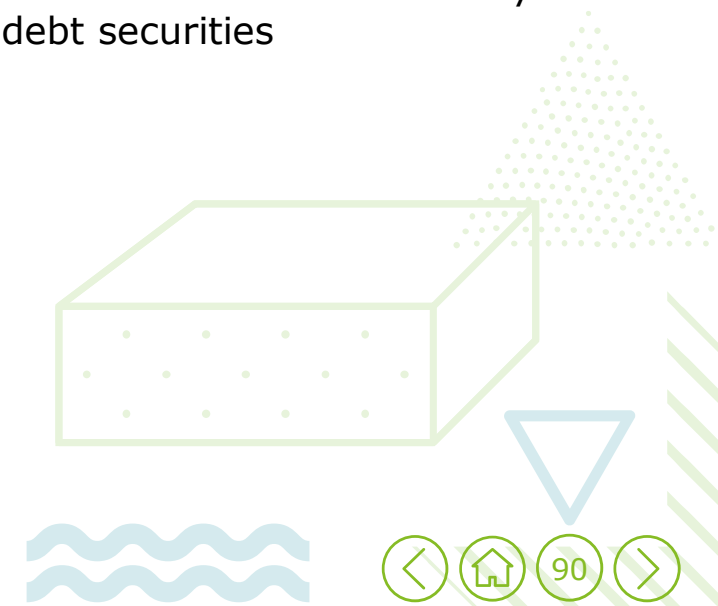
VRR:

The relaxations/amendments in the VRR framework are as follows:
The allocation of limits that were hitherto available upto 31 December 2019 has been re-opened effective 24 January 2020.

- The overall investment limits have been increased from INR 750 billion to INR 1.5 trillion

- FPIs that have been allotted investment limits under VRR can transfer their investments made under the general investments limits to VRR
- Though mutual fund investments are not permitted under VRR, investments in exchange traded funds have been specifically allowed the ETF invests only in debt securities

This relaxation brings all types of debt investments in stressed assets in par with security receipts.



Insolvency for financial service providers under IBC

Framework on insolvency of financial service providers under IBC

On 15 November 2019, the Government extended the scope of IBC to cover FSPs and notified Insolvency and Bankruptcy Proceedings of Financial Service Providers (FSP) and Application to Adjudicating Authority) Rules, 2019 (Rules) for insolvency resolution and liquidation proceedings of NBFCs including HFCs with asset size of INR 5 billion or more.

The key highlights of Rules are as follows:

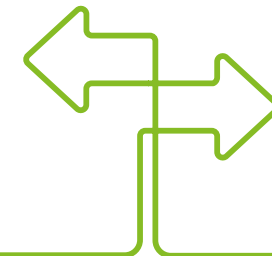
- **CIRP of FSPs:**

- CIRP of a FSP, who has committed a default per IBC, shall be initiated only based on an application made by the appropriate regulator, i.e., RBI and it shall be dealt with by the adjudicating authority, i.e., NCLT
- NCLT shall appoint an individual as an administrator proposed by RBI who shall act as an insolvency professional, interim resolution professional, resolution professional or liquidator, as the case may be

- Interim moratorium from the date of filing of the application of CIRP by RBI until its admission or rejection by NCLT. However, the business of FSP remains uninterrupted and its license or registration shall not be suspended or cancelled during interim moratorium
- Such moratorium shall not apply to any third-party assets or properties in custody or possession of the FSP.
- The administrator has been empowered to take control and custody of such assets/properties, only for the purpose of dealing with them in the manner as may be notified by the Government.



