KPMG

India Union Budget 2020

Pushing the agenda for growth

February 2020

home.kpmg/in

Foreword

The Modi Government in its first term aimed for a paradigm shift in the governance characterised by a twin focus of fundamental structural reforms and inclusive growth. In 2019, the Modi Government bounced back to power with a massive mandate, renewed vigor and with a commitment to serve the people of India. The nation eyed on how the government will walk the tight rope of balancing growth and inflation without raising the fiscal deficit significantly and will focus on revival of demand by ensuring disposable surplus to steer the economy back in progress.

From the previous budget till date, the Government has brought in a series of reforms to provide stimulus to the economy, generate employment and attract foreign investments. These initiatives include reduction of the corporate tax rates, Goods and Services Tax Reforms, relaxing FDI norms, capital infusion for PSU Banks, setting up funds for stressed projects for real estate and infrastructure sectors, providing exit routes to companies through the Insolvency and Bankruptcy Code, ease of doing business in India, etc.

Despite the rampant global economic volatility emanating out of on-going trade war, impact of Brexit, falling trade intensity leading to a downfall in the overall exports of India and weakened business confidence, India has continued its effort to put the economy on a growth trajectory and become the world's fifth largest economy.

The 2019-20 Economic Survey builds on India's aspiration to be a USD5 trillion economy with its theme of Wealth Creation. The survey identifies two key pillars for furthering wealth creation in the economy – the invisible hand of markets supported by the hand of trust – and emphasises on new ideas to boost growth and accelerate wealth creation such as Thalinomics, adopting a Chinese formula to focus on labour-intensive exports and boosting jobs, promoting pro-business policies, trust and so on. The Survey presents a glimmer of hope as the crushing slowdown may finally release its grip as it predicts India's GDP growth rate at 6-6.5 per cent in the Financial Year 2021.

The Union Budget 2020 was presented by the Finance Minister with an objective to boost income and enhance purchasing power. The Budget 2020 is woven around three prominent themes a) Aspirational India b) Economic Development and c) Caring Society. In furtherance of these prominent themes, the government has made several policy announcements to leapfrog the nation to the next level of health, prosperity and well-being.

The need of the hour is to revive growth in the economy and therefore Budget 2020 aims to relax India's fiscal deficit at 3.8 percent for Financial Year 2020 and 3.5 percent for Financial Year 2021 as against the widely touted target of 3.3 percent.

With a view to doubling farmers' income by 2022, amongst other things, government has adopted 16 action points to indicate its focus. The government has also made several policy announcements including to develop five new smart cities in collaboration with states in public-private partnership (PPP) mode, commitment to the infrastructure sector, to further digitalisation e.g. by building data centre parks throughout the country and proposes to sell a part of its holding in LIC by way of Initial Public Offer.

The Finance Minister announced a noteworthy new optional personal income-tax regime wherein income tax rates are significantly reduced subject to foregoing of certain deductions and exemptions for personal taxpayers.

Foreword

In order to give a further impetus to the corporate sector and make the Indian equity market attractive for the foreign investors, the Budget announced the long awaited and widely anticipated proposal of abolishing dividend distribution tax for the corporate taxpayers and making dividends taxable in the hands of the recipients. In order to reduce direct-tax litigations, the Budget, taking a cue from the successful implementation of the indirect tax scheme introduced in 2019, proposes to launch the 'Vivad Se Vishwas' scheme to resolve dispute pending at any level. Under this scheme only disputed taxes are to be paid till 31 March 2020 and waiver of interest and penalty shall be provided. The amounts paid after this date to be higher and the scheme to remain open till 30 June 2020.

The Budget also proposes tax exemption for non-resident sovereign funds and subsidiaries investment in infrastructure sector to meet India's increasing requirement in the said Sector. Other significant changes proposed by the Finance Minister include extending faceless proceedings to income-tax appeals and penalty proceedings, rationalisation of provisions for start-ups, incentives to promote affordable housing, levying TDS on e-commerce transactions, levy of TCS on overseas remittance under Liberalized Remittance Scheme and on selling of overseas tour packages, tightening tax residency provisions including for Indian citizens, adoption of Taxpayer's Charter and increase in tax audit turnover threshold by five times for small and medium enterprises.

