



UNION BUDGET 2019

MANIAN & RAO
CHARTERED ACCOUNTANTS

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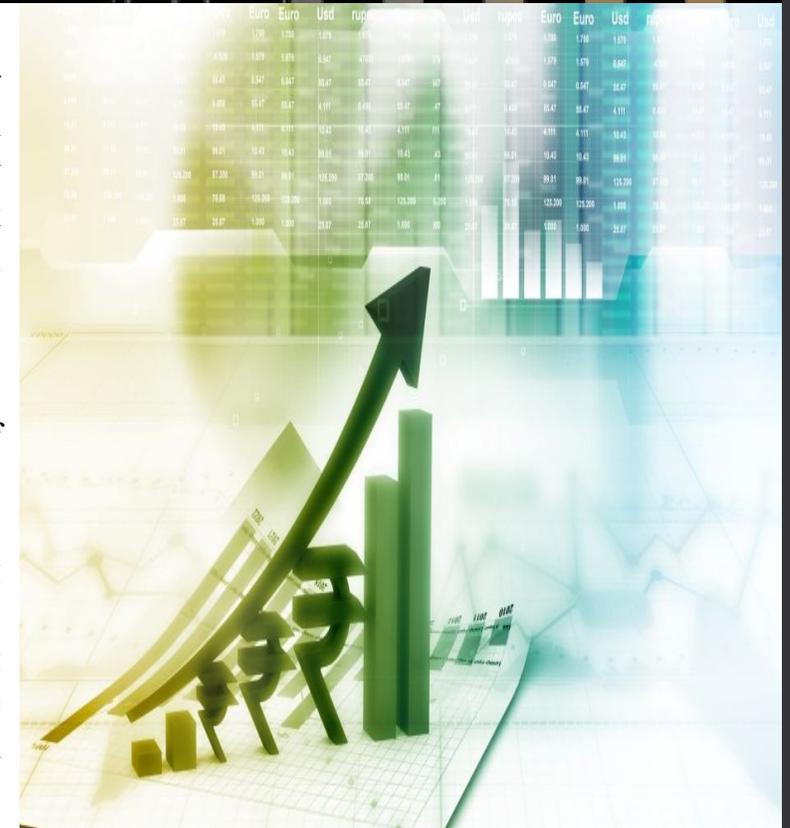


Foreword

The Union Budget 2019-20 presented by the Honourable Finance Minister on July 05, 2019 holds special significance being the first full fledged budget of the current Government coming into power for the consecutive second term. Between 2014-19, the Central Government has provided a rejuvenated Centre-State dynamism, cooperative federalism and a strident commitment to fiscal discipline. They have set the ball rolling for a New India, planned and assisted by the NITI Aayog, a broad-based think tank. They have also shown through their deeds that the principle “**Reform, Perform, Transform**” can succeed.

This budget lays down the blueprint to catapult India to a **US\$ 5Tn Economy** by 2024, and a **US\$ 3Tn Economy** by end of fiscal 2019-20. The Central Government proposes a number of initiatives as part of a framework for kick-starting the virtuous cycle of domestic and foreign investments.

The Budget reflects a vision for the next three to five years and lays down the roadmap for making India, an investment-driven economy. It specially focuses on strengthening the country’s infrastructure, uplifting the rural economy (with a focus on agriculture), fostering gender inclusiveness by empowering women, creating world class education system, supporting MSMEs and revival of NBFC and the banking sector. It emphasizes the importance of partnering with India Inc. to ensure all-round development.



Foreword

In the Union Budget Speech, our Honourable Finance Minister presented the Vision of Government for the Decade. The ten point Vision presented is as follows:

1. Building Physical and Social Infrastructure;
2. Digital India reaching every sector of the economy;
3. Pollution free India with green Mother Earth and Blue Skies;
4. Make in India with particular emphasis on MSMEs, Start-ups, defence manufacturing, automobiles, electronics, fabs and batteries, and medical devices;
5. Water, water management and clean Rivers;
6. Blue Economy;
7. Space programmes, Gaganyaan Chandrayan and Satellite Programmes;
8. Self Sufficiency and export of food-grains, pulses, oilseeds, fruits and vegetables;
9. Healthy Society – Ayushman Bharat, Well-Nourished Women and Children, Safety of citizens;
10. Team India with Jan Bhagidari, Minimum Government Maximum Governance.



To sum up, the Budget provisions aim to balance priority and give direction to the economy.

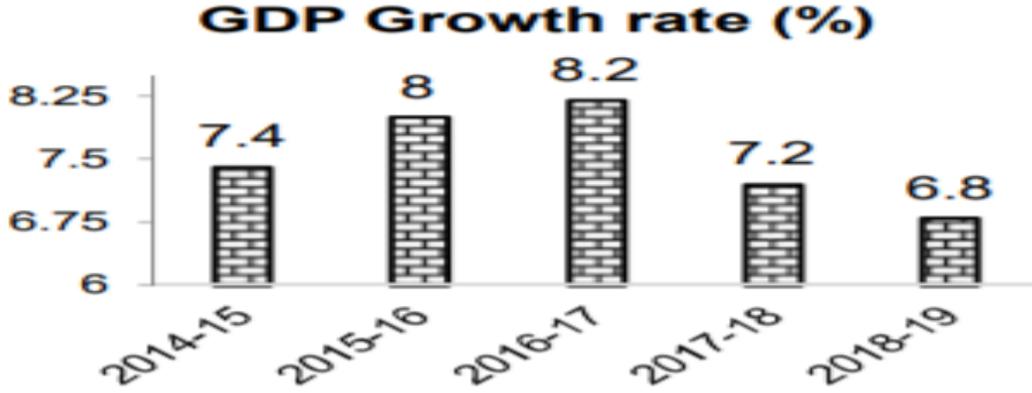
GDP Growth

Indian economy is losing its steam in the wake of global slowdown and elections due to which the GDP growth for Q4 2018-19 hit a 17 Quarter low at a mere 5.8% and GDP for FY 2018-19 was at 6.8% which was lowest growth rate in the last 5 years.

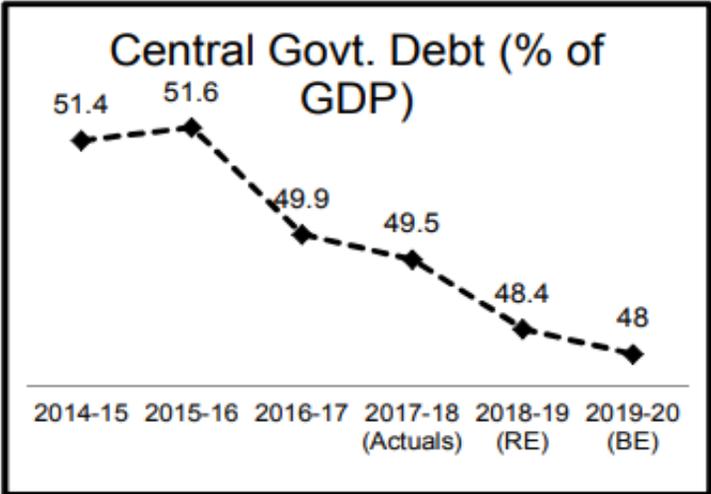
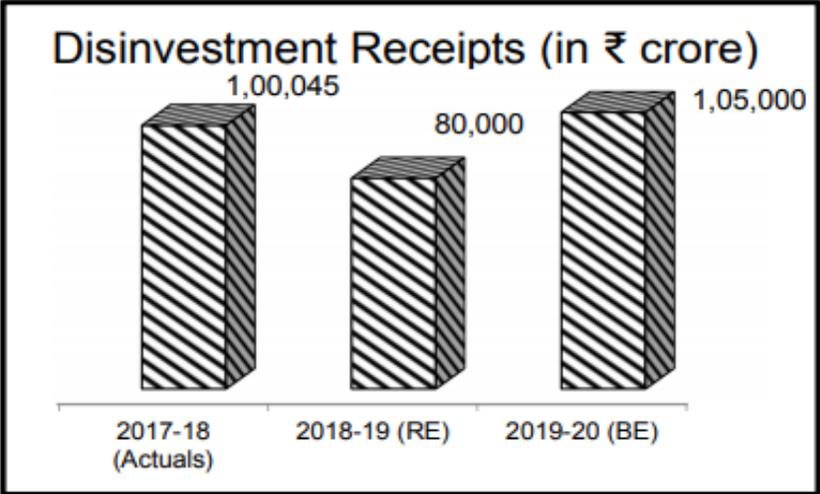
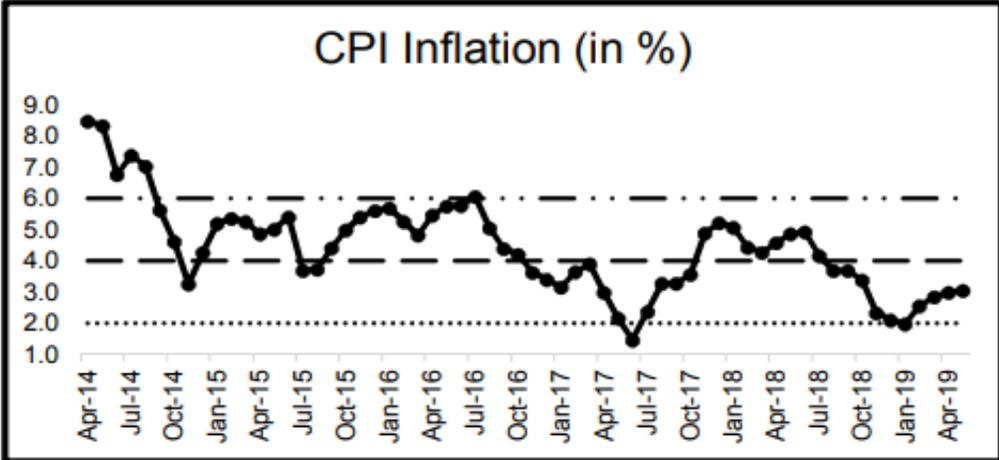
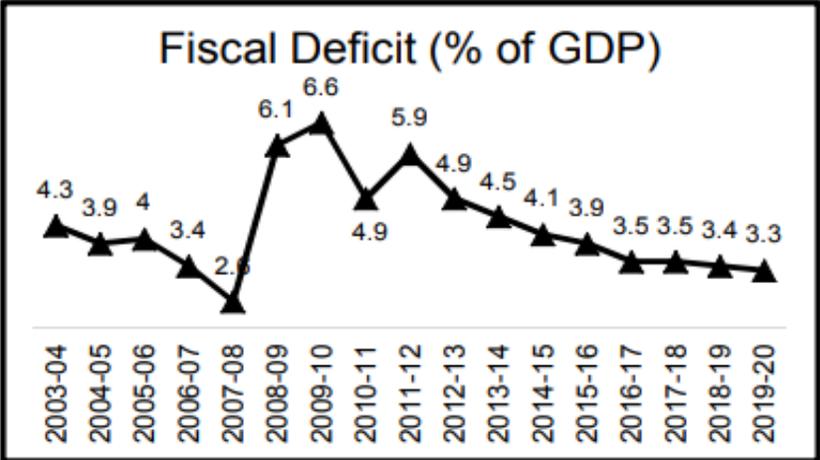
On the back of high crude oil prices, foreign portfolio outflows and the US dollar index in 2018, the Indian Rupee witnessed depreciation. The Indian Rupee tumbled to an all time low of 74.48 in October 2018.

On the Global front, The global economy is expected to pick-up in the second half of 2019 based on improved global financial market sentiments and easing of trade war tensions.