Insolvency for financial service providers under IBC



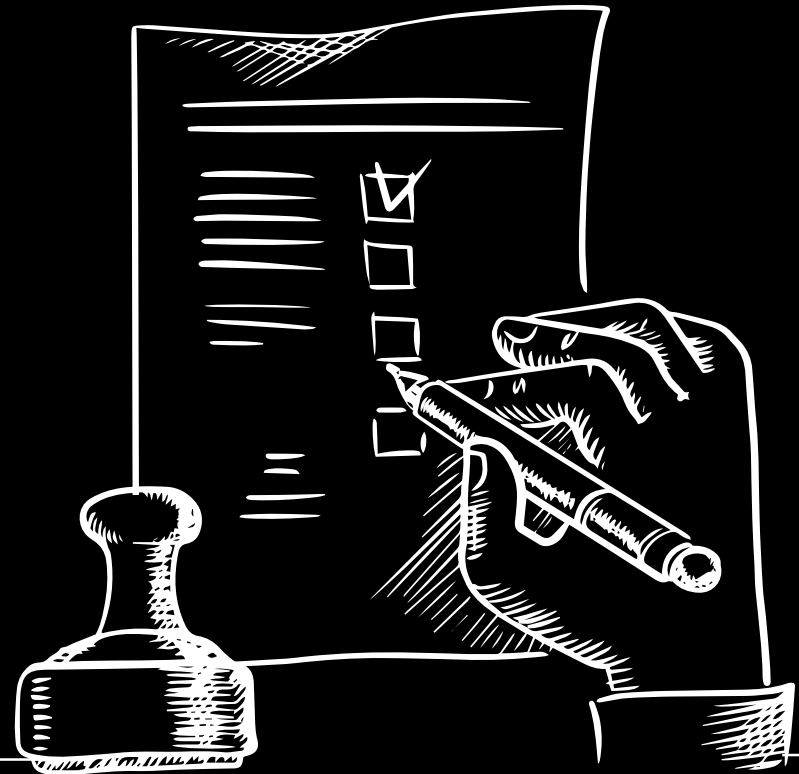
Framework on insolvency of financial service providers under IBC

- RBI may constitute an advisory committee of three or more experts within 45 days of the insolvency commencement date, if deemed necessary, to advise the administrator in the operations of the FSP during CIRP.
 - Once a resolution plan has been approved by the Committee of Creditors, the administrator shall seek a “no objection” from RBI to the effect that it has no objection to the persons, who would be in control or management of FSP after approval of the resolution plan.
- **Voluntary liquidation/dissolution:**
 - FSP is required to obtain a prior permission of RBI before initiating voluntary liquidation.
 - NCLT shall provide RBI with an opportunity of being heard before passing an order for liquidation or dissolution of FSP under IBC.