The Finance Minister reiterated the proposed measures for improving GST compliances such as introduction of E-invoicing from 1 April 2020, introduction of new return format, efficacious refund process, rationalization of GST rates, etc. Further, scheme has been proposed to extend cash rewards to incentivise customers to seek invoice. To dissuade fraudulent practices, several new measures such as Aadhar-based verification, deep data analytics and AI tools are being used by the government. Additionally, prosecution provisions have been made more stringent and has now been extended to persons on whose instance tax evasion is being affected.

On the customs front, most of the changes such as review of rules of origin, strengthening of provisions relating to safeguard duty and anti-dumping duty, have been made to protect domestic manufacturing.

Similarly, to discourage import of finished goods, duty rates have been increased on many goods such as footwear, furniture, coffee and tea makers, etc.

A new levy of Health Cess at the rate of 5 per cent ad valorem is imposed on import of specified medical devices in addition to Customs duty. Further, procedure would be introduced to create Electronic duty credit ledger for issuance of duty credit to exporters.

Union Budget 2020, with an aim to bring further stimulus to the slowing Indian economy, has focused on several items for 'ease of living' and 'ease of doing business'. From slashing tax rate for individuals under an optional new regime to boosting infrastructure, the Government has endeavored to rationalise the tax system. Though more could have been achieved on several fronts, it is hoped that there will be relentless execution of the good policy intent and announcements made in the Union Budget 2020 to ensure that India achieves its cherished target of becoming a USD5 trillion economy by 2024.

Economic indicators

GDP growth

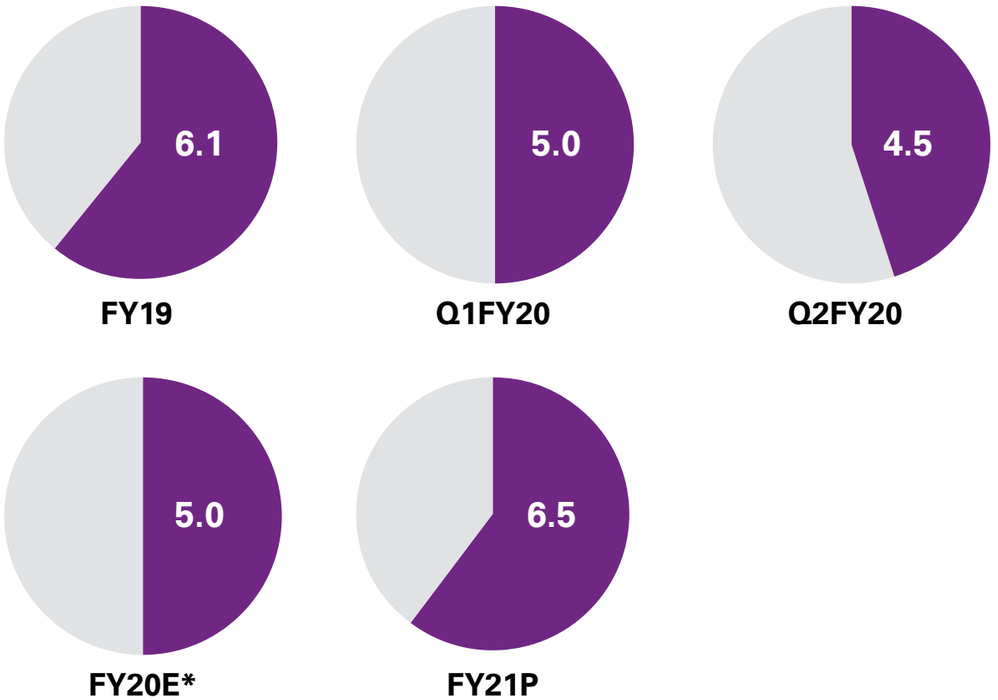
The Indian economy is expected to register a growth rate of 5.0 per cent in FY 2020. The GDP growth fell to 4.5 per cent in Q2 FY 2020, the lowest since Q4 FY 2013.[1]

The economy is projected to grow at 6-6.5 per cent in FY 2021 led by a boost from public sector expenditure.[2] The government's focus on boosting the agriculture sector and infrastructure development should place the Indian economy back on the growth trajectory.[3]

Moody's Investors Service changed India's sovereign rating to Baa2 negative from Baa2 stable due to the weaker economic growth outlook and lower government and policy effectiveness.[4]

Food grain production in FY 2019 stood at 285 million tonnes.[5]

