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NEWSFLASH

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India Interim Budget, 2019

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FOREWORD

In the wake of general elections, Narendra Modi led government announced an interim budget 2019-20 on February 1, 2019. The Interim Finance Minister Mr. Piyush Goyal laid down NDA Government's 'Ten-Dimensional Vision' for the next decade. The government envisions a modern, technology driven, high growth, equitable and transparent India.

As per the Finance Minister, the past year saw a widening of tax return base and increase in direct tax collections to INR 12 Trillion approx, with the average GST collections also witnessing a rise to INR 971 billion per month approx. He pegged the fiscal deficit at 3.4% for the year 2019-20 on account of aggressive allocations to provide income support to farmers. The current account deficit was estimated at 2.5% of GDP.

The focus of the interim budget has been on poor and backward classes, farmers and labour, with proposals for budget allocations towards various new schemes aiming at uplifting/ supporting them. While the budget was very limited with respect to the tax proposals, the aim was to address the tax burden on the middle-class. With that the interim budget, proposes full rebate to taxpayers with total taxable annual income upto INR 0.50 million, enhancement of limit of standard deduction to INR 50,000 from INR 40,000, exemption from levy of income tax on notional rent on a second self-occupied house property and extension of benefit of rollover of capital gains to two residential houses, among other reliefs.

With the aim of giving impetus to the real estate sector in India, the Government proposes certain tax benefits for the sector as well. Further, continuing with its objective of reduced personal interface with tax department, the government has envisioned all verification and assessments to be faceless, through anonymized back office in coming two years.

From Indirect taxes perspective, the thrust has been to ease compliances for smaller businesses, by enhancing limits for adoption of composition scheme and increasing the registration exemption limit to INR 4 million of turnover. Also, to promote the "Make in India" initiative, the government has undertaken rationalization of customs duties and procedures and brought across border reforms.

Overall, as expected in the election year, the interim budget highlighted the NDA Government's policy measures and their outcomes in last couple of years and appears to be more of a vision statement for coming decade, with limited changes to the current taxation regime. Specific proposals in relation to Direct and Indirect taxes, have been discussed below in following sections.

Direct Tax Proposals

1. Personal tax rates

The personal tax rates for the financial year 2019-20 (assessment year 2020-21) are as follows -

- Personal tax rates (for all Individuals, HUF, AOP and BOI)

Income (INR)	Rate %
Upto 250,000	NIL
250,001 to 500,000	5
500,001 to 1,000,000	20
Above 1,000,000	30

- Personal tax rates (for all Individuals who are at least sixty years of age but less than eighty years of age at any time during the previous year)

Income (INR)	Rate %
Upto 300,000	NIL
300,001 to 500,000	5
500,001 to 1,000,000	20
Above 1,000,000	30

- Personal tax rates (for all Individuals who are eighty years of age at any time during the previous year)

Income (INR)	Rate %
Upto 500,000	NIL
500,001 to 1,000,000	20
Above 1,000,000	30

2. Corporate tax rates

In case of a domestic company, if the total turnover or gross receipts of the company in the previous year 2016-17 do not exceed 2.5 billion the rate of Income-tax shall be 25 per cent of the total income and in all other cases the same shall be 30 per cent of the total income. In case of a company other than a domestic company, the rate of income tax shall be 40 per cent.

3. Cooperative Societies / Firms / Local Authorities

There are no changes in the tax rates.

4. Dividend Distribution Tax/ Income Distribution Tax

There are no changes in the tax rates.

5. Securities Transaction Tax

There are no changes in the tax rates.

6. Commodities Transaction Tax

There are no changes in the tax rates.

7. Surcharge

- **In the case of an Individual, Hindu undivided family, Association of Persons, Body of Individuals**

  Surcharge shall be levied at 10 per cent of such income-tax in case of a person having a total income exceeding INR 5 million but not exceeding INR 10 million, and 15 per cent of such income-tax in case of a person having a total income exceeding INR 10 million.

- **In the case of co-operative societies, firms and local authorities**

  Surcharge shall be levied at 12 per cent where the income exceeds a sum of INR 10 million.

- **In case of a domestic company**

  Surcharge at the rate of 7 per cent shall continue to be levied if the total income exceeds INR 10 million but does not exceed INR 100 million. The surcharge at the rate of 12 per cent shall continue to be levied if the total income of the domestic company exceeds INR 100 million.