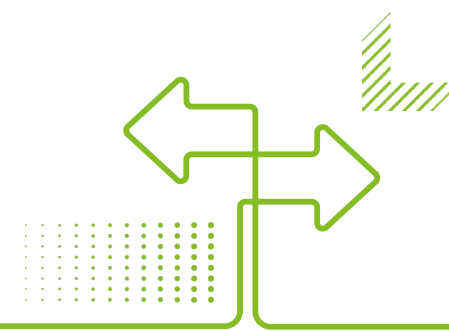


Policy Updates

- Banking and finance
- Foreign investment
- Securities laws
- IFSC
- Others

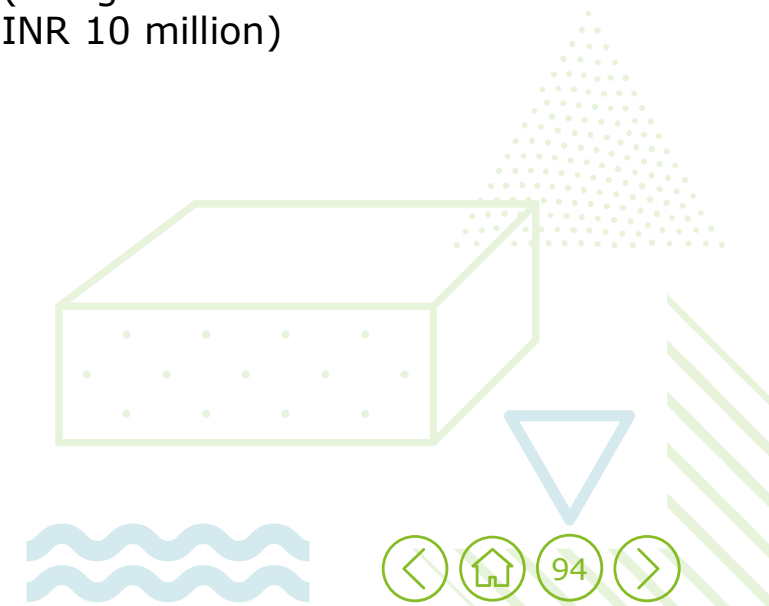


Policy updates

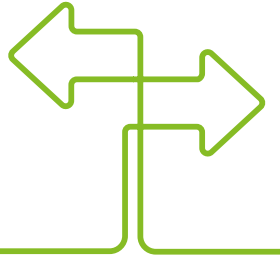


Banking and finance

- Factor Regulation Act, 2011 to be amended to enable NBFCs (not registered as NBFC-factors) to extend invoice financing to the MSMEs through TReDS
- To enhance working capital credit for MSME entrepreneurs, a scheme to be introduced to provide subordinate debt by banks
- To address the liquidity constraints of the NBFCs/HFCs, existing Partial Credit Guarantee scheme introduced in Union Budget 2019-20 for NBFCs to be further supported by devising a mechanism, wherein the Government will offer support by guaranteeing securities so floated
- Governance reforms to be carried out in PSU banks to make them more competitive and certain PSU banks to be encouraged to approach capital market to raise additional capital
- DICGC permitted to increase Deposit Insurance Coverage for a depositor, which is now INR 1,00,000 to INR 5,00,000 per depositor
- Banking Regulation Act, 1949 to be amended to strengthen the Cooperative Banks' regulatory framework and governance norms
- Debt recovery under SARFAESI will now also be available to NBFCs with asset size of INR 1 billion (as against current threshold of INR 5 billion) or loan size of INR 5 million (as against current threshold of INR 10 million)



Policy updates



Foreign investment

- To attract skilled teachers, innovate, and build better labs steps to be taken to enable sourcing of ECBs and FDI to deliver higher quality education
- Investment Clearance Cell to be set up through a portal to provide “end to end” facilitation and support, including pre-investment advisory, information related to land banks and facilitate clearances at centre and state level
- Specified categories of government securities would be opened fully for non-resident investors

Securities laws

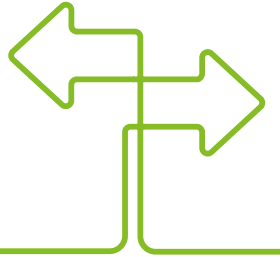
- Limit for FPI investment in corporate bonds to be increased to 15 percent of the outstanding stock of corporate bonds (as against existing threshold of 9 percent)
- To improve investors’ confidence, and to expand the scope of credit default swaps, new legislation to be introduced for providing a mechanism for netting of financial contracts
- The Government to float a new debt ETF consisting primarily government securities

IFSC

- International Bullion exchange(s) to be set up in GIFT-IFSC as an additional option for trade by global market participants
- Stamp duty exemption proposed for instruments of transaction in stock exchanges and depositories established in any IFSC



Policy updates



Others

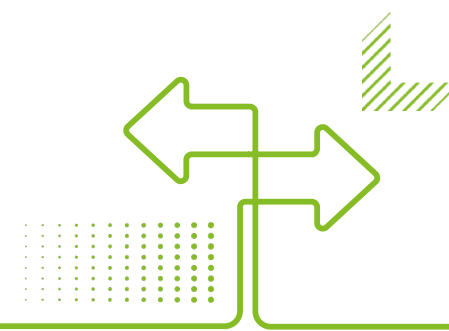
- Companies Act, 2013 and other laws will be amended to do away with criminal liability for acts that are civil in nature
- Amendments to be carried out in Pension Fund Regulatory and Development Authority Act, 2013 to facilitate separation of NPS trust for government employees from PFRDA
- To promote affordable housing projects, the date of approval of affordable housing projects for availing tax holiday (presently 31 March 2020) extended by one more year



Glossary



Glossary



AAR	Authority for Advance Rulings	CAD	Current account deficit
Act	The Income-tax Act, 1961	CAT	Common Admission Test
ADR	American Depository Receipt	CbCR	Country-by-Country Report
AE	Associated Enterprises	CBDT	Central Board of Direct Taxes
AGM	Annual General Meeting	CCR, 2004	CENVAT Credit Rules, 2004
AIBP	Accelerated Irrigation Benefits Programme	CENVAT	Central Value Added Tax
AIF	Alternative Investment Fund	CETA	Central Excise Tariff Act, 1985
AML	Anti money laundering legislation	CG	Capital Gain
AMT	Alternate Minimum Tax	CGT	Central Government
AO	Assessing Officer	CIC	Core Investment Company
AOP	Association of Persons	CIT	Commissioner of Income Tax
APA	Advance Pricing Agreements	CIT(A)	Commissioner of Income Tax (Appeals)
ARE	Alternate Reporting Entity	CKD	Completely Knocked Down
AY	Assessment Year	CPSE	Central public sector enterprise
BBT	Buy Back Tax	CSR	Corporate Social Responsibility
BCD	Basic Customs Duty	CTA	Covered Tax Agreements
BEPS	Base Erosion and Profit Shifting	CTT	Commodity Transaction Tax
BOE	Bill of Entry	CVD	Counter Vailing Duty
BOI	Body of Individuals	DAPE	Dependent Agent Permanent Establishment
CAAR	Customs Authority for Advance Ruling	DDT	Dividend Distribution Tax