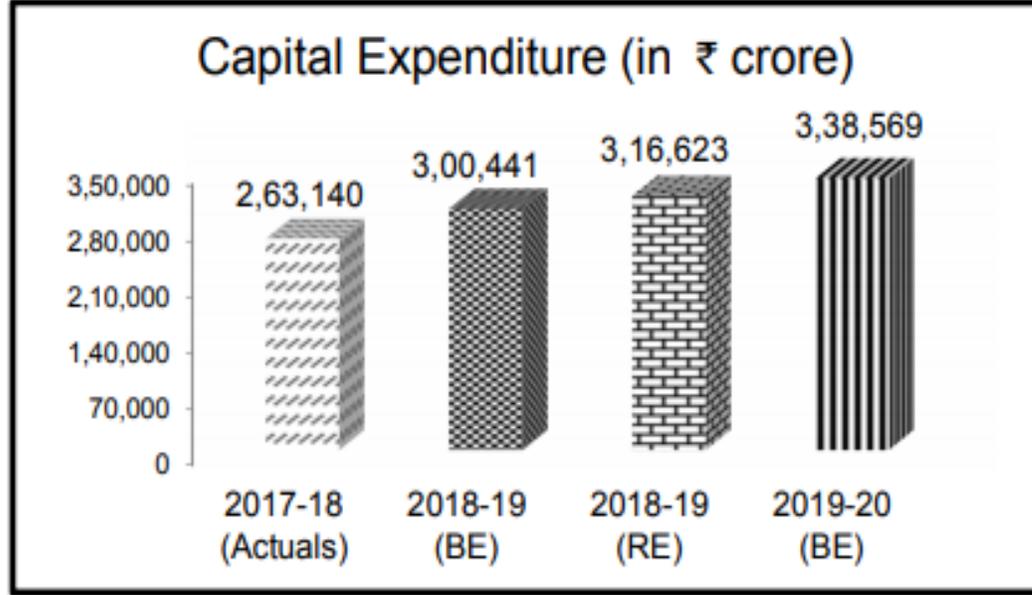
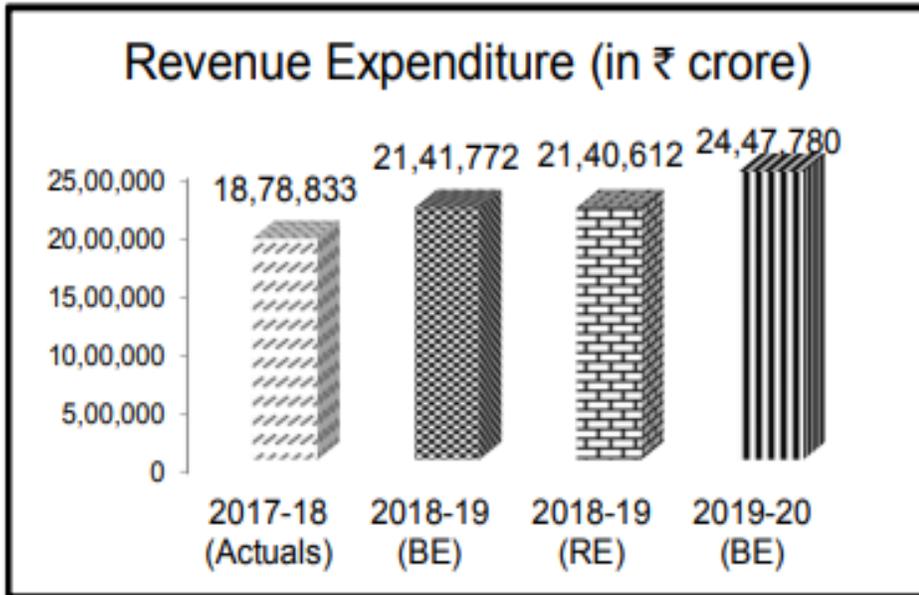
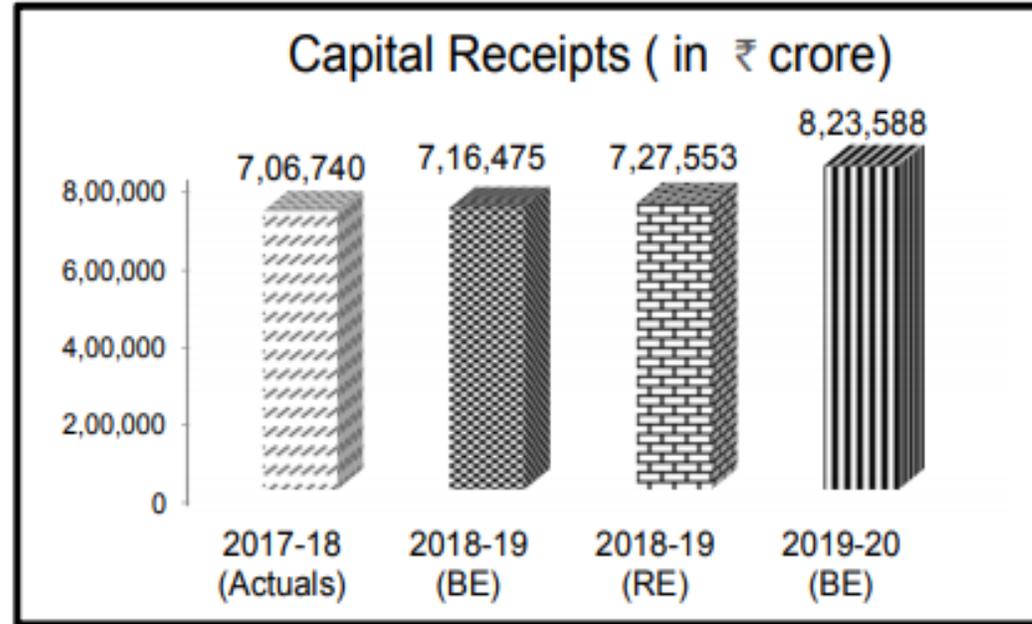
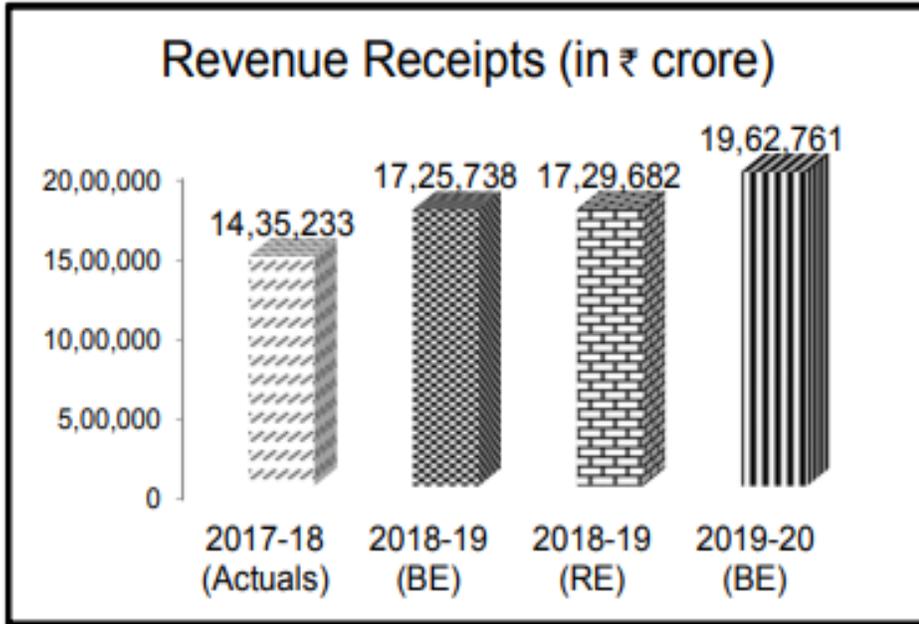
Indian Economy has moved from being the 11th largest economy in FY 2013-14 to the 6th largest economy in FY 2018-19 and continues to be the fastest growing major economy in the World.



ON THE PATH OF FISCAL CONSOLIDATION AND INFLATION MANAGEMENT

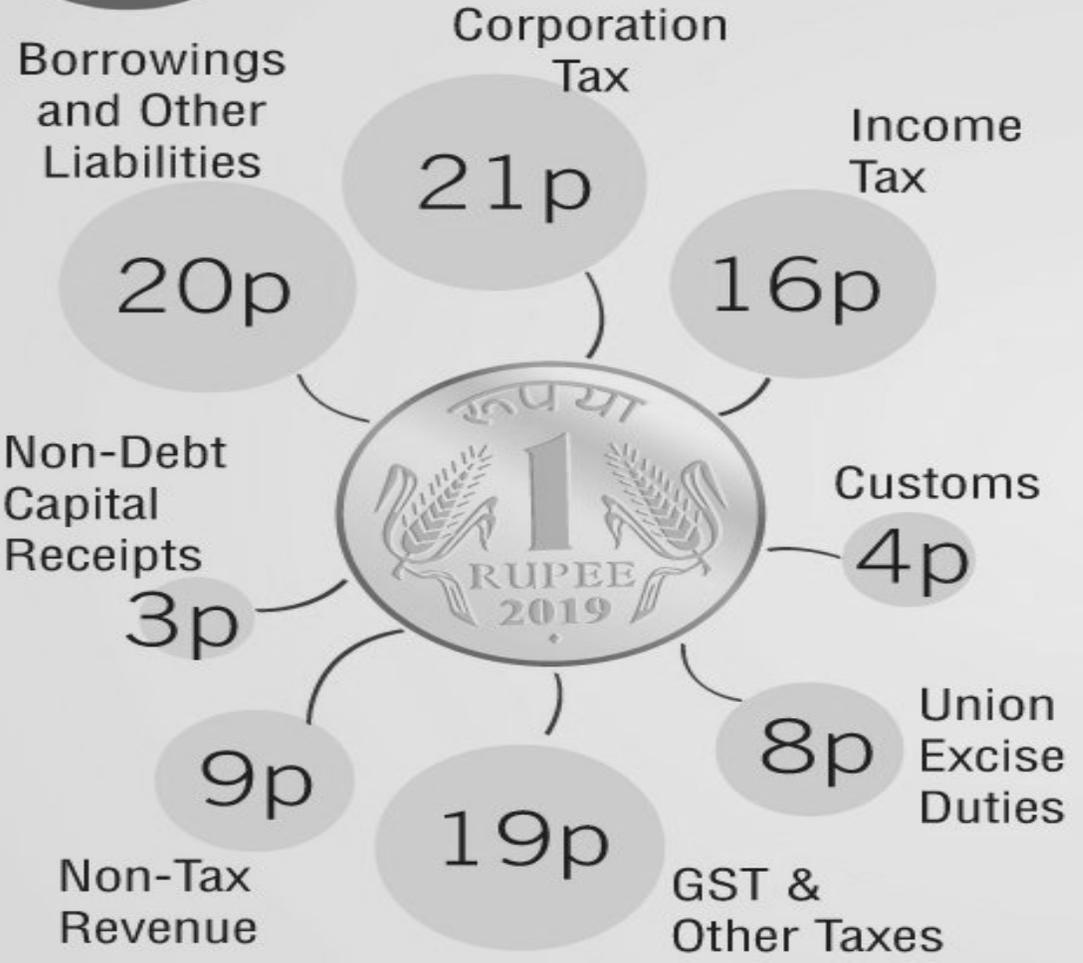


Also, India's sovereign external debt to GDP ratio amongst the lowest globally at less than **5%**.

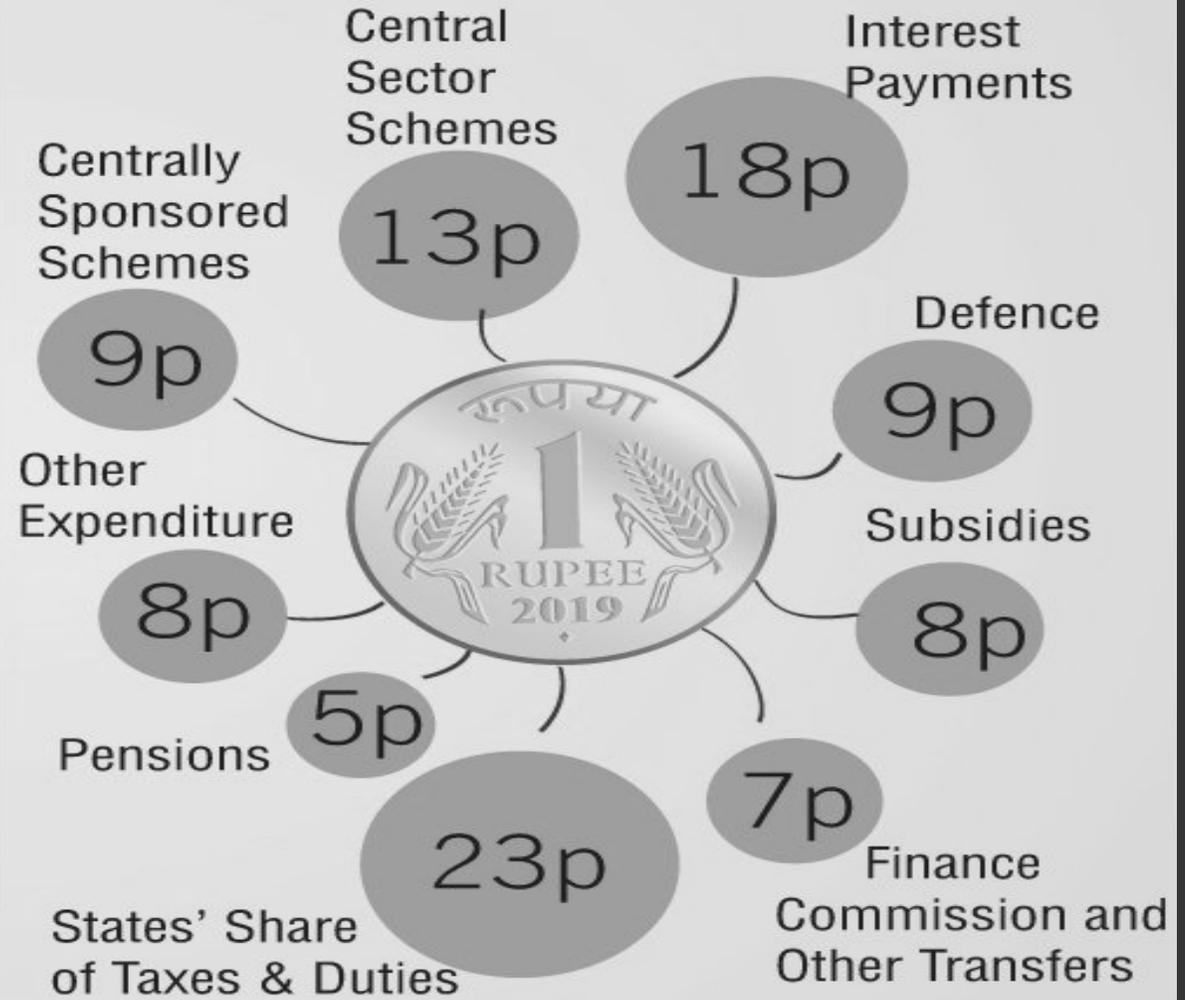




Rupee comes from



Rupee goes to



Source: Press information bureau

Infrastructure

“Connectivity is the life blood of an economy”

- Massive push to all forms of Physical Connectivity to improve logistics, reduce cost and increase competitiveness.
- Enactment of various programmes such as Pradhan Mantri Gram Sadak Yojana, Industrial corridors, dedicated freight corridors, Bharatmala, Sagarmala, Jal Marg Vikas and UDAN Schemes to enhance and connect all parts of the nation.
- State roads to be developed in second phase of Bharatmala.
- Blueprint to make India a hub for aircraft financing and leasing activities from Indian shores.
- Policy under progress to achieve self reliance in vital aviation segment of Maintenance, Repair and Overhaul (MRO).
- Approval of new metro rail Projects, leading to operationalising of 657 kms of metro rail network across the country.
- Railway infrastructure to be completed in record time by implementing Public-Private-Partnership.

Digitalization

“New Connected India”

- KYC norms to be made investor friendly for FPIs without compromising cross-border capital flows
- Pre-Filled ITR Returns in case of Salaries, Capital Gains from Securities, Bank Interest etc.
- A scheme of faceless Income tax assessment in electronic mode is being launched this year in phases.
- Cases selected for scrutiny shall be allocated to assessment units in a random manner and notices shall be issued electronically by a Central Cell, without disclosing the name, designation or location of the Assessing Officer.
- BharatNet will ensure connectivity of Internet to Villages and Gram panchayat.
- Companies having turnover more than INR 50 Crore are mandatorily required to provide customers with electronic payment option.
- TDS to be deducted at 2% if cash withdrawal in excess of INR 1 Crore from a bank account in a financial year to encourage less cash economy.

Foreign Direct Investment

“The world is at India”

- FDI up to 100% will be allowed for insurance intermediaries such as brokers, corporate agents and third party administrators.
- The local sourcing norms under FDI guidelines to be relaxed for single-brand retail trading sector
- The Government will examine suggestions of further opening up of FDI in aviation, media (animation, AVGC) and insurance sectors in consultation with all stakeholders.