- **Education Cess**

  "Health and Education Cess" shall continue to be levied at the rate of 4 per cent.

CORPORATE & BUSINESS TAXATION

- **Deduction in respect of profits and gains from housing projects**

The extant provisions of Section 80-IBA of the Act provide for a deduction of 100% of profits and gains derived from the business of developing and building housing projects provided that the project is approved by the competent authority after June 1, 2016, but on or before the March 31, 2019. It is now proposed to extend the benefits for another year i.e. upto March 31, 2020.

This amendment will take effect from April 1, 2020.

- **Other benefits to real estate sector**

The extant provisions of Section 23 of the Act provide that where property consisting of any building or land appurtenant thereto is held as stock-in-trade and the property is not let during the whole or any part of the previous year, the annual value of such property shall be taken as Nil for the period up to one year from the end of the financial year in which the certificate of completion of construction of the property is obtained from the competent authority. It is now proposed to extend the period of exemption from levy of tax on notional rent from one to two years.

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

CAPITAL GAINS

- **Taxation of long-term capital gains on sale of residential house property**

The extant provisions of Section 54 of the Act provide relief to the seller of a long-term capital asset, being buildings or lands appurtenant thereto and being a residential house, from capital gain tax if the proceeds from the sale are used to acquire or construct one residential house in India.

It is now proposed to increase the benefit of rollover of capital gains from investment in one residential house to two residential houses for a tax payer having capital gains up to INR 20 million. This option shall also be available to the taxpayer once and cannot be exercised again for the same or any other assessment year.

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

PERSONAL TAX

❖ Standard deduction on salary income

It is proposed to increase the standard deduction from INR 40,000 to INR 50,000 or the amount of salary received, whichever is less. These amendments will take effect from April 1, 2020 and will, accordingly, apply in relation to the assessment year 2020-21 and subsequent assessment years.

❖ Rebate allowable under Section 87A

The existing provisions of section 87A of the Act provide for a rebate up to INR 2500 from the income-tax payable to a resident individual if this total income does not exceed INR 5,00,000. It is proposed to amend section 87A so as to increase the maximum amount of rebate available under this section from existing INR 2,500 to INR 12,500. This amendment will take effect from April 1, 2020 and will, accordingly, apply in relation to the assessment year 2020-21 and subsequent assessment years.

❖ Notional rent of self-occupied house

The extant provisions of Section 23 of the Act provide for taxation of notional rent in cases where the taxpayer has more than one self-occupied house. It is proposed that tax on notional rent shall be levied only where a taxpayer has more than two self-occupied houses. This amendment will take effect from April 1, 2020 and will, accordingly, apply in relation to the assessment year 2020-21 and subsequent assessment years.

TAX DEDUCTED AT SOURCE

❖ Tax deduction at source on interest

It is proposed to amend section 194A of the Act to increase the threshold limit for deduction of tax at source on interest payable to a resident (other than interest on securities) from INR 10,000 to INR 40,000.

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

❖ Tax deduction at source on rent

It is proposed to amend section 194I of the Act to increase the threshold limit for deduction of tax at source on rent from INR 180,000 to INR 240,000.

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

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Indirect Tax Proposals

❖ Customs Duty

- Introduction of revised system of importing duty free capital goods and inputs for manufacture and exports;
- Single point of approval for manufacture and other operations in relation to manufacturing process or other operations in the warehouse in relation to goods as required under section 65 of the Customs Act, 1962;
- Full and comprehensive digitalization of export and import transactions; and
- Promoting Radio Frequency Identification (RFID) technology to improve export logistics.

❖ Goods and Services Tax

- Exemption limit for GST Registration for small businesses proposed to be doubled from INR 20 lakh to INR 40 lakh;
- Taxable persons having turnover of 1.5 crore may opt for Composition Scheme, wherein they pay GST at 1% flat rate and file one return annually; and
- Small service providers having an Annual Turnover in the preceding Financial Year up to INR 50 lakhs can now opt for composition scheme and pay GST at 6% (3% Central GST +3% State GST) instead of 18%.