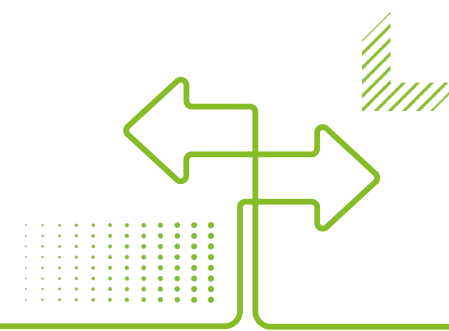
Glossary



DGH	Director General of Hydrocarbon	FTP	Foreign Trade Policy
DIPP	Department of Industrial Policy and Promotion	FTS	Fees for Technical Services
DRP	Dispute Resolution Panel	FVCI	Foreign Venture Capital Investor
DTA	Domestic Tariff Area	FY	Financial Year
DTAA	Double Taxation Avoidance Agreements	GAAR	General Anti-Avoidance Rules
DTC	Direct Tax Code	GDP	Gross Domestic Product
EC	Health and Education Cess	GDR	Global Depository Receipt
ECB	External Commercial Borrowings	GIFT	Gujarat International Finance Tec City
EOU	Export Oriented Units	GOI	Government of India
EPF	Employees' Provident Fund	GST	Goods and Services Tax
EPFS	Employee Provident Fund Scheme, 1952	GSTN	Goods and Services Tax Network
FDI	Foreign Direct Investment	GTA	Goods Transport Agent
FEMA	The Foreign Exchange Management Act, 1999	GTI	Gross Total Income
FERA	Foreign Exchange Regulations Act	HC	High Court
FII	Foreign Institutional Investor	HUF	Hindu Undivided Family
FIPB	Foreign Investment Promotion Board	IBC	The Insolvency and Bankruptcy Code, 2016
FMV	Fair Market Value	ICDS	Income Computation and Disclosure Standards
FPI	Foreign Portfolio Investor	IFC	Internal financial controls
FTC	Foreign Tax Credit	IFSC	International Financial Services Centre
FTCR	Foreign Tax Credit Rules	IGST	Integrated Goods and Services Tax



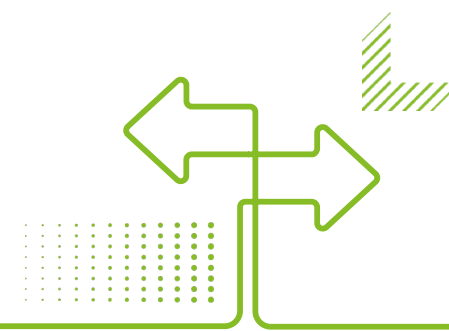
Glossary



Ind AS	Indian Accounting Standards	MTM	Marked to Market
InvIT	Infrastructure Investment Trusts	NABARD	National Bank For Agriculture & Rural Development
InvIT Regulations	SEBI (Infrastructure Investment Trusts) Regulations 2019	NAV	Net Asset Value
IT Rules	Income-tax Rules, 1962	NBFC	Non Banking Financial Company
ITAT	Income Tax Appellate Tribunal	NOC	No Objection Certificate
ITC	Input Tax Credit	NONG	non oil, non gold
LED	Light Emitting Diode	NPA	Non Performing Assets
LLP	Limited Liability Partnership	NPS	National Pension Scheme
LOB	Limitation of Benefit	NR	Non-Resident
LTCG	Long Term Capital Gains	NRE	Non-Resident External
MAP	Mutual Agreement Procedures	NRI	Non-Resident Indian
MAT	Minimum Alternate Tax	NTRO	National Technical Research Organisation
MCA	Ministry of Corporate Affairs	OCI	Overseas Citizen of India
MCAA	Multilateral Competent Authority Agreement	ODI	Outward Direct Investment
MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act	OECD	Organization for Economic Cooperation and Development
MLI	Multilateral Instrument	PAN	Permanent Account Number
MSME	Micro, Small and Medium Enterprise	PCBA	Printed circuit board assembly
MSP	Minimum Support Price	PE	Permanent Establishment
MT	Metric ton	PMLA	Prevention of Money Laundering Act, 2002
		POEM	Place of Effective Management