Micro Small and Medium Enterprises

“The Growth Engine of the Nation”

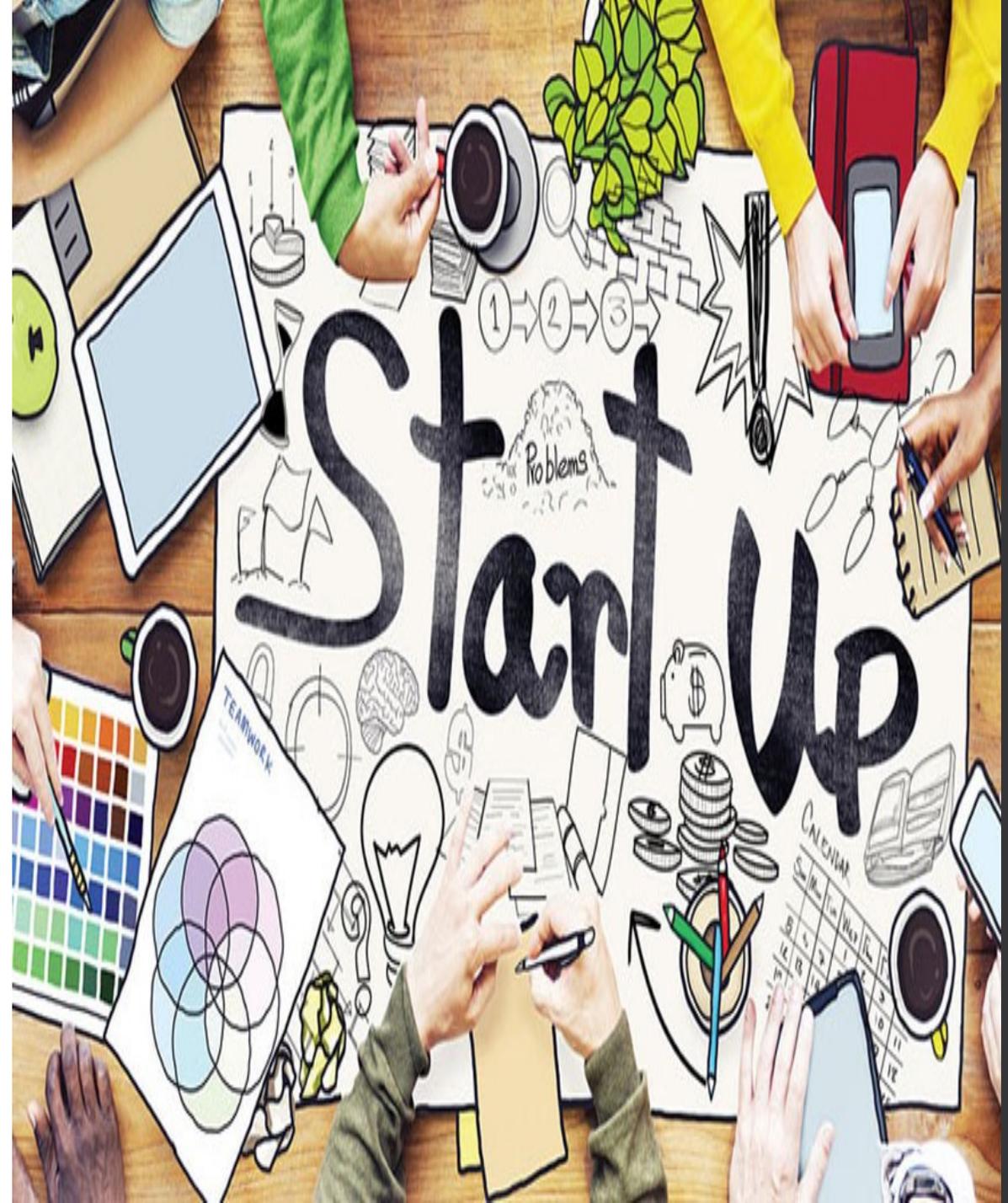
- Dedicated online portal has been set-up to disburse loans up to INR 1 Crore in less than 59 minutes.
- Interest subvention of up to 2% to all GST Registered MSMEs.
- Web platform to be developed to enable MSMEs to lodge the invoice and request payment from the Government/ Government Departments.
- Pradhan Mantri Karam Yogi Mandhan Scheme enacted to provide pension to small shopkeepers and traders having annual turnover of up to INR 1.5 Crore.



Start-Ups

“ Think Tank of the New India”

- ‘Angel Tax Issue’ – the start ups and their investors who file requisite declarations and provide information in their returns will not be subjected to any kind of scrutiny in respect of valuations of share premium.
- Special administrative arrangements shall be made by CBDT for pending assessments and redressal of their grievances. It will ensure that no inquiry or verification in such cases can be carried out by the Assessing officer without the approval of the Supervising Officer.
- Start-ups are not required to justify fair market value of their shares issued to certain investors including Category-1 Alternative Investment Funds (AIF) which is now also extended to category II AIF. Therefore, valuation of shares issued to these funds shall be beyond the scope of income tax scrutiny.
- Relaxation in carry forward of Business loss and Set off losses under Section 79.
- Period of Extension for capital gains exemption on sale of house property for purpose of investment in start up is extended till 31/3/2021.



Personal Income Tax

Tax Rates: Individual / Hindu Undivided Family / Association of Persons / Body of Individuals / Artificial Juridical Person for AY 2020-21

Rates of Income Tax:

| Income Slab (INR) | Individual | | | HUF / AOP / BOI |
|-------------------------------|------------------|------------------------|---------------------------|-----------------------|
| | Age <60 years | Age >60 & <80 years | Age 80 years and above | |
| Upto 2.5 Lakh | NIL | NIL | NIL | NIL |
| Above 2.5 lakh upto 3 lakh | 5% | NIL | NIL | 5% |
| Above 3 lakh upto 5 lakh | 5% | 5% | NIL | 5% |
| Above 5 lakh upto 10 lakh | 20% | 20% | 20% | 20% |
| Above 10 lakh | 30% | 30% | 30% | 30% |

Surcharge and Effective Tax Rate*:

| Income Slabs (INR) | Surcharge Rates | Health and Education Cess | Effective tax rate |
|-------------------------------|--------------------|------------------------------|-----------------------|
| Upto 50 Lakh | NIL | 4% | 31.20% |
| Above 50 Lakh upto 1 Crore | 10% | 4% | 34.32% |
| Above 1 Crore upto 2 Crore | 15% | 4% | 35.88% |
| Above 2 Crore upto 5 Crore | 25% | 4% | 39.00% |
| Above 5 Crore | 37% | 4% | 42.74% |

*For Individuals aged below 60 years.

Personal Income Tax

National Pension Scheme (NPS):

Under current provisions of Section 10, any payment received from the NPS Trust to an assessee on closure of his account or his opting out of pension scheme, to the extent it does not exceed 40% of the total amount payable to him on such closure / opting out is exempt from tax. It is now proposed to amend the said section to increase the exemption from current 40% to 60% of the total amount payable to him on such closure / opting out.

Section 80CCD provides for deduction in respect of the whole amount contributed by the Central Government or any other employer to the NPS account of the employee as does not exceed 10% of the salary. This limit is now proposed to increase from 10% to 14% of the contribution made by the Central Government.

With a view to provide Tax saving investments to Central Government employees it is proposed to amend section 80C so as to allow deduction in respect of contribution made by the Government employee to his Tier-II NPS Account.

The above amendments are applicable from 1st April, 2019 and will apply to AY 2020-21



Personal Income Tax

Affordable Housing:

Tax incentive for first time home buyers is proposed to enable them to have access to low cost funds for purchase of residential house property. A new section 80EEA is inserted to provide Interest deduction up to INR 1.5 lakhs on loan borrowed from any financial institution subject to below conditions:

- Loan is sanctioned by a financial institution during the period 1st April,2019 to 31st March,2020
- Stamp duty value of house property does not exceed INR 45 Lakhs.
- Assessee does not own any residential house property on the date of sanction of loan.

This amendment is applicable from 1st April,2019 and will apply to AY 2020-21 and subsequent AY's

Deduction under section 80EEA is in addition to deduction under section 24.



Personal Income Tax

Capital gains exemption if investment made in Start-up:

The existing provisions of the section 54GB provides for roll over benefit in respect of capital gain arising from the transfer of a long-term capital asset, being a residential property owned by the eligible assessee. To be able to get benefit of this provision, the assessee is required to utilize the net consideration for subscription in the equity shares of an eligible company before the due date of filing of the return of income. The assessee is required to have more than 50% share capital or more than 50% voting rights after the subscription in shares in the eligible company. The said section, *inter alia*, puts restriction on transfer of assets acquired by the company for five years from the date of acquisition. Currently the benefit of this section was only available for investment in the equity shares of eligible start-ups and that period also got over on 31st March 2019. Thus, at present no benefit is available for residential property transferred after 31st March 2019. In order to incentivise investment in eligible start-ups, it is proposed to amend the said section so as to-

1. extend the sun set date of transfer of residential property for investment in eligible start-ups from 31st March 2019 to 31st March 2021.
2. relax the condition of minimum shareholding of fifty per cent of share capital or voting rights to twenty five per cent.
3. relax the condition restricting transfer of new asset being computer or computer software from the current five years to three years.

This amendment will take effect from 1st April, 2020 and will, accordingly, apply in relation to the assessment year 2020-21 and subsequent assessment years.



Personal Income Tax

Tax relief in case of Salary arrears or advance:

Section 89 provides relief in tax payment where an assessee is in receipt of salary in arrears or advance in any one financial year as a result of which his total income is assessed at a rate much higher than at what it would have otherwise have been assessed if such income was received in the appropriate financial year.

Example: Mr. Hemanth is entitled to a salary of INR 2.5 Crore in FY 2018-19. However he received INR 2 Crore in FY 2018-19 and balance salary arrear of INR 0.5 Crore in FY 2019-20. Assuming his CTC is same in FY 2019-20.

Tax impact on Salary arrear of INR 0.5 Crore:

| Particulars | 2018-19 | 2019-20 |
|------------------|------------|------------|
| CTC | 2.5 Crore | 2.5 Crore |
| Salary Arrear | - | 0.5 Crore |
| Tax Bracket | 30% | 30% |
| Surcharge | 15% | 25% |

The comparison of Tax rate from the table shows that the arrear amount should have been assessed with surcharge of 15% however due to its receipt in immediately succeeding financial year the surcharge has increased to 25%.

Section 89 provides relief in such cases where there is an increase in tax liability due to change in tax rates in respect of salary arrear.

This section was not mentioned in sections dealing with computation of tax liability after allowing credit of prepaid taxes, credits, reliefs etc. which resulted in hardships to taxpayers eligible for this relief. Hence provisions like Section 234A, 234B, 234C, 140, 143 are now amended to allow relief under Section 89 when computing tax liability.

This amendment is applicable retrospectively from AY 2007-08 and subsequent AY's

Personal Income Tax

TDS on non-exempt proceeds of Life Insurance Policy:

Erstwhile any sum received under a life insurance policy (other than those exempt under section 10) attracted TDS at 1% on the whole sum. This provision created lot of difficulties to assessee as tax was being deducted on whole amount and not on the Income component.

It is proposed to amend Section 194DA to change the TDS computation and percentage from 1% on whole amount to **5% on the income component**. The same is illustrated below in Table 1:

Table 1:

| Particulars | Existing | Proposed |
|----------------------------------|----------|----------|
| A. Life Insurance proceeds (INR) | 20 Lakh | 20 Lakh |
| B. Total Premium Paid | 17 Lakh | 17 Lakh |
| C. Net Income | 3 Lakh | 3 Lakh |
| D. TDS % as per Section 194DA | 1% on A | 5% on C |
| E. TDS Amount | 20,000 | 15,000 |

From the Table 1 mentioned alongside the impact of the change in method of computation and change in percentage of Section 194DA is clearly evident.

This amendment will be effective from 1st September, 2019 and will apply from AY 2020-21

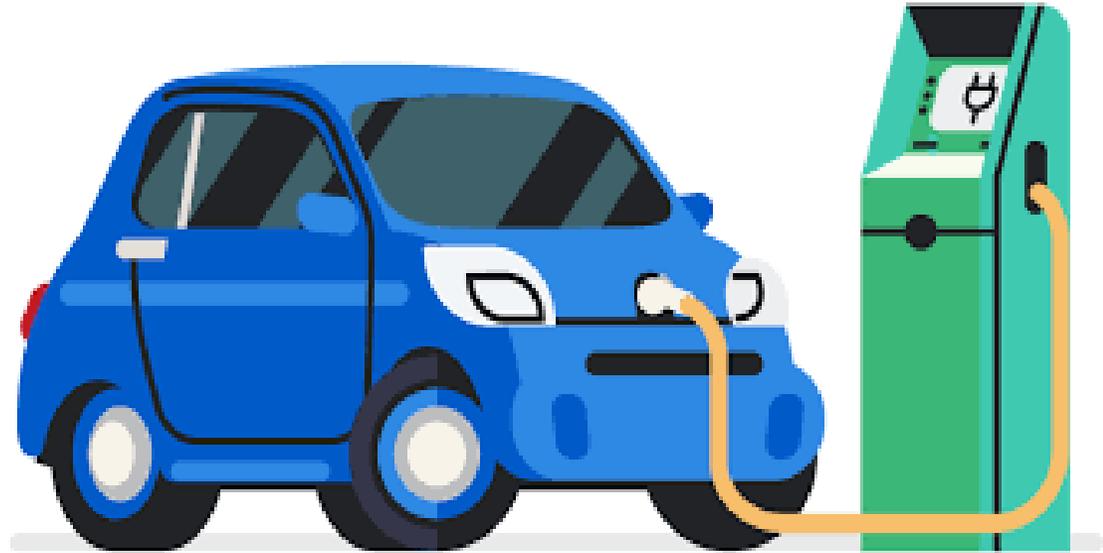
Personal Income Tax

Tax incentive for purchase of Electric Vehicle:

In line with the vision of Green India and to reduce pollution, Section 80EEB is inserted to allow deduction in respect of loan taken for purchase of electric vehicle from any financial institution up to INR 1.50 Lakh subject to the below conditions:

- Loan has been sanctioned by a Financial Institution including NBFC during the period beginning on 1st April 2019 to 31st March 2023.
- Assessee does not own any other electric vehicle on the date of sanction of loan

This amendment will be effective from AY 2020-21



Deemed accrual of gift made to a person outside India:

Non-Residents are taxable in India in respect of income that accrues or arises in India or is received in India or is deemed to accrue or arise in India or is deemed to be received in India. Currently a gift of money or property is taxed in the hands of the recipient of the gift in accordance with section 56(2)(x).

Hence, it is proposed to provide that income of the nature referred to in 2(24)(xviii) viz any sum of money or value of property transferred as gift covered under section 56(2)(x), on or after 5th July, 2019 by a person resident in India to a person resident outside India shall be deemed to be accrue or arise in India. The existing provisions for exempting gifts under section 56(2)(x) will continue to be applicable. Wherever required, DTAA shall continue to apply.

This amendment will be effective from AY 2020-21

Personal Income Tax

Mandatory filing of ITR on satisfying certain conditions:

Currently, As per Section 139 every person being a company or firm or a person other than a company or a firm if his total income exceeds the maximum amount not chargeable to tax shall file a return of his income in accordance within the time limit so prescribed.