GDP growth (2011-12 base) (YoY, %)



***Note:** First Advanced Estimates

Source: Dashboard, MOSPI; IMF cuts India's FY20 growth forecast to 4.8%, Economic Times, 20 January 2020

The agricultural sector grew at 2.1 per cent in Q2 FY 2020 compared with previous year's 4.9 per cent. The total production of kharif food grains declined marginally compared with 2018-19, according to the first advance estimates of 2019-20 of 140.6 million tonnes.[6]

1. India Union Budget 2020, Ministry of Finance, 1 February 2020
2. India Union Budget 2020, Ministry of Finance, 1 February 2020
3. IMF cuts India's FY20 growth forecast to 4.8%, Economic Times, 20 Jan 2020
4. Moody's lowers India's outlook to 'negative' from 'stable'; cites increased risks to economic growth recovery, First Post, 08 November 2019
5. Economic Report-November 2019, DEA, accessed on 29 January 2020
6. Economic Report-November 2019, DEA, accessed on 29 January 2020

Economic indicators

The industrial sector grew at 0.5 per cent in Q2 FY 2020 from 2.7 per cent in Q1 FY 2020. This was on account of a slowdown in utility, mining and construction services. Although the service sector grew at a stable rate of 6.8 per cent in Q2 FY 2020 compared with 6.9 per cent in Q1 FY 2020.[7]

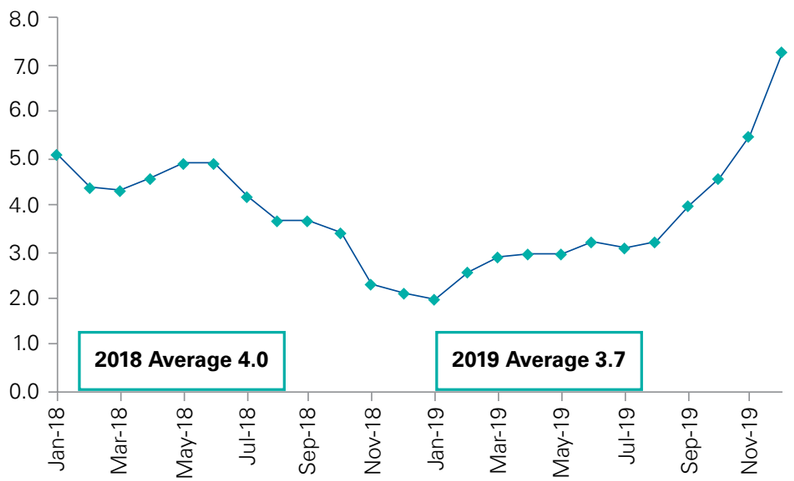
Consumer Price Index (CPI) and IIP Index of Industrial Production (IIP)

The CPI-combined inflation has been volatile throughout FY 2020 (April-December), with an average rate of ~4.1 per cent.[8,9]

The CPI-based combined inflation declined to 4.1 per cent in FY 2020 (April-December) from 3.8 per cent in FY 2019 (April-December).[10,11]

Inflation declined to a low of 2.0 per cent during January 2019. Since then, it has been on a consistent upward trajectory, reaching 7.3 per cent in December 2019.[12] The increase can be attributed to food inflation.

CPI headline inflation (in per cent)



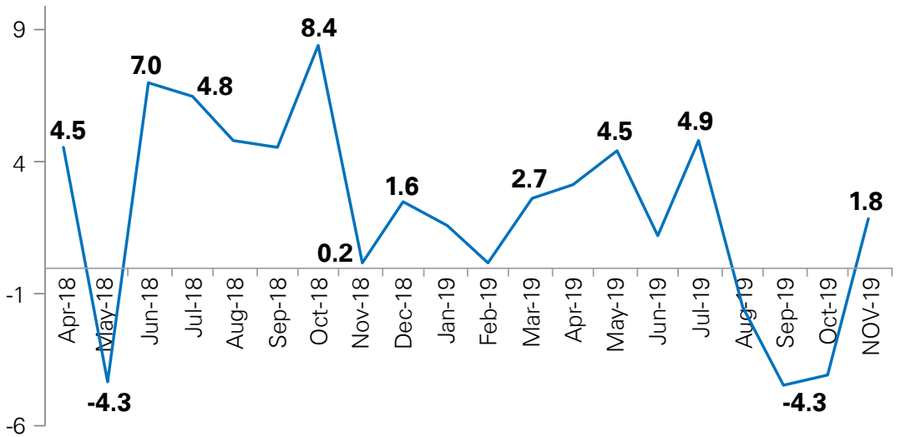
Source: Monthly Economic Report-November 2019, DEA, accessed on 29 January 2020; Key Economic Indicators, MOSPI, Updated as on 29 January 2020