SECTOR WISE IMPACT

INVESTMENT, EXPENDITURE AND POLICY INITIATIVES

❖ Agricultural and Rural Economy

- In order to support poor and middle classes, it is proposed to allocate fund of INR 600 billion to MGNREGA.
- In order to double the income of farmers, it has been proposed to increase MSP by 1.5 times the production cost for all 22 crops.
- PM-KISAN programme will be launched for small farmers having less than 2 hectares of land as per which an assured income support of INR 6,000 per year would be provided in 3 instalments and transferred directly to farmer's bank accounts. A sum of INR 750 billion has been allocated for the said programme.
- To provide 2% interest subvention and additional 3% interest subvention upon timely repayment of loan in case where farmers are affected by natural calamities and assistance provided from NDRF.
- To allocate fund of INR 190 billion to PMGSY scheme.

❖ Animal Husbandry and Fisheries

- In order to support animal husbandry and fisheries sector, an allocation for Rashtriya Gokul Mission has been increased to INR 7.5 billion.
- Rashtriya Kamdhenu Aayog scheme will be set up for animal husbandry to enhance production and productivity of cows.

- A separate Department of Fisheries will be set up for the development of fisheries sector.
- It is proposed to provide 2% interest subvention for farmers pursuing activities of animal husbandry & fisheries and additional 3% interest subvention upon timely repayment of loan.

❖ **Labour and Workers Welfare**

- Government Contribution in NPS has been proposed to increase to 14% of the basic salary of the employees keeping the employee contribution at 10%.
- Maximum bonus Ceiling for labourers of the unorganized sector has been proposed to increase from INR 3,500 per month to INR 7,000 per month.
- Maximum pay ceiling for labourers of the unorganized sector has been proposed to increase from INR 10,000 per month to INR 21,000 per month.
- Payment ceiling for tax free gratuity will be increased from INR 1 million to INR 2 million.
- Ceiling of ESI eligibility cover will be increased from INR 15,000 per month to INR 21,000 per month.
- Minimum pension for every labourer is fixed at INR 1,000 per month.
- In the case of deceased labour, the amount to be paid by EPFO is proposed to be enhanced from INR 0.25 Million to INR 0.6 Million.
- Grant will be enhanced by about 50% for all workers under Anganwadi and Asha Yojna.
- A mega Pension Yojna namely “Pradhan Mantri Shram-Yogi Maandhan” will be launched to provide an assured monthly pension of INR 3,000 to the employees of unorganised sector with a monthly income of INR 15,000.

❖ **Empowering Youth**

- Nine priority areas will be identified for establishment of National Centre on Artificial Intelligence to take the benefits of Artificial Intelligence and related technologies.
- A National Programme on Artificial Intelligence will be launched.

❖ Medium, Small and Micro Enterprises (MSMEs) and Employment

- To strengthen MSME Sector, a scheme of sanctioning loans up to INR 10 million in 59 minutes has already been launched.

- Further, the benefit of 2% Interest rebate on incremental loan of INR 10 million has been proposed to extend to GST registered SMEs.

❖ Infrastructure Development and Digital Economy

- Container cargo movement will be introduced for improving the navigation capacity of the Brahmaputra River.

- Allocation for Infrastructure development to North Eastern states is proposed to increase by 21%.

- It is proposed to make 1 lakh villages into Digital villages over next 5 years.

GLOSSARY	
EPFO	Employees Provident Fund Organisation
ESI	Employee State Insurance
MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
MSP	Minimum Support Price
NDRF	National Disaster Relief Fund
NPS	New Pension Scheme
PMGSY	Prime Minister Gram Sadak Yojana
PM-KISAN	Pradhan Mantri Kisan Samman Nidhi

ABOUT US

Nangia Advisors LLP is a premier professional services organization offering a diverse range of Taxation, Transaction Advisory and Business Consulting services. Nangia Advisors LLP has presence currently in Noida, Delhi, Gurugram, Mumbai, Dehradun and Singapore.

Quality of our people is the cornerstone of our ability to serve our clients. For this reason, we invest tremendous resources in identifying exceptional people, developing their skills, and creating an environment that fosters their growth as leaders. From our newest staff members through senior partners, exceptional client service represents a dedication to going above and beyond expectations in every working relationship.

We strive to develop a detailed understanding of our clients' business and industry sector to offer insights on market developments and assist our clients develop effective strategies and business models. We have the resources and experience necessary to anticipate and competently serve our clients on issues pertaining to all facets of Tax and Transaction Advisory. We take pride in our ability to provide definite advice to our clients with the shortest turnaround time. The business and tax landscapes have changed dramatically, and the pace and complexity of change continues to increase. We can assist you navigate this shifting landscape.

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