As a result a person entering into high value transactions is not necessarily required to furnish his return of income unless his total income exceeds the maximum amount not chargeable to tax. To ensure that persons who enter into certain high value transactions furnish their return of income, it is proposed to amend section 139 of the Act so as to provide that a person shall be mandatorily required to file his return of income, if during the previous year, he has

- Deposited an amount or aggregate of the amounts exceeding INR 1 Crore annually in one or more current account **or**
- Incurred expenditure on foreign travel for an amount or aggregate amount exceeding INR 2 lakh for self or any other person **or**
- Incurred electricity expenditure of an amount or aggregate amounts exceeding INR 1 lakh in a year **or**
- Fulfillment of other prescribed conditions.

Currently, a person claiming rollover benefit of exemption from capital gains tax on investment in specified assets like house, bonds etc., is not required to furnish a return of income, if after claim of such rollover benefits, his total income is not more than the maximum amount not chargeable to tax. In order to make furnishing of return compulsory for such persons, it is proposed to amend section 139 to provide that a person who is claiming such rollover benefits on investment in a house or a bond or other assets, under sections 54, 54B, 54D, 54EC, 54F, 54G, 54GA and 54GB of the Act, shall necessarily be required to furnish a return, if before claim of the rollover benefits, his total income is more than the maximum amount not chargeable to tax.

This amendment will be effective from AY 2020-21

Corporate Income Tax

Tax Rates: Indian Company and Foreign Company for Assessment Year 2020-21

| Type of Companies | Base Tax rate | Income up to INR 1 Crore | | | Income above INR 1 Crore up to INR 10 Crore | | | Income above INR 10 Crore | | |
|---|---------------|--------------------------|---------------------------|--------------------|---|---------------------------|--------------------|---------------------------|---------------------------|--------------------|
| | | Surcharge | Health and Education Cess | Effective tax rate | Surcharge | Health and Education Cess | Effective tax rate | Surcharge | Health and Education Cess | Effective tax rate |
| Domestic companies (Turnover up to INR 400 Crore in FY 2017-18) | 25% | NIL | 4% | 26% | 7% | 4% | 27.82% | 12% | 4% | 29.12% |
| Other Domestic Companies | 30% | NIL | 4% | 31.20% | 7% | 4% | 33.38% | 12% | 4% | 34.94% |
| Foreign Companies | 40% | NIL | 4% | 41.60% | 2% | 4% | 42.43% | 5% | 4% | 43.68% |

Note:

1. Effective tax rate is including Health and Education cess at 4% on Income Tax and Surcharge
2. There is change in turnover criteria for domestic companies eligible for taxation at 25% i.e. from INR 250 Crore to INR 400 Crore.

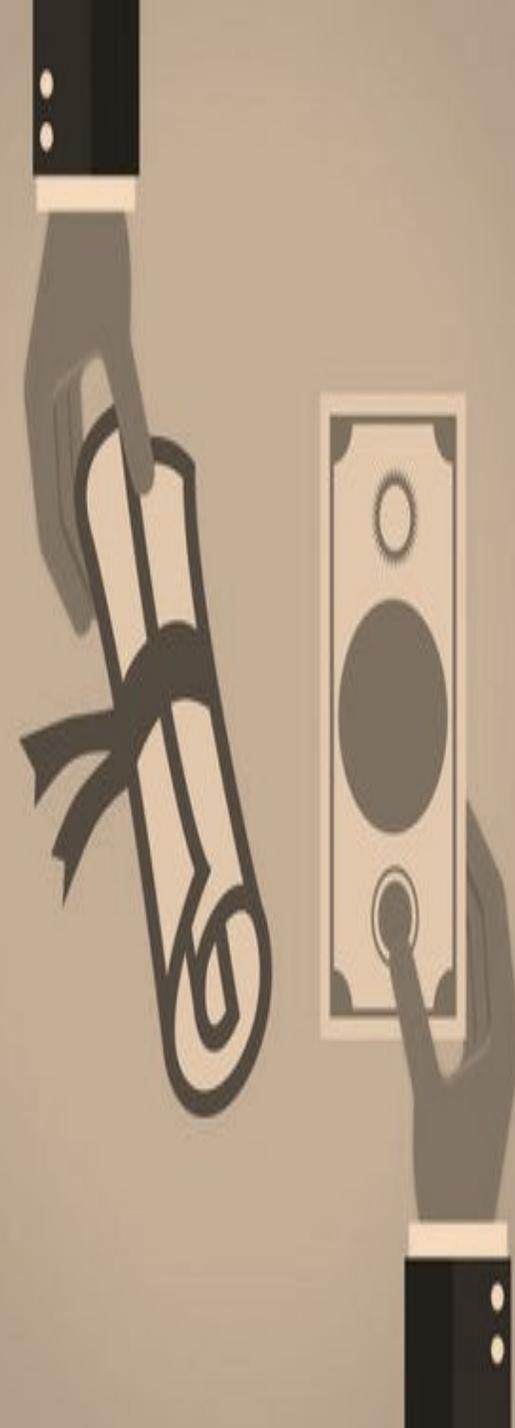
Corporate Income Tax

Taxation Threshold Increased: All domestic companies having annual sales turnover up to INR 400 crore to be taxed at 25% as against the earlier threshold of INR 250 crore, this amendment will cover 99.3% of the companies and only 0.07% companies will remain outside this rate.

Buy-Back Tax: Section 115QA provides for the levy of additional Income-tax at the rate of 20% of the distributed income on account of buy-back of unlisted shares by the company. As additional income-tax has been levied at the level of company, the consequential income arising in the hands of shareholders has been exempted from tax under

This section was introduced as an anti-abuse provision to check the practice of unlisted companies resorting to buy-back of shares instead of payment of dividends. This practice of widespread abuse was noted, in the past, amongst unlisted companies where the taxpayers preferred it for tax avoidance, as tax rate for capitals gains was lower than the rate of Dividend Distribution Tax (DDT). However, instances of similar tax arbitrage have now come to notice in case of listed shares as well, In order to curb such tax avoidance practice the existing anti abuse provision under Section 115QA of the Act, pertaining to buy-back of shares from shareholders by companies not listed on a recognized stock exchange, is proposed to be extended to all companies including companies listed on recognized stock exchange.

Thus, any buy back of shares from a shareholder by a company listed on recognized stock exchange, on or after 5th July 2019, shall also be covered under section 115QA and exemption under 10(34A) will be extended to shareholders of the listed company.



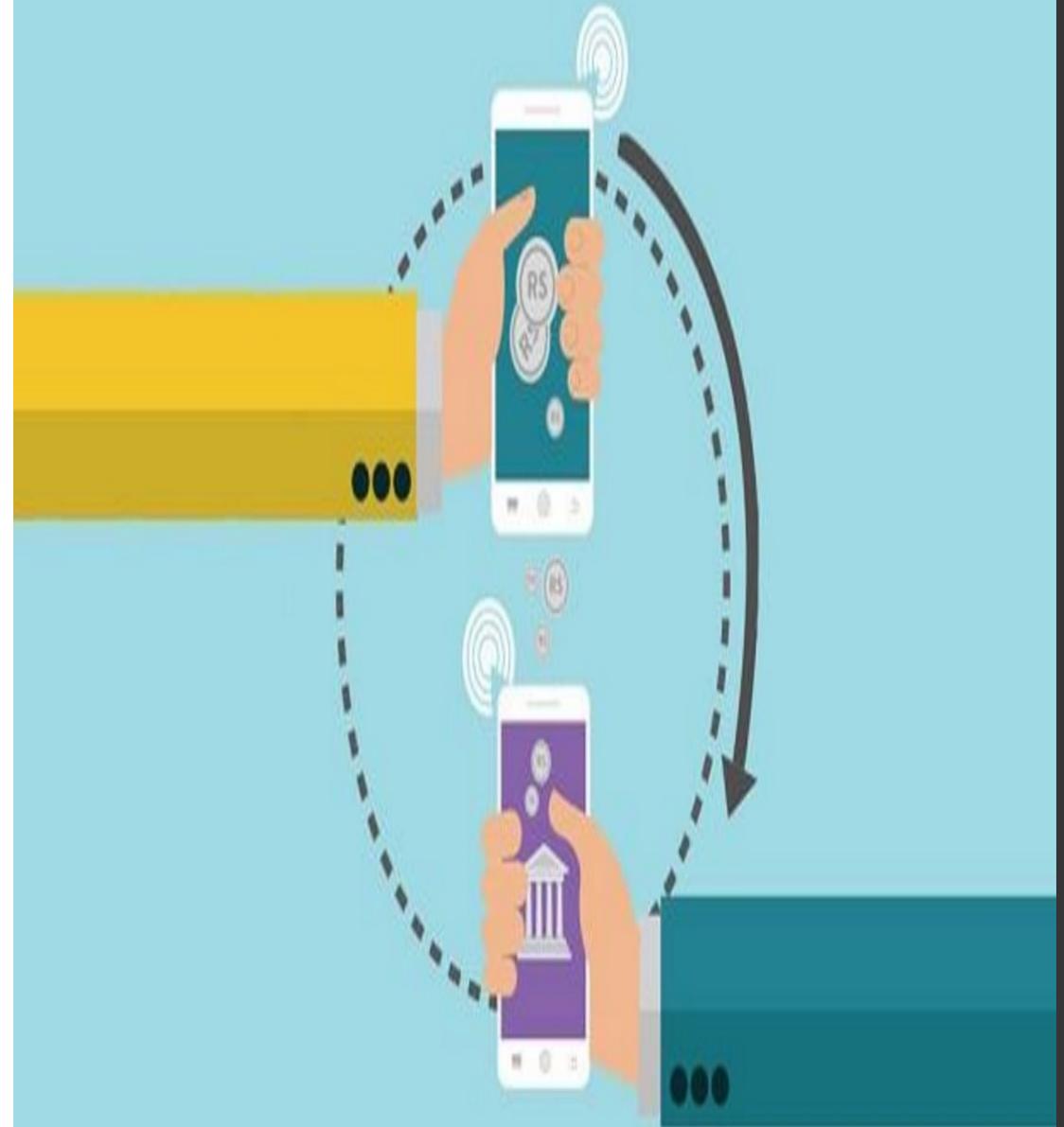
Corporate Income Tax

Digital modes of payment: In order to achieve the mission of the Government to move towards a less cash economy it is proposed to insert a new section 269SU to provide that every person carrying on business, shall provide facility for accepting payment through the prescribed electronic modes, in addition to the facility for other electronic modes of payment, if any, being provided by such person, if his **total sales turnover or gross receipts in business exceeds INR 50 Crore during the immediately preceding previous year.**

To ensure compliance of the aforesaid provisions, it is further proposed to insert a new section 27IDB to provide that the failure to provide facility for electronic modes of payment prescribed under section 269SU shall attract penalty of a **sum of five thousand rupees, for every day** during which such failure continues. Any such penalty shall be imposed by the Joint Commissioner.

Further, it is proposed to make a consequential amendment in the Payment and Settlement Systems Act, 2007 so as to provide that **no bank or system provider shall impose any charge upon anyone, either directly or indirectly, for using the modes of electronic payment** prescribed under section 269SU of the Income-tax Act.

The above amendments will take effect from 1st November, 2019.



Corporate Income Tax

Taxability of Interest on NPAs: The existing provisions of section 43D of the Act, *inter-alia* provides that interest income in relation to certain categories of bad or doubtful debts received by certain institutions or banks or corporations or companies, shall be chargeable to tax in the previous year in which it is credited to its profit and loss account or actually received, whichever is earlier.

This provision is an exception to the accrual system of accounting which is regularly followed by such assesseees for computation of total income. The benefit of this provision is presently available to public financial institutions, scheduled banks, cooperative banks, State financial corporations, State industrial investment corporations and public companies like housing finance companies. With a view to provide a level playing field to certain categories of NBFCs who are adequately regulated, it is proposed to amend section 43D of the Act so as to include deposit-taking NBFCs and systemically important non deposit-taking NBFCs within the scope of this section.

Consequentially, as per matching principle in taxation, it is proposed to amend section 43B of the Act to provide that any sum payable by the assessee as interest on any loan or advances from a deposit-taking NBFCs and systemically important non deposit-taking NBFCs shall be allowed as deduction if it is actually paid on or before the due date of furnishing the return of income of the relevant previous year.

These amendments will take effect from 1st April, 2020 and will, accordingly, apply in relation to the assessment year 2020-21 and subsequent years.



Corporate Income Tax

Statement of Financial Transactions(SFT):

Existing provisions of section 285BA provide for furnishing of statement of financial transaction (SFT) or reportable account by person specified therein. In order to enable pre-filing of return of income, it is proposed to obtain information by widening the scope of furnishing of statement of financial transactions by mandating furnishing of statement by *certain prescribed persons other than those who are currently furnishing the same*. It is also proposed to *remove the current threshold of rupees fifty thousand on aggregate value of transactions during a financial year*, for furnishing of information, with a view to ensure pre-filing of information relating to small amount of transactions as well.

The above amendments will take effect from 1st September, 2019



Corporate Income Tax

• **Tax holiday for affordable housing:** Section 80-IBA provides for 100% deduction for profits derived from the business of deploying and building housing projects. This section is now amended to effect:

- a. Benefit of minimum plot of land of 1000 sq meters and mandatory requirement of utilization of 90% of floor area is now extended to Metropolitan region of Bangalore, NCR, Hyderabad, and Mumbai.
- b. In case of Residential units, Carpet area in a housing project does not exceed:

| Earlier | Proposed |
|---|---|
| 30 square meters for projects located in Chennai, Delhi, Kolkata, or Mumbai | 60 square meters for projects located in Bangalore, Chennai, Delhi National Capital Region (limited to Delhi, Noida, Greater Noida, Ghaziabad, Gurugram, Faridabad), Hyderabad, Kolkata, and Mumbai (whole of Mumbai metropolitan region) |
| 60 square meters for projects in other places | 90 square meters for projects in other places |

Corporate Income Tax

Measures for resolution of distressed companies:

The existing provisions of section 79 are not applicable to a company where any change in shareholding takes place in a previous year pursuant to a resolution plan approved under the Insolvency and Bankruptcy Code, 2016 (IBC) subject to the condition that jurisdictional Principal Commissioner or Commissioner is provided a reasonable opportunity of being heard. Thus, loss in such cases can be carried forward and set off even if there is change in voting power or shareholding. This benefit is proposed to be extended to certain companies. Thus it has been provided in newly substituted section 79 that the provision of this section shall not apply to those companies, and their subsidiary and the subsidiary of such subsidiary, where-

- i. the National Company Law Tribunal (NCLT) on a petition moved by the Central Government under section 241 of the Companies Act, 2013 has suspended the Board of Directors of such company and has appointed new directors, who are nominated by the Central Government, under section 242 of the Companies Act, 2013: and
- ii. a change in shareholding of such company, and its subsidiaries and the subsidiary of such subsidiary, has taken place in a previous year pursuant to a resolution plan approved by NCLT under section 242 of the Companies Act, 2013, after affording a reasonable opportunity of being heard to the jurisdictional Principal Commissioner or Commissioner.