In FY 2020 (April-October 2019), IIP grew 0.5 per cent compared with 5.7 per cent in the same period during FY 2019.[13] The decline in IIP is mainly due to subdued manufacturing and mining activities in H1 FY 2020 due to weaker investment activity owing to a structural slowdown.[14] The index demonstrated negative growth during August-October 2019, while it grew 1.8 per cent in November 2019.[15]

7. Economic Report-November 2019, DEA, accessed on 29 January 2020
8. Monthly Economic Report-November 2019, DEA, accessed on 29 January 2020
9. Higher CPI amidst low growth rate to put RBI's MPC in a dilemma, India Macro Advisors, 13 January 2020
10. Monthly Economic Report-November 2019, DEA, accessed on 29 January 2020
11. Higher CPI amidst low growth rate to put RBI's MPC in a dilemma, India Macro Advisors, 13 January 2020
12. Higher CPI amidst low growth rate to put RBI's MPC in a dilemma, India Macro Advisors, 13 January 2020
13. Monthly Economic Report-November 2019, DEA, accessed on 29 January 2020
14. What the IIP Freefall Suggests for GDP Growth In Q2, Bloomberg Quint, 12 November 2019
15. IIP growth at 1.8% in November, back in positive zone, Moneycontrol, 10 January 2020

Economic indicators

IIP growth (2011-12 base) (YoY, per cent)



Source: Dashboard, MOSPI, Accessed on 29 January 2020

Government expenditure

In the last quarter of FY 2020, GFCE is likely to grow at a healthy pace. PFCE is expected to grow moderately and boost GDP growth.

In Q2 FY 2020, GFCE grew 15.6 per cent compared with 10.9 per cent in Q2 FY 2019 to fuel GDP growth, as investments and consumer demand were low.[16]

In Q2 FY 2020, PFCE grew 5.1 per cent compared with 9.8 per cent in Q2 FY 2019, indicating a slowdown in consumption.[17] Nonetheless, consumption was higher compared with 3.1 per cent in Q1 FY 2020.[18]

Foreign investments

In terms of foreign investments, capital markets saw the second-highest capital infusion in FY 2020 over the last five years.

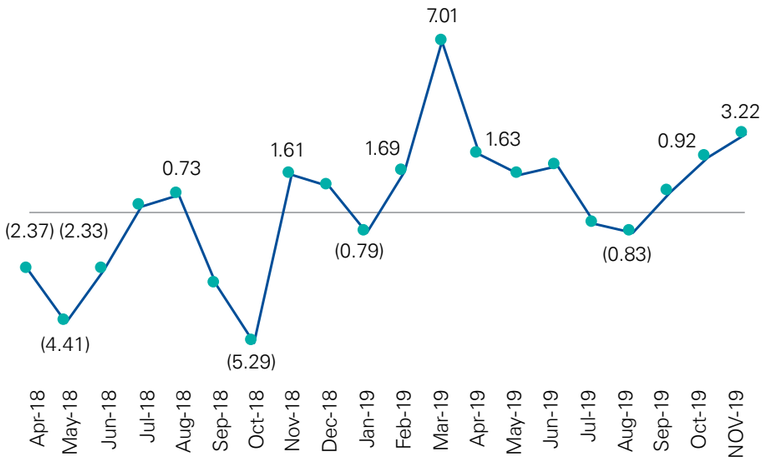
IIn FY 2020 (April-December), India had an overall net inflow of USD 11.19 billion in FII and FPI.[19] The strong inflow was backed by a good monsoon, strong FDI inflows and a slew of measures taken by the government to boost the economy.