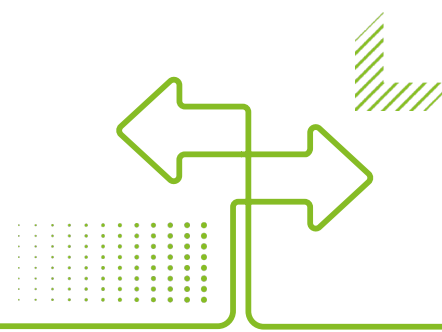
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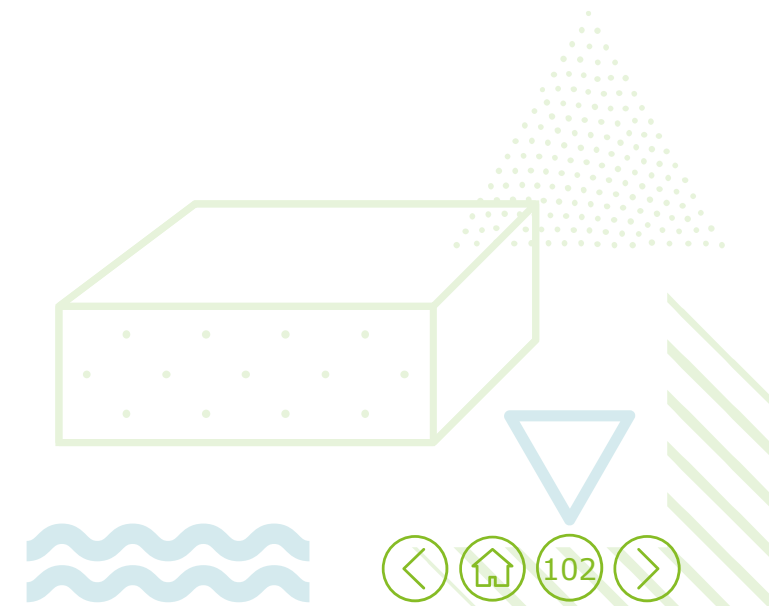
PPT	Principal Purpose Test	SC	Supreme Court
PY	Previous Year	SCM	Settlement Commission
QFI	Qualified Foreign Investor	SCN	Show cause notice
QIB	Qualified Institutional Buyers	SCRA	The Securities Contracts (Regulation) Act, 1956
R&D	Research and Development	SEBI	The Securities and Exchange Board of India
R&I	Road & Infrastructure cess	SEP	Significant Economic Presence
RBI	Reserve Bank of India	SEZ	Special Economic Zone
RCS	Regional Connectivity Scheme	SFT	Statement of Financial Transactions
RDBs	Rupee Denominated Bonds	SHEC	Secondary and Higher education cess
REER	Real effective exchange rate	SLM	Straight Line Method
REIT	Real Estate Investment Trust	SLP	Special Leave Petition
RO	Reverse Osmosis	SME	Small and Medium Enterprise
ROC	Registrar of Companies	SPV	Special Purpose Vehicle
RPT	Related Party Transaction	SR	Security Receipts
SAD	Special additional duty	STCG	Short-term Capital Gain
SARFAESI	The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002	STT	Securities Transaction Tax
SAT	Securities Appellate Tribunal	SWS	Social Welfare Surcharge
SBO	Significant beneficial owner	TA	Tax Authorities
SBRT	Single Brand Retail Trading	TAN	Tax Deduction / Collection Account Number
		TCS	Tax Collected at Source



Glossary



TDS	Tax Deducted at Source
TPO	Transfer Pricing Officer
TP	Transfer Pricing
VCF	Venture Capital Fund
VO	Valuation Officer
WOS	Wholly Owned Subsidiary





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