Further, it is also proposed that under section 115JB of the Act for calculating book profit, the aggregate amount of unabsorbed depreciation and loss (excluding depreciation) brought forward shall also be allowed to be reduced in cases of the above mentioned companies.

This amendment will take effect from 1st April, 2020 and will, accordingly, apply in relation to the assessment year 2020-21 and subsequent assessment years.

Corporate Income Tax

Prescription of exemption from deeming of fair market value of shares for certain transactions:

The existing provisions of the section 56(2)(x) of the Income-tax Act, inter alia, provide for chargeability of income in case of receipt of money or specified property for no or inadequate consideration. For determining the amount of income for receipt of certain shares, the fair market value of the shares is taken into account. Similarly, section 50CA provides for deeming of fair market value of unquoted shares for computing the capital gains from the transfer of such shares. For both these provisions, the fair market value is determined based on the prescribed method. Currently, the provisions of section 56(2)(x) are not applicable to certain specified transactions. However, no such exemption is available under section 50CA.

Determination of fair market value based on the prescribed rules may result into genuine hardship in certain cases where the consideration for transfer of shares is approved by certain authorities and the person transferring the share has no control over such determination. In order to provide relief to such types of transactions from the applicability of sections 56(2)(x) and 50CA, it is proposed to amend these sections to empower the Board to prescribe transactions undertaken by certain class of persons to which the provisions of section 56(2)(x) and 50CA shall not be applicable.

These amendments will take effect from 1st April, 2020 and will, accordingly, apply in relation to the assessment year 2020-21 and subsequent assessment years.

Corporate Income Tax

Facilitating demerger of Ind-AS compliant companies:

One of the existing conditions for tax-neutral demergers is that the resulting company should record the property and the liabilities of the undertaking at the value appearing in the books of accounts of the demerged company. It has been represented that Indian Accounting Standards (Ind-AS) compliant companies are required to record the property and the liabilities of the undertaking at a value different from the book value of the demerged company.

In order to facilitate, it is proposed to amend section 2 of the Act to provide that the requirement of recording property and liabilities at book value by the resulting company *shall not be applicable* in a case where the property and liabilities of the undertakings received by it are recorded at a value different from the value appearing in the books of account of the demerged company immediately before the demerger in compliance to the Indian Accounting Standards specified in Annexure to the Companies (Indian Accounting Standards) Rules, 2015.

This amendment will take effect, from 1st April, 2020 and will, accordingly, apply in relation to the assessment year 2020-21 and subsequent assessment years.

Relaxing the provisions of sections 201 and 40 of the Act in case of payments to non-residents:

Section 201 of the Act provides that where any person, including the principal officer of a company or an employer (hereinafter called ‘the deductor’), who is required to deduct tax at source on any sum in accordance with the provisions of the Act, does not deduct or does not pay such tax or fails to pay such tax after making the deduction, then such person shall be deemed to be an assessee in default in respect of such tax.

The first proviso to sub-section (1) of section 201 specifies that the deductor shall not be deemed to be an assessee in default if he fails to *deduct tax on a payment made to a resident*, if such resident has furnished his return of income under section 139, disclosed such payment for computing his income in his return of income, paid the tax due on the income declared by him in his return of income and furnished an accountant’s certificate to this effect.

It is proposed to amend the proviso to sub-section (1) of section 201 to extend the benefit of this proviso to a deductor, even in respect of failure to *deduct tax on payment to non-resident*.

It is also proposed to amend the proviso to sub-section (1A) of section 201 to provide for *levy of interest till the date of filing of return by the non-resident payee*. Section 40 will also be amended to include the above amendment and hence there will be no disallowance on such payments to non residents.

These amendments will take effect from 1st September, 2019.

Corporate Income Tax

Transfer Pricing

Clarification with regard to power of the Assessing Officer in respect of modified return of income filed in pursuance to signing of the Advance Pricing Agreement (APA) :

Section 92CC of the Act empowers the Central Board of Direct Taxes (CBDT) to enter into an APA, with the approval of the Central Government, with any person for determining the Arm's Length Price (ALP) or specifying the manner in which ALP is to be determined in relation to an international transaction which is to be entered into by that person. The APA is valid for a period, not exceeding five previous years, as may be specified therein. This section also provides for rollback of the APA for four years. Thus, once the APA is entered into, the ALP of the international transaction, which is subject matter of the APA, would be determined in accordance with such APA.

In order to give effect to the APA, section 92CD also provides for mechanism, including filing of modified return of income by the taxpayer and manner of completion of assessments by the Assessing Officer having regard to terms of the APA.

Sub-section (3) of this section deals with a situation where assessment or re-assessment has already been completed, before expiry of the time allowed for filing of modified return. Apprehensions have been expressed stating that due to the use of words “assess or reassess or recompute”, the Assessing Officer may start fresh assessment or reassessment in respect of completed assessments or reassessments of the assessee who have modified their returns of income in accordance with the APA entered into by them, while the intention of the legislature is for Assessing Officer to merely modify the total income consequent to modification of return of income in pursuance to APA.

It is, therefore, proposed to amend sub-section (3) of section 92CD to clarify that in cases where assessment or reassessment has already been completed and modified return of income has been filed by the tax payer under sub-section (1) of said section, the Assessing Officers shall pass an order modifying the total income of the relevant assessment year determined in such assessment or reassessment, having regard to and in accordance with the APA.

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

Corporate Income Tax

Transfer Pricing

Clarification with regard to provisions of secondary adjustment and giving an option to assessee to make one-time payment:

In order to align the transfer pricing provisions with international best practices, section 92CE of the Act provides for secondary adjustments in certain cases.

It, inter alia, provides that the assessee shall be required to carry out secondary adjustment where the primary adjustment to transfer price, has been made suo motu, or made by the Assessing Officer and accepted by him; or is determined by an advance pricing agreement entered into by him under section 92CC of the Act; or is made as per safe harbour rules prescribed under section 92CB of the Act; or is arising as a result of resolution of an assessment through mutual agreement procedure under an agreement entered into under section 90 or 90A of the Act.

The proviso to said sub-section provides exemption in cases where the amount of primary adjustment made in any previous year does not exceed one crore rupees; and the primary adjustment is made in respect of an assessment year commencing on or before 1st April, 2016.

Several concerns have been expressed regarding effective implementation of secondary adjustments regime and seeking clarity in law.

In order to address such concerns and to make the secondary adjustment regime more effective and easy to comply with, it is proposed to amend section 92CE of the Act so as to provide that:-

- i. the condition of threshold of one crore rupees and of the primary adjustment made up to assessment year 2016-17 are alternate conditions;

Corporate Income Tax

Transfer Pricing

Clarification with regard to provisions of secondary adjustment and giving an option to assessee to make one-time payment (Continued):

- ii. the assessee shall be required to calculate interest on the excess money or part thereof;
- iii. the provision of this section shall apply to the agreements which have been signed on or after 1st April, 2017; however, no refund of the taxes already paid till date under the pre amended section would be allowed;
- iv. the excess money may be repatriated from any of the associated enterprises of the assessee which is not resident in India; \
- v. in a case where the excess money or part thereof has not been repatriated in time, the assessee will have the option to pay additional income-tax at the rate of eighteen per cent on such excess money or part thereof in addition to the existing requirement of calculation of interest till the date of payment of this additional tax. The additional tax is proposed to be increased by a surcharge of twelve per cent;
- vi. the tax so paid shall be the final payment of tax and no credit shall be allowed in respect of the amount of tax so paid;
- vii. the deduction in respect of the amount on which such tax has been paid , shall not be allowed under any other provision of this Act; and
- viii. if the assessee pays the additional income-tax, he will not be required to make secondary adjustment or compute interest from the date of payment of such tax.

The amendments proposed in para (i) to (iv) above will take effect retrospectively from the 1st April, 2018 and will, accordingly, apply in relation to the assessment year 2018-19 and subsequent assessment years.

Further, the amendments proposed in para (v) to (viii) will be effective from 1st September, 2019.

Corporate Income Tax

Transfer Pricing

Clarification regarding definition of the “accounting year” in section 286 of the Act:

Section 286 of the Act contains provisions relating to specific reporting regime in the form of Country-by-Country Report (CbCR) in respect of an international group. It provides that every parent entity or the alternate reporting entity, resident in India, shall, for every reporting accounting year, in respect of the international group of which it is a constituent, furnish a report, to the prescribed authority within a period of twelve months from the end of the said reporting accounting year, in the form and manner as may be prescribed.

Several concerns have been expressed that in case of an alternate reporting entity (ARE) resident in India whose ultimate parent entity is not resident in India, the accounting year would always be the accounting year applicable in the country where such ultimate parent entity is resident and cannot be the previous year of the entity resident in India. Accordingly, it has been requested that this unintended anomaly as regards the interpretation of accounting year in case of ARE, resident in India may be removed.

In order to address such concerns and to bring clarity in law, it is proposed to suitably amend section 286 so as to provide that the accounting year in case of the ARE of an international group, the parent entity of which is not resident in India, the reporting accounting year shall be the one applicable to such parent entity.

This amendment is clarificatory in nature.

The amendment will take effect retrospectively from the 1st April, 2017 and will, accordingly, apply in relation to the assessment year 2017-18 and subsequent assessment years.

Corporate Income Tax

Transfer Pricing

Rationalizations of provisions relating to maintenance, keeping and furnishing of information and documents by certain persons:

Section 92D of the Act inter alia, provides for maintenance and keeping of information and document by persons entering into an international transaction or specified domestic transaction in the prescribed manner.

Sub-section (1) of section 92D provides that every person who has entered into an international transaction or specified domestic transaction shall keep and maintain the prescribed information and document in respect thereof.

Proviso to said section inserted through the Finance Act, 2016 provides that the person, being a constituent entity of an international group, shall also keep and maintain such information and document in respect of an international group as may be prescribed. Accordingly, Rule 10DA, prescribed for this purpose, provides the requisite information to be furnished in prescribed form, subject to the thresholds of the consolidated group revenue and the international transaction.

It is proposed to substitute section 92D of the Act, in order to provide that the information and document to be kept and maintained by a constituent entity of an international group, and filing of required form, shall be applicable even when there is no international transaction undertaken by such constituent entity.

It is also proposed to provide that information shall be furnished by the constituent entity of an international group to the prescribed authority.

This amendment will take effect from the 1st April, 2020 and will, accordingly, apply in relation to the assessment year 2020-21 and subsequent assessment years.

Tax Deducted at Source

TDS on Payments by Individual and HUFs:

Currently any payment made by an Individual or HUF to any resident contractor or professional when such service is for personal use there is no liability to deduct TDS. Further if any Individual or HUF is carrying on business or profession which is not subject to audit, then there is no liability to deduct TDS on such payment to a resident even if it is for business purpose.

New section 194M is inserted in the act to provide for levy of TDS at a rate of 5% on the sum or the aggregate of sums paid or credited in the year on account of contractual work or professional fees if such sum or aggregate of such sums exceeds INR 50 lakhs in a year.

Individuals or HUFs who are required to deduct TDS as above are not required to obtain TAN, they can deposit the tax deducted using PAN.

This amendment will be effective from 1st September, 2019 and will apply from AY 2020-21

TDS on Immovable properties:

Section 194IA of Income tax act deals with payment on transfer of any immovable property (other than agricultural land) and provides for levy of TDS at 1% if the consideration exceeds INR 50 Lakhs. The term “Consideration” for transfer of immovable property is not defined in this section. Hence, It is proposed to amend the explanation to section 194IA and provide the term “Consideration for immovable property” shall include all charges in the nature of club membership fee, car parking fee, electricity and water facility fees, maintenance fee, advance fee or any other charges of similar nature incidental to purchase of immovable property.

This amendment will be effective from 1st September, 2019 and will apply from AY 2020-21

Tax Deducted at Source

TDS on cash withdrawal :

In accordance with the vision to move towards a less cash economy, a new section 194N is inserted to provide for levy of TDS at 2% on cash payments in excess of INR 1 Crore in aggregate made during the year, by a banking company or cooperative bank or post office, to any person from an account maintained by the recipient.

However this provision will not apply to Government, banking company, cooperative society engaged in business of banking, post office and white label ATM Operators who are involved in handling substantial amounts of cash as part of their business operation.

This amendment will be effective from 1st September, 2019 and will apply from AY 2020-21

Online filing of application seeking determination of tax to be deducted at source on payment to non-residents:

Under sub-section (2) of section 195 of the Act, if a person who is responsible for paying any sum to a non-resident which is chargeable to tax (other than salary) considers that the whole of such sum would not be income chargeable in the case of the recipient, he can make an application to the Assessing Officer to determine the appropriate proportion of such sum chargeable.

This provision is used by a person making payment to a non-resident to obtain certificate/order from the Assessing Officer for lower or nil withholding-tax. *However, the process is currently manual.* In order to use technology to streamline the process, which will not only reduce the time for processing of such applications, but shall also help tax administration in monitoring such payments.

It is proposed to amend the provisions of this section to allow for prescribing the form and manner of application to the Assessing Officer and also for the manner of determination of appropriate portion of sum chargeable to tax by the Assessing Officer. Similar amendment is also proposed to be made in sub-section (7) of section 195 which are applicable to specified class of persons or cases. These amendments will take effect from 1st November, 2019.

Tax Deducted at Source

Electronic filing of statement of transactions on which tax has not been deducted :

Section 206A of the Act relates to furnishing of statement in respect of payment of certain income by way of interest to residents where no tax has been deducted at source.

At present, the section provides for filing of such statements on a floppy, diskette, magnetic tape, CD-ROM, or any other computer readable media. To enable online filing of such statements, it is proposed to substitute this section so as to provide for filing of statement (where tax has not been deducted on payment of interest to residents) in prescribed form in the prescribed manner.

It is also proposed to provide for correction of such statements for rectification of any mistake or to add, delete or update the information furnished.

It is also proposed to make a consequential amendment arising out of amendment carried out by Finance Act, 2019 whereby threshold for TDS on payment of interest by a banking company or cooperative society or public company was raised to forty thousand rupees.

These amendments will take effect from 1st September, 2019.

Tax Deducted at Source

Exemption of interest income of a non-resident arising from borrowings by way of issue of Rupee Denominated Bonds referred to under section 194LC:

The existing provisions of section 194LC of the Act provide that the interest income payable to a non-resident by a specified company on borrowings made by it in foreign currency from sources outside India under a loan agreement or by way of issue of any long-term bond including long-term infrastructure bond, or rupee denominated bond shall be eligible for TDS at a concessional rate of five per cent.