In FY 2020 (April-December), sectors such as personal products, insurance and media saw continuous inflow of foreign investments. Sectors such as metals and mining, banks, capital goods and consumer durables have seen a positive inflow since September 2019.[20]

16. How government expenditure drove India's GDP growth in the July to September quarter, The Hindu, 04 December 2019
17. How government expenditure drove India's GDP growth in the July to September quarter, The Hindu, 04 December 2019
18. How government expenditure drove India's GDP growth in the July to September quarter, The Hindu, 04 December 2019
19. FPI/FII inflows, CDSL website updated as of 6.01.2020, accessed on 30 January 2020
20. Media, insurance top FPI picks of FY20; will the trend continue?, Moneycontrol, 17 December 2019

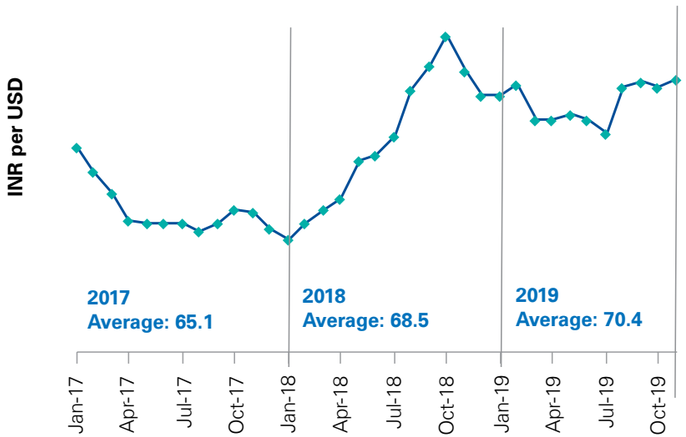
Economic indicators

Net FII/FPI flow (USD billion)



Source: FPI Monitor, NSDL, Accessed on 29 January 2020

Exchange rate (INR/USD)



Source: Economic Report-November 2019, DEA, accessed on 29 January 2020; Key Economic Indicators, MOSPI, Updated as on 29 January 2020

The Indian rupee has been appreciating since October 2018 due to strong foreign portfolio inflows and lower oil prices.[21,22]

Indian trade

Merchandise trade in India has been affected by the slowdown in global trade. However, in terms of services trade, India's position marginally improved in FY 2020.

The overall trade deficit of India in FY 2020 (April-October) fell 31.5 per cent to USD48.92 billion compared with USD71.45 billion in FY 2019.[23]

In FY 2020 (April-November), total merchandise exports from India saw a decline of 2.0 per cent. Simultaneously, imports declined 8.9 per cent YoY, mainly on account of a decline in crude oil imports due to lower demand and crude oil prices.[24]

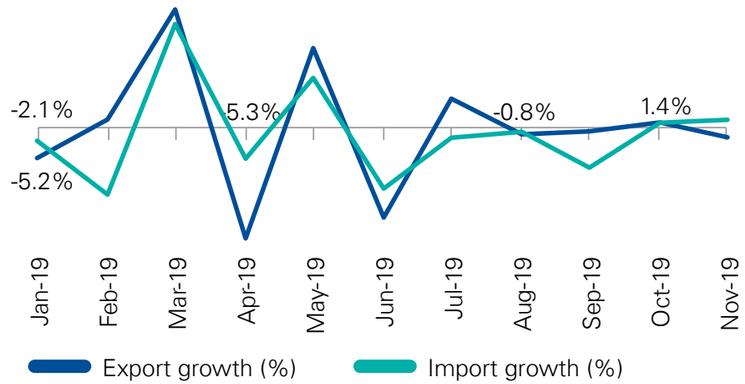
In FY 2020 (April-October), total services exports from India increased 8.5 per cent. Simultaneously, imports grew 13.5 per cent.[25]

The outlook of exports for 2020 looks positive, with exporters' order books picking up. In FY 2021, merchandise exports are expected to increase 15 per cent, led by an improvement in the global trade scenario.[26]

21. Monthly Economic Report-November 2019, DEA, accessed on 29 January 2020
22. Higher CPI amidst low growth rate to put RBI's MPC in a dilemma, India Macro Advisors, 13 January 2020
23. Monthly Bulletin on Foreign Trade Statistics - December 2019, DGFT, Accessed on 29 January 2019
24. Monthly Bulletin on Foreign Trade Statistics - December 2019, DGFT, Accessed on 29 January 2019
25. Monthly Bulletin on Foreign Trade Statistics - December 2019, DGFT, Accessed on 29 January 2019
26. FY20 merchandise exports likely at $330-340 billion: FIEO, Economic Times, 30 December 2019