In order to incentivize low cost foreign borrowings through Off-shore Rupee Denominated Bond, the press release dated 17th September, 2018, inter alia, announced that interest payable by an Indian company or a business trust to a non-resident, including a foreign company, in respect of rupee denominated bond issued outside India during the period from September 17, 2018 to March 31, 2019 shall be exempt from tax. Consequently, no tax was required to be deducted on the payment of interest in respect of the said bond. The exemption announced through the said press release is proposed to be incorporated in the law by amending section 10 of the Act so as to provide exemption to income payable by way of interest to a non-resident by the specified company in respect of monies borrowed from a source outside India by way of issue of rupee denominated bond, as referred to in section 194LC, during the period beginning from the 17th day of September, 2018 and ending on the 31st day of March, 2019.

This amendment will take effect from 1st April, 2019 and will, accordingly, apply in relation to the assessment year 2019-20 and subsequent assessment years.

Other Changes / Amendments:

Consequence of not linking PAN with Aadhaar:

The existing proviso to the sub-section (2) of section 139AA, provides that the PAN allotted to a person shall be deemed to be invalid, in case the person fails to intimate the Aadhaar number, on or before the notified date.

In order to protect validity of transactions previously carried out through such PAN, it is proposed to amend the said proviso so as to provide that if a person fails to intimate the Aadhaar number, the PAN allotted to such person shall be made inoperative in the prescribed manner.

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

Concessional rate of Short-term Capital Gains (STCG) tax to certain equity-oriented fund of funds:

In order to incentivise fund of funds set up for disinvestment of Central Public Sector Enterprises (CPSEs), Finance Act, 2018 has provided concessional rate of long-term capital gains tax under section 112A of the Act for the transfer of units of such fund of funds.

In order to further incentivise these funds of funds, it is proposed to amend section 111A so as to extend the concessional rate of tax for short-term capital gains in respect of transfer of units of such fund of funds.

This amendment will take effect from 1st April, 2020 and will, accordingly, apply in relation to assessment year 2020-21 and subsequent assessment years.

Other Changes / Amendments:

Inter-changeability of PAN & Aadhaar and mandatory quoting in prescribed transactions.

Existing sub-section (1) of section 139A of the Act, inter alia, provides that every person specified therein, who has not been allotted a PAN, shall apply to the Assessing Officer for allotment of PAN.

It has been observed that in many cases persons entering into high value transactions, such as purchase of foreign currency or huge withdrawal from the banks, do not possess a PAN. In order to keep an audit trail of such transactions, for widening and deepening of the tax base, it is proposed to insert a new clause (vii) in the aforesaid sub-section so as to provide that every person, who intends to enter into certain prescribed transactions and has not been allotted a PAN, shall also apply for allotment of a PAN

To ensure ease of compliance, it is also proposed to provide for inter-changeability of PAN with the Aadhaar number. Accordingly the provisions of section 139A are proposed to be amended so as to provide that,-

- i. every person who is required to furnish or intimate or quote his PAN under the Act, and who, has not been allotted a PAN but possesses the Aadhaar number, may furnish or intimate or quote his Aadhaar number in lieu of PAN, and such person shall be allotted a PAN in the prescribed manner;
- ii. every person who has been allotted a PAN, and who has linked his Aadhaar number under section 139AA, may furnish or intimate or quote his Aadhaar number in lieu of a PAN.

Section 139A, inter alia, provides that every person, receiving a document relating to a transaction for which PAN is required to be quoted shall ensure that the PAN has been duly quoted therein. It is proposed to provide that every person receiving such documents shall also ensure that the PAN or the Aadhaar number, as the case may be, has been duly quoted. A new sub-section (6A) is also proposed to be inserted to ensure quoting of PAN or Aadhaar number for entering into prescribed transactions and authentication thereof in the prescribed manner. Duty is also proposed to be cast upon the person receiving any document relating to such transactions, through newly proposed sub-section (6B), to ensure that PAN or Aadhaar number, as the case may be, is duly quoted, and authenticated.

In order to ensure proper compliance of the provisions relating to quoting and authentication of PAN or Aadhaar, the penalty provision contained in section 272B is proposed to be amended suitably. *These amendments will take effect from 1st September, 2019.*

Other Changes / Amendments:

Relaxation in conditions of special taxation regime for offshore funds

Section 9A of the Act provides for a safe harbour in respect of offshore funds. It provides that in the case of an eligible investment fund, the fund management activity carried out through an eligible fund manager located in India and acting on behalf of such fund shall by itself not constitute business connection in India of the said fund. Further, an eligible investment fund shall not be said to be resident in India merely because the eligible fund manager undertaking fund management activities on its behalf is located in India. The benefit under section 9A is available subject to the conditions provided in sub-sections (3), (4) and (5) of the said section.

Sub-section (3) of section 9A provides for the conditions for the eligibility of the fund. These conditions, inter-alia, are related to residence of fund, corpus, size, investor broad basing, investment diversification and payment of remuneration to fund manager at arm's length.

Representations have been received for relaxing certain conditions in the implementation of regime of fund managers. To give an impetus to fund management activities in India, certain constraints are proposed to be removed by suitably amending section 9A of the Act, so as to provide that,-

- i. the corpus of the fund shall not be less than one hundred crore rupees at the end of a period of six months from the end of the month of its establishment or incorporation or at the end of such previous year, whichever is later; and
- ii. the remuneration paid by the fund to an eligible fund manager in respect of fund management activity undertaken by him on its behalf is not less than the amount calculated in such manner as may be prescribed.

These amendments will take effect retrospectively from 1st April, 2019 and shall apply to the assessment year 2019-20 and subsequent assessment years.

Other Changes / Amendments:

Cancellation of registration of the Trust or Institution:

Section 12AA of the Act prescribes for manner of granting registration in case of trust or institution for the purpose of availing exemption in respect of its income under section 11 of the Act, subject to conditions contained under sections 11, 12, 12AA and 13. Section 12AA also provides for manner of cancellation of said registration. This section provides that cancellation of registration can be on two grounds:-

- a) the Principal Commissioner or the Commissioner is satisfied that activities of the exempt entity are not genuine or are not being carried out in accordance with its objects; and
- b) it is noticed that the activities of the exempt entity are being carried out in a manner that either whole or any part of its income would cease to be exempt .

In order to ensure that the trust or institution do not deviate from their objects, it is proposed to amend section 12AA of the Income-tax Act, so as to provide that,-

- i. at the time of granting the registration to a trust or institution, the Principal Commissioner or the Commissioner shall, inter alia, also satisfy himself about the compliance of the trust or institution to requirements of any other law which is material for the purpose of achieving its objects;
- ii. where a trust or an institution has been granted registration under clause (b) of sub-section (1) or has obtained registration at any time under section 12AA and subsequently it is noticed that the trust or institution has violated requirements of any other law which was material for the purpose of achieving its objects, and the order, direction or decree, by whatever name called, holding that such violation has occurred, has either not been disputed or has attained finality, the Principal Commissioner or Commissioner may, by an order in writing, cancel the registration of such trust or institution after affording a reasonable opportunity of being heard.

These amendments shall be effective from 1st September, 2019.

Other Changes / Amendments:

Provide for pass through of losses in cases of Category I and Category II Alternative Investment Fund (AIF)

Section 115UB of the Act, inter alia, provides for pass through of income earned by the Category I and II AIF, except for business income which is taxed at AIF level. Pass through of profits (other than profit & gains from business) has been allowed to individual investors so as to give them benefit of lower rate of tax, if applicable. Pass through of losses are not provided under the existing regime and are retained at AIF level to be carried forward and set off in accordance with Chapter VI.

In order to remove the genuine difficulty faced by Category I and II AIFs , it is proposed to amend section 115UB to provide that

- i. the business loss of the investment fund, if any, shall be allowed to be carried forward and it shall be set-off by it in accordance with the provisions of Chapter VI and it shall not be passed onto the unit holder;
- ii. the loss other than business loss, if any, shall also be ignored for the purposes of pass through to its unit holders, if such loss has arisen in respect of a unit which has not been held by the unit holder for a period of atleast twelve months;
- iii. the loss other than business loss, if any, accumulated at the level of investment fund as on 31st March, 2019, shall be deemed to be the loss of a unit holder who held the unit on 31st March, 2019 in respect of the investments made by him in the investment fund and allowed to be carried forward by him for the remaining period calculated from the year in which the loss had occurred for the first time taking that year as the first year and it shall be set-off by him in accordance with the provisions of Chapter VI;
- iv. the loss so deemed in the hands of unit holders shall not be available to the investment fund for the purposes of chapter VI.

These amendments will take effect from the 1st April, 2020 and will, accordingly, apply in relation to the assessment year 2020-21 and subsequent assessment years.

Other Changes / Amendments:

Compliance with the notification of exemption issued under section 56(2)(viib):

The provisions of section 56(2)(viib) of the Act provides for charging of the consideration received for issue of shares by certain companies, where such consideration exceeds the fair market value of such shares. However, the Central Government is empowered to notify that the provisions of this section shall not be applicable to consideration received by a notified company. Certain notifications issued under this sub-clause by the Central Government provide for exemption, subject to the fulfilment of certain conditions. With a view to ensure compliance to the conditions specified in the notification, it is proposed to provide that in case of failure to comply with the conditions, the consideration received for issue of shares which exceeds the face value of such shares shall be deemed to be the income of the company chargeable to income-tax for the previous year in which the failure to comply with any of the said conditions has taken place.

These amendments will take effect from 1st April, 2020 and will, accordingly, apply in relation to the assessment year 2020-21 and subsequent assessment years.

Consequential amendment to section 56

The existing provisions of the section 56 of the Income-tax Act, inter alia, provide that income by way of interest received on compensation or on enhanced compensation referred to in section 145A(b) shall be chargeable to tax. The Finance Act, 2018 substituted the provisions of section 145A with sections 145A and section 145B. However, no consequential amendment is made in section 56. It is proposed to amend section 56 of the Act to provide the correct reference of section 145B(1) in section 56, in place of the existing reference of section 145A(b).

This amendment will take retrospective effect from 1st April, 2017 and will accordingly apply in relation to assessment year 2017-18 and subsequent assessment years.

Other Changes / Amendments:

Rationalization of penalty provisions relating to under-reported income:

Section 270A contains provisions relating to penalty for under-reporting and misreporting of income. The existing provisions provide for various situations for the purposes of levy of penalty under this section. However, these provisions do not contain the mechanism for determining under-reporting of income and quantum of penalty to be levied in the case where the person has under-reported income and furnished the return of income for the first time under section 148 of the Act.

In order to provide for manner of computing the quantum of penalty in a case where the person has under-reported income and furnished his return for the first time under section 148, it is proposed to suitably amend the provisions of section 270A.

These amendments will take effect retrospectively from 1st April, 2017 and will, accordingly, apply in relation to assessment year 2017-2018 and subsequent assessment years.

Rationalization of provisions relating to claim of refund:

The existing provisions of section 239 of the Act provide inter alia that every claim of refund under Chapter XIX of the Act shall be made in the prescribed form and verified in the prescribed manner.

In order to simplify the procedure for claim of refund, it is proposed to amend the said section so as to provide that every claim for refund under Chapter XIX of the Act shall be made by furnishing return in accordance with the provisions of section 139 of the Act.

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

Other Changes / Amendments:

Rationalization of the provisions of section 276CC:

The existing provisions of section 276CC of the Act, inter alia, provide that prosecution proceedings for failure to furnish returns of income against a person shall not proceed against, for failure to furnish the return of income in due time, if the tax payable by such person, not being a company, on the total income determined on regular assessment does not exceed three thousand rupees. The existing provisions do not provide for taking into account tax collected at source and self-assessment tax for the purposes of determining the tax liability.

Since the intent of said provision has always been to take into account pre-paid taxes, while determining the tax payable, it is proposed to amend the said section so as to make the legislative intention clear and to include the self-assessment tax, if any, paid before the expiry of the assessment year, and tax collected at source for the purpose of determining tax liability.

Further, in order to rationalise the existing threshold limit of tax payable under said section, it is further proposed to amend the said section so as to increase the threshold of tax payable from the existing rupees three thousand to rupees ten thousand.

These amendments will take effect from 1st April, 2020 and will, accordingly, apply in relation to assessment year 2020-21 and subsequent assessment years.

Rationalization of provisions relating to STT :

As per the existing provisions section 99 of the Finance (No.2) Act, 2004, the value of taxable securities transaction in respect of sale of an option in securities, where option is exercised, shall be, the settlement price.

In order to rationalize the levy of STT where the option is exercised, it is proposed to amend the said section so as to provide that value of taxable securities transaction in respect of sale of an option in securities, where option is exercised, shall be the difference between the strike price and the settlement price.

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

Other Changes / Amendments:

Rationalization of provision relating recovery of tax in pursuance of agreements with foreign countries:

The existing provisions of section 228A of the Act provide inter alia that where an agreement is entered into by the Central Government with the Government of any foreign country for recovery of income-tax under the Income-tax Act and the corresponding law in force in that country and where such foreign country sends a certificate for the recovery of any tax due under such corresponding law from a person having any property in India, the Board, on receipt of such certificate may, forward it to the Tax Recovery Officer within whose jurisdiction such property is situated for the recovery of tax in pursuance of agreement with such foreign country.

In order to provide assistance in recovery of tax as per treaty obligation with the other country, it is proposed to amend the said section so as to provide for tax recovery where details of property of the persons are not available but the said person is a resident in India.

It is also proposed to amend the said section so as to provide for tax recovery, where details of property of an assessee in default under the Act are not available but the said assessee is a resident in a foreign country.

These amendments will take effect from 1st September, 2019.

Other Changes / Amendments:

Enhancing time limitation for sale of attached property under rule 68B of the Second Schedule of the Act:

The existing provisions of rule 68B of the Second Schedule of the Act provide that no sale of immovable property attached towards the recovery of tax, penalty etc. shall be made after the expiry of three years from the end of the financial year in which the order in consequence of which any tax, penalty etc. becomes final.

In order to protect the interest of the revenue, especially in those cases where demand has been crystallised on conclusion of the proceedings, it is proposed to amend the aforesaid sub-rule so as to extend the period of limitation from three years to seven years.

In order to ensure that the limitation of time period for sale of attached property may not be an impediment in recovery of tax dues and may not lead to permanent loss of revenue to the exchequer, it is further proposed to insert a new proviso in the said sub-rule so as to provide that the Board may, for reasons to be recorded in writing, extend the aforesaid period of limitation by a further period of three years.

These amendments will take effect from 1st September, 2019.

Goods and Services Tax (GST)

- ***GST rate cut on Electric Vehicles*** from 12% to 5% to encourage Green and Renewable India: Rate cut is expected to boost purchase of Electric vehicles in line with the vision of Renewable India. In addition this move is also a step towards reducing the impact crude oil prices have on the economy.
- ***Electronic invoice system to do away with the e-way bill from January 2020:*** Government is set to introduce E-Invoicing as a result all invoices will have to be raised from the portal this will ensure auto upload of data in the GST returns and Liability will also be computed based on the invoices raised.
- ***New category of residual composition dealers*** for services and deliverables has been inserted, having an annual turnover of INR 50 Lakh and GST at the rate of 3%.
- ***Small and Medium Businesses:*** Tax payers having annual turnover of less than INR 1.50 Crore can file Quarterly Returns. Free Accounting Software has also been provided to Small businesses.
- Implementation of a fully automated GST Refund module. Multiple tax ledgers for a taxpayer shall be replaced by one.



GST

Goods and Service Tax

Goods and Services Tax

- **Registration exemption threshold increased:** Section 22 of the CGST Act is amended so as to provide for higher threshold exemption limit from Rs. 20 lakhs to such amount not exceeding INR 40 lakhs in case of supplier who is engaged in exclusive supply of goods.
- **Mandatory electronic payment option:** Section 31A is being inserted in the CGST Act so that specified suppliers shall have to mandatorily give the option of specified modes of electronic payment to their recipients
- **Composition scheme:** Section 39 of the CGST Act is amended so as to allow composition taxpayers to furnish annual return along with quarterly payment of taxes; and other specified taxpayers may be given the option for quarterly or monthly furnishing of returns and payment of taxes under the proposed new return system.
- **Transfer of amount from one head of tax to another:** New sub-sections are being inserted in section 49 of the CGST Act to provide a facility to the registered person to transfer an amount from one (major or minor) head to another (major or minor) head in the electronic cash ledger.
- **Refund:** New sub-section (8A) is being inserted in section 54 of the CGST Act so as to provide that the Central Government may disburse refund amount to the taxpayers in respect of refund of State taxes as well.



GST

Goods and Service Tax

Goods and Services Tax

National Appellate Authority for Advance Ruling

- Section 95 is being inserted to define National Appellate Authority for Advance Ruling.
- New sections 101A, 101B and 101C are being inserted in the CGST Act so as to provide for constitution, qualification, appointment, tenure, conditions of services of the National
- Appellate Authority for Advance Ruling; to provide for procedures to be followed for hearing appeals against conflicting advance rulings pronounced on the same question by the Appellate Authorities of two or more States or Union territories in case of distinct persons; and to provide that the National Appellate Authority shall pass order within a period of ninety days from the date of filing of the appeal respectively
- Section 102 of the CGST Act is being amended so as to allow the National Appellate Authority to amend any order passed by it so as to rectify any error apparent on the face of the record, within a period of six months from the date of the order, except under certain specified circumstances.
- Section 103 of the CGST Act is being amended so as to provide that the advance ruling pronounced by the National Appellate Authority shall be binding, unless there is a change in law or facts, on the applicants, being distinct person and all registered persons having the same Permanent Account Number and on the concerned officers or the jurisdictional officers in respect of the said applicants and the registered persons having the same Permanent Account Number.



GST

Goods and Service Tax

Goods and Services Tax

National Appellate Authority for Advance Ruling

- Section 104 of the CGST Act is being amended so as to provide that advance ruling pronounced by the National Appellate Authority shall be void where the ruling has been obtained by fraud or suppression of material facts or misrepresentation of facts.
- Section 105 of the CGST Act is being amended so as to provide that the National Appellate Authority shall have all the powers of a civil court under the Code of Civil Procedure, 1908 for the purpose of exercising its powers under the Act.
- Section 106 of the CGST Act is being amended so as to provide that the National Appellate Authority shall have power to regulate its own procedure

Other amendments:

- Consequent to the amendments in section 44 and section 52 of the CGST Act, section 168 is being amended so as to specify that in respect of sub-section (1) of section 44 and subsections (4) and (5) of section 52, Commissioner or Joint Secretary shall exercise the powers specified in the said sections with the approval of the Board.
- Section 171 of the CGST Act is being amended so as to empower the National Antiprofitteering Authority (under sub-section (2) of section 171 of the Act) to impose penalty equivalent to 10% of the profiteered amount.



GST
Goods and Service Tax

Service Tax

- Dispute resolution-cum-amnesty scheme called “**The Sabka Vishwas Legacy Dispute Resolution Scheme, 2019**” is proposed for resolution and settlement of legacy cases.

| Scenario | Amount of Tax/Duty | Relief |
|---|--|--------------------------------------|
| Tax Dues related to Show Cause Notice (SCN) or Appeal pending as on 30 June, 2019 | Less than or equal to INR 50 lakhs | 70% of tax dues |
| | More than INR 50 lakhs | 50% of tax dues |
| Tax dues related to SCN for late fees or Penalty only and the amount of duty in the said notice has been paid or Nil | Only Late fee and Penalty is under dispute | Entire amount of Late fee or Penalty |
| Tax dues related to an amount in arrears as defined in the scheme | Less than or equal to INR 50 lakhs | 60% of tax dues |
| | More than INR 50 lakhs | 40% of tax dues |
| Tax dues related to an amount in arrears and declarant has indicated the amount payable in indirect tax return but not paid | Less than or equal to INR 50 lakhs | 60% of tax dues |
| | More than INR 50 lakhs | 40% of tax dues |
| Tax queries linked to an enquiry, investigation or audit against the declarant on or before 30 TH June 2019 | Less than or equal to INR 50 lakhs | 70% of tax dues |
| Tax dues as per Voluntary disclosure | Any amount | No relief |

Custom Duty

- **Petrol and Diesel:** Special Additional Excise Duty and Road and Infrastructure Cess each increased by Re.1 on Petrol and Diesel.
- **Precious Metals:** Customs duty on import of Gold and other precious metal increased from 10% to 12.5%.
- **Books and Printing:** 5% and 10% Basic Custom Duty is imposed on imported books and Imported Newsprint, Coated paper etc. respectively to encourage domestic publishing and printing industry.
- **Defence Equipment:** It is proposed to exempt import duty on Import of Defence Equipment to meet the immediate defence needs of modernization and upgradation
- **Tobacco and Crude:** These commodities attract Natural Calamity and Contingent duty which was contested on the ground that these products do not attract Basic Excise Duty as a result a nominal basic excise duty is being imposed on these commodities
- **Telecommunications:** Customs duty is increased on Optical fibres, Optical fibre bundles and cables from 10% to 15%
- **Renewable Energy:** Customs duty is reduced to NIL on Electric vehicle parts to promote electric mobility and on Uranium for power plants.

Change in rates of Excise duty:

I. AMENDMENTS IN THE FOURTH SCHEDULE TO THE CENTRAL EXCISE ACT, 1944

| S. No. | Amendments affecting rate of Basic Excise Duty [to be effective from 06.07.2019]* [Clause [90] of the Finance (No. 2) Bill, 2019] | | Rate of Duty | |
|--------|--|-----------------|--------------|-----------------|
| S. No. | Heading, sub-heading tariff item | Commodity | From | To |
| 1 | 2709 20 00 | Petroleum Crude | Nil | Re. 1 per tonne |

* Will come into effect immediately owing to a declaration under the Provisional Collection of Taxes Act, 1931.

II. PROPOSALS INVOLVING CHANGE IN EXCISE DUTY RATES THROUGH NOTIFICATIONS:

| S. No. | Heading, sub-heading tariff item | Commodity | From | To |
|--------|----------------------------------|---|------|--------------------|
| 1 | 2402 20 10 | Other than filter cigarettes, of length not exceeding 65 millimeters | Nil | Rs 5 per thousand |
| 2 | 2402 20 20 | Other than filter cigarettes, of length exceeding 65 millimeters but not exceeding 70 millimeters | Nil | Rs. 5 per thousand |
| 3 | 2402 20 30 | Filter cigarettes of length (including the length of the filter, the length of filter being 11 millimeters or its actual length, whichever is more) not exceeding 65 millimeters | Nil | Rs. 5 per thousand |
| 4 | 2402 20 40 | Filter cigarettes of length (including the length of the filter, the length of filter being 11 millimeters or its actual length, whichever is more) exceeding 65 millimeters but not exceeding 70 millimeters | Nil | Rs. 5 per thousand |
| 5 | 2402 20 50 | Filter cigarettes of length (including the length of the filter, the length of filter being 11 millimeters or its actual length, whichever is more) exceeding 70 millimeters but not exceeding 75 millimeters | Nil | Rs. 5 per thousand |

Change in rates of Excise duty: (Continued)

| | | | | |
|----|------------|--|-----------------|-----------------------|
| 6 | 2402 20 90 | Other (<i>Cigarettes containing tobacco</i>) | Nil | Rs. 10 per thousand |
| 7 | 2402 90 10 | Cigarettes of tobacco substitutes | Nil | Rs. 5 per thousand |
| 8 | 2403 11 10 | Hookah or gudaku tobacco | Nil | 0.5% |
| 9 | 2403 19 10 | Smoking mixtures for pipes and cigarettes | Nil | 1% |
| 10 | 2403 19 21 | Other than paper rolled biris, manufactured without the aid of machine | Nil | 5 paisa per thousand |
| 11 | 2403 19 29 | Other (<i>Biris</i>) | Nil | 10 paisa per thousand |
| 12 | 2403 19 90 | Other <i>smoking tobacco</i> | Nil | 0.5% |
| 13 | 2403 91 00 | "Homogenised" or "reconstituted" tobacco | Nil | 0.5% |
| 14 | 2403 99 10 | Chewing tobacco | Nil | 0.5% |
| 15 | 2403 99 20 | Preparations containing chewing tobacco | Nil | 0.5% |
| 16 | 2403 99 30 | Jarda scented tobacco | Nil | 0.5% |
| 17 | 2403 99 40 | Snuff | Nil | 0.5% |
| 18 | 2403 99 50 | Preparations containing snuff | Nil | 0.5% |
| 19 | 2403 99 60 | Tobacco extracts and essence | Nil | 0.5% |
| 20 | 2403 99 90 | Other (<i>manufactured tobacco and substitutes</i>) | Nil | 0.5% |
| 21 | 2709 20 00 | Crude Petroleum oil produced in specified oil fields under production sharing contracts or in the exploration blocks offered under the New Exploration Licensing Policy (NELP) through international competitive bidding | Re. 1 per tonne | Nil |

Change in rates of Excise duty: (Continued)

III. AMENDMENT IN THE EIGHTH SCHEDULE TO THE FINANCE ACT, 2002:

| S. No. | Amendments in scheduled rate of Special Additional Excise Duty on Petrol and Diesel [to be effective from 06.07.2019]* [Clause [185] of the Finance (No. 2) Bill, 2019][effective rate is prescribed by notification as detailed in V-A below] | Rate of Duty | |
|--------|--|-----------------|-----------------|
| | | From | To |
| 1 | Motor spirit commonly known as petrol | Rs. 7 per litre | Rs 10 per litre |
| 2 | High speed diesel oil | Rs. 1 per litre | Rs 4 per litre |

* Will come into effect immediately owing to a declaration under the Provisional Collection of Taxes Act, 1931.

IV. AMENDMENT IN THE SIXTH SCHEDULE TO THE FINANCE ACT, 2018:

| S. No. | Amendments in scheduled rate of Road and Infrastructure cess levied as additional duty of excise, on Petrol and Diesel [to be effective from 06.07.2019]* [Clause [201] of the Finance (No. 2) Bill, 2019] [effective rate is prescribed by notification as detailed in V-B below] | Rate of Duty | |
|--------|--|-----------------|------------------|
| | | From | To |
| 1 | Motor spirit commonly known as petrol | Rs. 8 per litre | Rs. 10 per litre |
| 2 | High speed diesel oil | Rs. 8 per litre | Rs. 10 per litre |

*Will come into effect immediately owing to a declaration under the Provisional Collection of Taxes Act, 1931.

V. Effective change in rate of Special Additional Excise Duty and Road and Infrastructure Cess on Petrol and Diesel

| S. No. | Description | Rate of Duty | |
|----------|--|-----------------|-----------------|
| | | From | To |
| A | Increase in effective rate of Special Additional Excise Duty on Petrol and Diesel | | |
| 1 | Motor spirit commonly known as petrol | Rs. 7 per litre | Rs. 8 per litre |
| 2 | High speed diesel oil | Rs. 1 per litre | Rs. 2 per litre |
| B | Increase in effective rate of Road and Infrastructure Cess, levied as additional duty of excise, on Petrol and Diesel | From | To |
| 1 | Motor spirit commonly known as petrol | Rs. 8 per litre | Rs. 9 per litre |
| 2 | High speed diesel oil | Rs. 8 per litre | Rs. 9 per litre |

International Financial Services Centre (IFSC)

The Governments continuous efforts to promote and development of world class financial infrastructure in Indian and to develop the Indian IFSCs at par with the IFSCs of other nations, further proposes, in addition to some of the tax concessions that have already been provided to the IFSC's, the additional benefits such as:

- A. Section 47 (viiab) of the Income Tax Act, 1961 is proposed to be amended in order to facilitate tax-neutral transfer of securities by the Category III Alternative Investment Funds (“ Category III AIF”) in the IFSC of which all the unit holders are Non-Resident.

Existing section 47 (viiab) of the Income Tax Act, 1961(“Income Tax Act”) provides that any transfer of a capital asset, being bonds or Global Depository Receipt or rupee denominated bond of an Indian company or derivative made by a non-resident on a recognised stock exchange located in any International Financial Services Centre and where the consideration for such transaction is paid or payable in foreign currency shall not be considered as transfer.

The above provision is amended to provide the benefit of this section to the Category III AIF subject to specified conditions.

Specified conditions are as follows:

- i. The AIF is granted a certificate of registration as Category III AIF and is regulated under the SEBI (AIF) Regulations, 2012 made under SEBI Act, 1992.
- ii. Which is located in IFSC.
- iii. Which is deriving income solely in convertible foreign currency.
- iv. Of which all the unit holders are non-residents.

The amendment will take effect from April 01, 2020 and will, accordingly, apply in relation to assessment year 2020-21 and subsequent assessment years.

International Financial Services Centre (IFSC)

B. With a view to facilitate external borrowing by the units located in the IFSC, it is proposed to amend section 10 of the Income Tax Act so as to provide that any income by way of interest payable to a non-resident by a unit located in the IFSC in respect of monies borrowed by it on or after September 01, 2019, shall be exempt.

C. With a view to facilitate distribution of dividend by the Companies operating in the IFSC, it is proposed to amend clause (8) of section 115-O of the Income Tax Act to provide that any dividend paid out of **accumulated** income derived from the operations in IFSC, after April 01, 2017 shall also not be liable for tax on distributed profits.