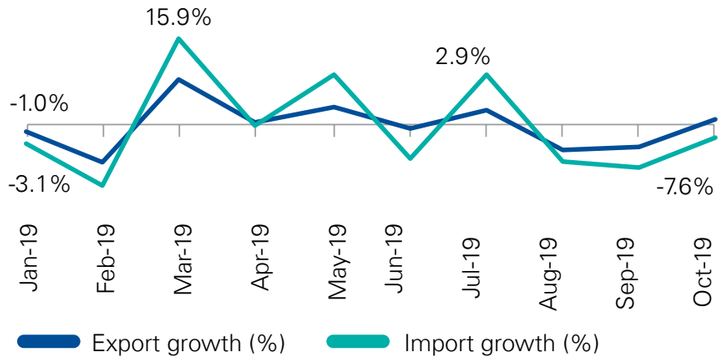
Economic indicators

Merchandise trade growth (in per cent)



Source: Monthly Bulletin on Foreign Trade Statistics - December 2019, DGFT, Accessed on 29 January 2019

Service trade growth (in per cent)



Source: Monthly Bulletin on Foreign Trade Statistics - December 2019, DGFT, Accessed on 29 January 2019

Overview of economic measures undertaken in India during FY 2019

The government undertook several reforms post May 2019 to drive structural changes in the economy and address underlying issues.

The government has infused INR70,000 crore in public sector banks to increase market liquidity. The government plans to spend INR100 lakh crore on infrastructure development over the next five years.[27]

PM Kisan Yojana of providing INR6,000 per year to farmers has been extended to all farmers.[28]

Retail traders and shopkeepers would get pension of INR3,000 every month after the age of 60, having an annual turnover of less than INR1.5 crore.[29]

The government revised its corporate tax rate by reducing it to 22 per cent from 30 per cent earlier.

The government also provided an additional tax deduction of INR1.5 lakhs on interest paid on loans taken for electric vehicles.

The RBI's Monetary Policy Committee cut the repo rate to 5.15 per cent, bringing it down by 135 bps since February 2019 to boost economic growth.[30]

27. Monthly Economic Report-November 2019, DEA, accessed on 29 January 2020
28. Economic Report-November 2019, DEA, accessed on 29 January 2020
29. Economic Report-November 2019, DEA, accessed on 29 January 2020
30. RBI keeps repo rate unchanged: What does this mean for your loans and fixed deposits?, Economic Times, 06 December 2019

Economic indicators

The government has either permitted 100 per cent FDI or increased the FDI share in coal mining, contract manufacturing, single brand retail and media for improving the ease of doing business in the country.

The government introduced banking and financial sector reforms to increase credit and announced export promotion schemes to boost exports.

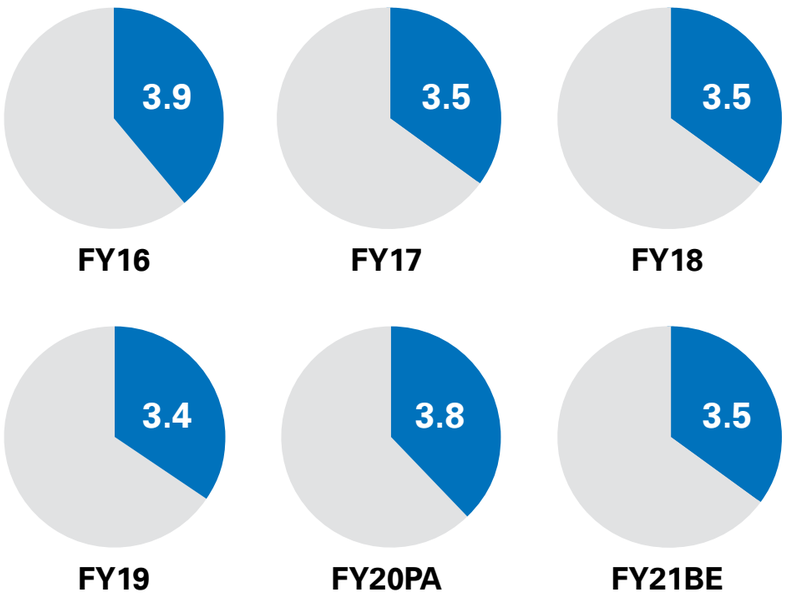
Sector relief policies have been introduced for housing, auto and MSMEs.

The government revised its fiscal deficit target for FY 2020 to 3.8 per cent and has budgeted its FY21 estimate at 3.5 per cent.[31]

The government's focus on technology, job creation and the agriculture sector could provide the necessary thrust to the economy.

As FY 2021 approaches, the government is expected to undertake several reforms, such as GST reforms, sector-specific incentives, divestments, cash-flow boost for middle-class tax payers, low tax rate for partnerships and agriculture infrastructure investments.

Fiscal deficit as % of GDP



Source: Economic Report-November 2019, DEA, accessed on 29 January 2020; Key Economic Indicators, MOSPI, Updated as on 29 January 2020

31. India Union Budget 2020, Ministry of Finance, 1 February 2020

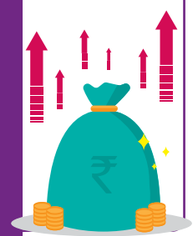
India's finances at a glance

Expenditure

	General service	Economic Service	Grants-in-aid	Social services	Loans & advances
2019-20 (Revised estimates)	48%	28%	18%	5%	1%
2020-21 (Budget estimates)	46%	29%	19%	5%	1%

2019-20
100% = USD383.35 billion

2020-21
100% = USD432.17 billion

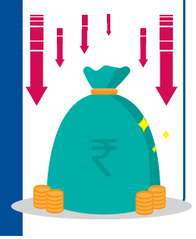


Receipts

	Debt receipts	Tax revenue	Non-tax revenue	Miscellaneous capital receipts	Recoveries of loans and advances
2019-20 (Revised estimates)	28%	56%	13%	2%	1%
2020-21	27%	53%	12%	7%	1%

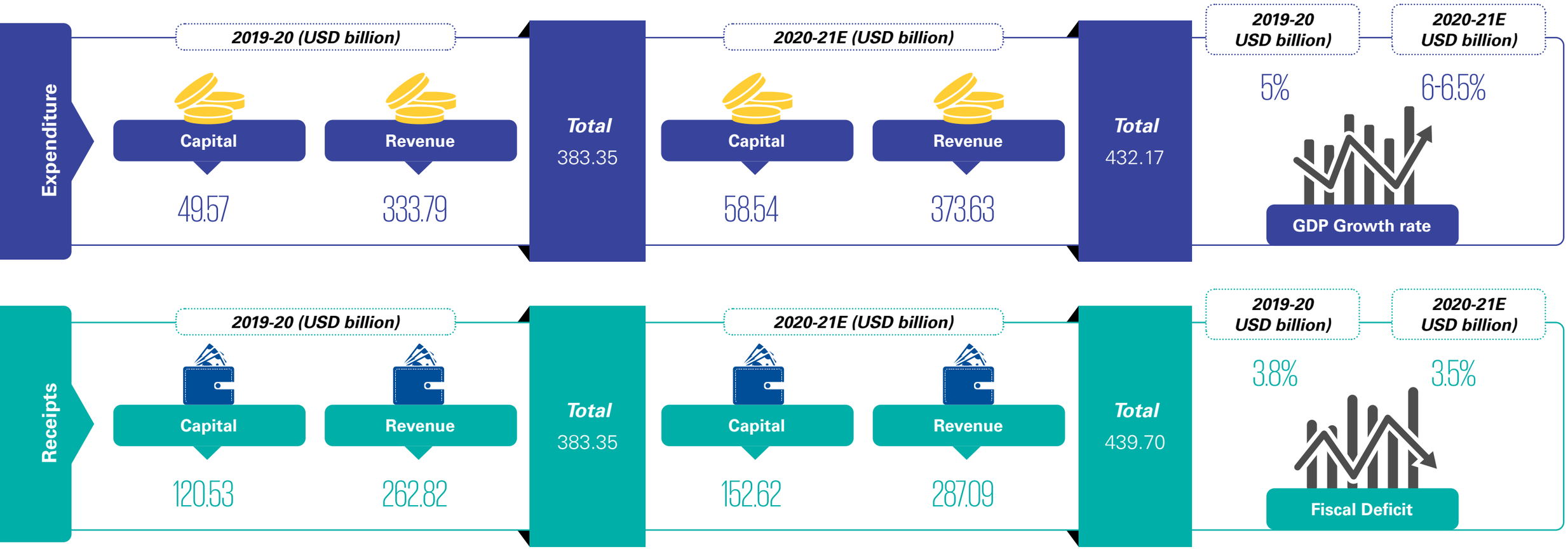
2019-20
100% = USD383.35 billion

2020-21
100% = USD439.70 billion



Note: The total receipts have been calculated as the summation of capital receipts and revenue receipts **Source:** India Union Budget 2020, Ministry of Finance, 1 February 2020 **Note:** Conversion rate USD/INR – 70.394 is average of 2019, Source: Internal Revenue Services