The existing provision provides that the tax on distributed profits is not payable only when the Companies operating in the IFSC dividend is paid out of **current** income derived from the operations in IFSC, after April 01, 2017.

The amendment will take effect from September 01, 2019.

D. In order to incentivize relocation of the Mutual Fund in IFSC, it is proposed to amend Section 115R of the Income Tax Act so as to provide that no additional income tax shall be chargeable in respect of any amount of income distributed, on or after September 01, 2019, by a specified mutual fund of which all the unit holders are non-residents.

Specified mutual funds:

- i. Located in any IFSC
- ii. Deriving income solely in convertible foreign exchange.
- iii. Of which all the units are held by non-residents.

International Financial Services Centre (IFSC)

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

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

This amendment will take effect, from 1st April, 2020 and will, accordingly, apply in relation to the assessment year 2020-21 and subsequent assessment years.

F. Section 115A of the Act provides the method of calculation of income-tax payable by a non-resident (not being a company) or by a foreign company where the total income includes any income by way of dividend (other than referred in section 115-O), interest, royalty and fees for technical services; etc. Section 80LA, provides for deduction in respect of certain incomes to a unit located in an IFSC. However, sub-section (4) of section 115A prohibits any deduction under chapter VIA which includes section 80LA.

In order to ensure that units located in IFSC claim full deduction, it is proposed to amend section 115A of the Act so as to provide that the conditions contained in sub-section (4) of section 115A shall not apply to a unit of an IFSC for under section 80LA is allowed.

This amendment will take effect from the 1st April, 2020 and will, accordingly, apply in relation to the assessment year 2020-21 and subsequent years.

Non Banking Financial Companies

A. The benefit of Section 43D of the Income Tax Act which provides that the interest income in relation to certain categories of bad and doubtful debts received by certain institutions or banks or corporations or companies, shall be chargeable to tax in the previous year in which it is credited to its profit and loss account or actually received whichever is earlier. This provision is an exception to the accrual system of accounting which is regularly followed by such assesseees for computation of total income. The benefit of this provision is presently available to public financial institutions, scheduled banks, cooperative banks, State financial corporations, State industrial investment corporations and public companies like housing finance companies. With a view to provide a level playing field to certain categories of NBFCs who are adequately regulated, it is proposed to amend section 43D of the Act so as to include deposit-taking NBFCs and systemically important non deposit-taking NBFCs within the scope of this section.

These amendments will take effect from 1st April, 2020 and will, accordingly, apply in relation to the assessment year 2020-21 and subsequent years.

B. Amendment in the Factoring Regulation Act, 2011 is proposed for the benefit of NBFCs not registered as NBFCs-Factor for participation in the TReDS platform for bill discounting.

C. In addition to the special reserve, NBFCs are required to maintain DRR for public placement of debt. Such requirement of maintaining DRR is done away with.

D. To enable sound NBFCs to continue to get bank funding, the Government to provide first loss cover up to 10% on the portfolio sold to the public sector banks.



Start-ups

- A. To further facilitate ease of doing business in the case of an eligible start-up, it is proposed to amend section 79 so as to provide that loss incurred in any year prior to the previous year, in the case of closely held eligible start-up, shall be allowed to be carried forward and set off against the income of the previous year on satisfaction of either of the two conditions stipulated currently at clause (a) or clause (b). For other closely held companies, there would be no change, and loss incurred in any year prior to the previous year shall be carried forward and set off only on satisfaction of condition currently provided at clause (a).

Under clause (a), no loss incurred in any year prior to the previous year shall be carried forward and set off against the income of the previous year, unless on the last day of the previous year, the shares of the company carrying not less than fifty-one per cent of the voting power were beneficially held by persons who beneficially held shares of the company carrying not less than fifty-one per cent of the voting power on the last day of the year or years in which the loss was incurred.

Under clause (b), the loss incurred in any year prior to the previous year shall be carried forward and set off against the income of the previous year, if, all the shareholders of such company who held shares carrying voting power on the last day of the year or years in which the loss was incurred, continue to hold those shares on the last day of such previous year and such loss has been incurred during the period of seven years beginning from the year in which such company is incorporated. The said clause was inserted vide Finance Act, 2017 in order to facilitate ease of doing business and to promote start-up India.

- B. In the FM's budget speech it was also said that, at present, start-ups are not required to justify fair market value of their shares issued to certain investors including Category-I Alternative Investment Funds (AIF). It was proposed to extend this benefit to Category-II Alternative Investment Funds also. Therefore, valuation of shares issued to these funds shall be beyond the scope of income tax scrutiny.

- C. The Government announced a new television channel for start-ups.

Start-ups

D. The existing provisions of the section 54GB of the Income-tax Act, inter alia, provide for roll over benefit in respect of capital gain arising from the transfer of a long-term capital asset, being a residential property owned by the eligible assessee. To be able to get benefit of this provision, the assessee is required to utilise the net consideration for subscription in the equity shares of an eligible company before the due date of filing of the return of income. The assessee is required to have more than fifty per cent share capital or more than fifty per cent voting rights after the subscription in shares in the eligible company. The said section, inter alia, puts restriction on transfer of assets acquired by the company for five years from the date of acquisition. Currently the benefit of this section was only available for investment in the equity shares of eligible start-ups and that period also got over on 31st March 2019. Thus, at present no benefit is available for residential property transferred after 31st March 2019.

In order to incentivize investment in eligible start-ups, it is proposed to amend the said section so as to-

- (i) Extend the sun set date of transfer of residential property for investment in eligible start-ups from 31st March 2019 to 31st March 2021;
- (ii) Relax the condition of minimum shareholding of fifty per cent of share capital or voting rights to twenty five per cent.
- (iii) Relax the condition restricting transfer of new asset being computer or computer software from the current five years to three years. This amendment will take effect from 1st April, 2020 and will, accordingly, apply in relation to the assessment year 2020-21 and subsequent assessment years.

E. The FM's budget speech clarifies that start-ups and their investors who file their requisite declarations and provide information in their return will not be subjected to any kind of scrutiny in respect of valuation of share premiums. An E Verification mechanism to be put in place.

F. The FM's budget speech also clarifies that special administrative arrangements will be made by Central Board of Direct Taxes (CBDT) for pending assessments of start-ups and redressal of their grievances. It will be ensured that no inquiry or verification in such cases can be carried out by the Assessing Officer without obtaining approval of his supervisory officer.

Alternative Investment Fund (AIF)

The existing provisions of the said section 56 of the Income-tax Act, inter alia, provide that where a company, not being a company in which the public are substantially interested, receives, in any previous year, from any person being a resident, any consideration for issue of shares that exceeds the face value of such shares, the aggregate consideration received for such shares as exceeds the fair market value of the shares shall be charged to tax. However, exemption from this provision has been provided for the consideration for issue of shares received by a venture capital undertaking from a venture capital company or a venture capital fund or by a company from a class or classes of persons as may be notified by the Central Government in this behalf. Currently the benefit of exemption is available to Category I AIF. With a view to facilitate venture capital undertakings to receive funds from Category II AIF, it is proposed to amend the said section to extend this exemption to fund received by venture capital undertakings from Category II AIF as well.

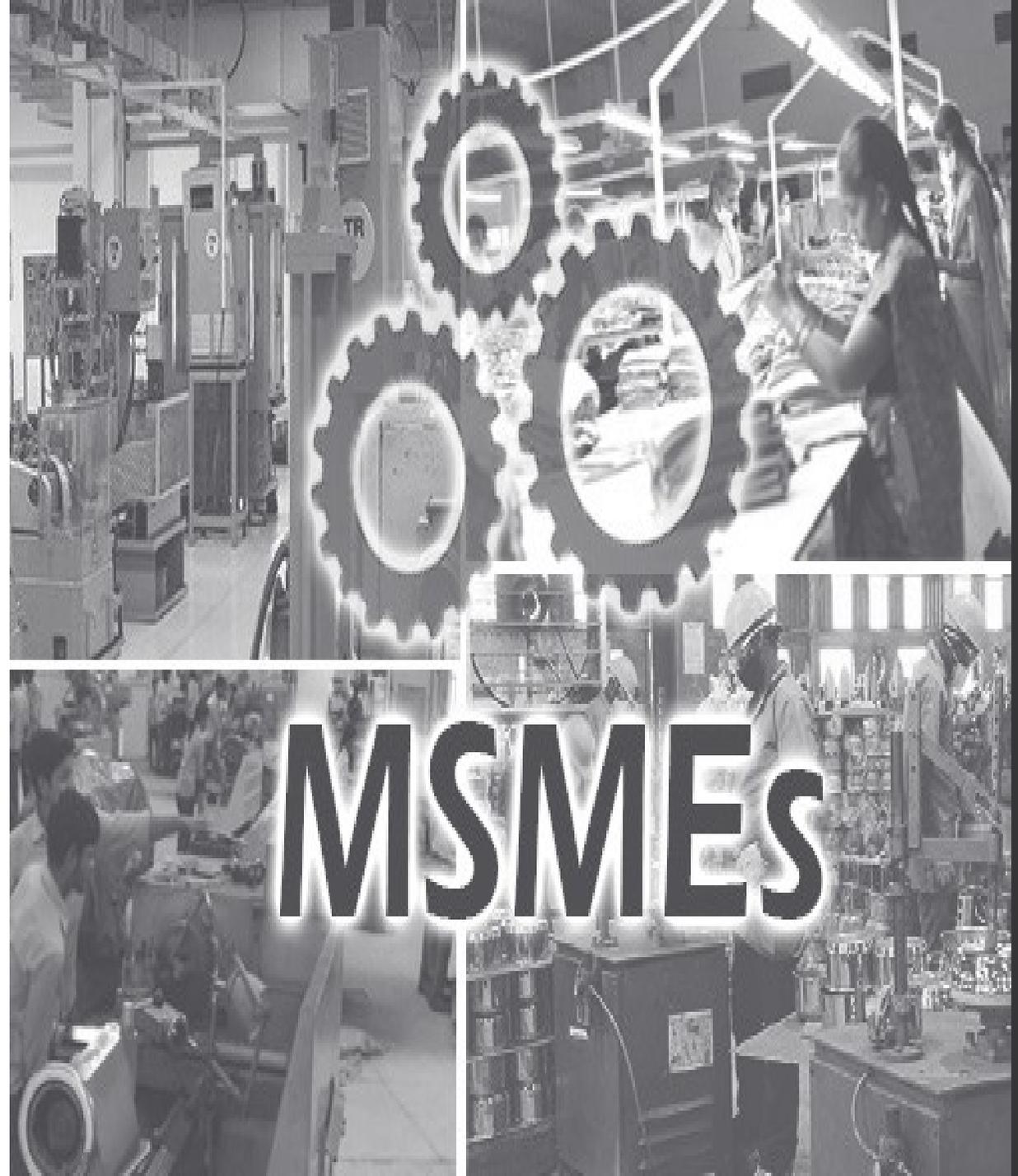
This amendment will take effect, from 1st April, 2020 and will, accordingly, apply in relation to the assessment year 2020-21 and subsequent assessment years.



MSME

In the FM's budget speech the following incentives have been provided for the MSMEs:

- Loans to MSME up to INR 1 Crore will be approved within 59 minutes through an online portal.
- Under Interest Subvention Scheme for MSMEs, INR 350 crores has been allocated for FY 2019-20 for 2% interest subvention for all GST registered MSMEs, on fresh or incremental loans.
- Government will create a payment platform for MSMEs to enable filing of bills and payment thereof on the platform itself.
- Pradhan Mantri Karam Yogi Maandhan Scheme to be launched to provide pension benefit to retail traders and small shopkeepers with annual turnover of up to INR 1.5 Crores.



Capital Markets

In the FM's budget speech the following developments and changes have been provided for the Capital Markets:

- To create a electronic fund raising platform – a social stock exchange - under the regulatory ambit of Securities and Exchange Board of India (SEBI) for listing social enterprises and voluntary organizations working for the realization of a social welfare objective so that they can raise capital as equity, debt or as units like a mutual fund.
- To get retail investors to invest in treasury bills and securities issued by the Government. Efforts made by the Reserve Bank will need to be supplemented with further institutional development using stock exchanges. For this purpose, inter-operability of RBI depositories and SEBI depositories would be necessary to bring about seamless transfer of treasury bills and government securities between RBI and Depository ledgers and for enabling this. The Government to take up necessary measures in this regard in consultation with RBI and SEBI.
- With a view to provide NRIs with seamless access to Indian equities, it is proposed to merge the NRI-Portfolio Investment Scheme Route with the Foreign Portfolio Investment Route.
- It is proposed to increase minimum public shareholding in listed companies from 25% to 35%.
- FPIs will be permitted to subscribe to listed debt securities issued by REITs and InvIT
- Disinvestment of CPSE target for FY 2019-20 is INR 1.05 Lakh Crore. Government will undertake strategic sale of PSUs. The Government will also continue to do consolidation of PSU in the non-financial sector.
- As a key source of capital to the Indian economy, it is important to ensure a harmonized and hassle free investment experience for Foreign Portfolio Investors. Hence, it is proposed to rationalize and streamline the existing Know Your Customer (KYC) norms for FPIs to make it more investor friendly without compromising the integrity of cross-border capital flows.

Capital Markets

- A Credit Guarantee Enhancement Corporation for which regulations have been notified by the RBI, will be set up in 2019-20.
- Government to prepare an action plan to further deepen the Bonds market including corporate bond repos, credit default swaps etc. with emphasis on Infrastructure sector in line with the vision.
- It is proposed to permit investments made by FIIs/FPIs in debt securities issued by Infrastructure Debt Fund – Non-Bank Finance Companies (IDF-NBFC)
- To deepen the Corporate tri-party repo market in Corporate Debt securities, Government to work with regulators RBI/SEBI to enable stock exchanges to allow AA rated bonds as collaterals.
- User-friendliness of trading platforms for corporate bonds will be reviewed, including issues arising out of capping of International Securities Identification Number (ISIN).
- Stocks exchanges can now accept “AA” rated bonds as collaterals for Corporate Tri-Party repo market.



Glossary:

| Abbreviation | Meaning |
|--------------|--|
| AIF | Alternative Investment Fund |
| AVGC | Animation, Visual Effects, Gaming and Comics |
| CPSE | Central Public Sector Enterprises |
| DTAA | Double Taxation Avoidance Agreement |
| FDI | Foreign Direct Investment |
| FII | Foreign Institutional Investors |
| FPI | Foreign Portfolio Investors |
| GDP | Gross Domestic Product |
| KYC | Know Your Customer |
| MSME | Micro, Small and Medium Enterprises |
| NBFC | Non Banking Financial Company |
| PSU | Public Sector Undertaking |
| RBI | Reserve Bank of India |
| SEBI | Securities and Exchange Board of India |
| TDS | Tax Deducted at Source |



THANK YOU

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