India's finances at a glance



Note: The total receipts have been calculated as the summation of capital receipts and revenue receipts **Source:** India Union Budget 2020, Ministry of Finance, 1 February 2020 **Note:** Conversion rate USD/INR – 70.394 is average of 2019, Source: Internal Revenue Services

Budget proposals

Direct tax

Corporate tax - DDT

- The dividends declared, distributed or paid by domestic companies to shareholders or income paid by mutual funds to unitholders not to be subjected to DDT but would be taxable for the recipient shareholders or unitholders as per applicable tax rates. The recipients of such income would be eligible for maximum interest expense to the extent of 20 per cent of such income in the previous year.
- The domestic companies declaring dividends to resident shareholders or mutual funds declaring income to resident unitholders, obligated to withhold taxes at the rate of 10 per cent, subject to applicable threshold. In case of non-residents, the tax is required to be withheld at the rate of 20 per cent or as per lower beneficial tax treaty rate.
- The dividend received by a domestic company from another domestic company to be set-off while calculating its total income, to the extent of dividends further distributed by it upto one month prior to the due date of filing of return. This benefit is available also to domestic companies opting for lower rate of 15 percent or 22 percent as introduced with effect from FY19-20.

Start-up

- The total business turnover limits in any previous year for the start-ups to claim profit-linked deduction increased from INR25 crore to INR100 crore. Further, the eligibility period for claiming such deduction in three consecutive years expanded to 10 years from the year of incorporation from the existing period of seven years.

Non-resident taxation

- The existing SEP provisions constituting taxable business connection for non-residents omitted from AY 2021-22 and re-introduced from AY 2022-23 as the aggregate amount of specified transactions and the relevant number of users for making the underlying rule in this regard is pending due to ongoing discussions in G20-OECD BEPS project and their outcome is expected only by the end of December 2020.
- The business connection rule and the source rule for SEP expanded to include income from (i) advertisement that targets customers residing in India or having internet protocol address located in India (ii) sale of data collected from person residing in India or having internet protocol address located in India; (iii) sale of goods and services using data collected from person residing in India or having internet protocol address located in India.
- The purpose of entering into DTAA aligned with Multilateral Instrument by stipulating that the central government can enter into an agreement with the government of any country outside India or specified territory outside India for the avoidance of double taxation without creating opportunities for non-taxation or reduced taxation through tax evasion or avoidance (including through treaty-shopping arrangements aimed at obtaining reliefs stipulated in any agreement for the indirect benefit of resident of any other country or territory).

Budget proposals

Direct tax

- The exclusion from the ambit of royalty taxable for non-residents as income deemed to accrue or arise in India with respect to sale, distribution or exhibition of cinematographic films deleted and such payments to become taxable under the Act in India. (Subject to relief if any under tax treaty).
- The non-resident or a foreign company earning only royalty or FTS income from India, not connected to a permanent establishment, exempted from filing return of income, if taxes withheld as per applicable rates in force.
- The exception from taxation of indirect transfer for non-residents having investment in erstwhile FPIs registered under SEBI FPI Regulations 2014 grandfathered and such exception granted to their investments in FPIs registered under SEBI FPI Regulations 2019.
- The conditions relating to an offshore fund exemption from business connection in India qua an eligible fund Manager modified as follows (i) for the purpose of calculating the aggregate participation or investment in the fund directly or indirectly by Indian residents to the extent of 5 per cent of the corpus of the funds, the contribution made by the eligible fund manager during the first three years of operations up to INR25 crores shall not be accounted and (ii) the condition of monthly average of the corpus of the fund not to be less than INR100 crore for fund established or incorporated in the previous year to be fulfilled within twelve months from the last day of the month of its establishment or incorporation as against the current period of six months. This amendment will take effect from FY19-20.
- Tax exemption provided for income from dividend, interest or long-term capital gains to a wholly-owned UAE resident subsidiary of Abu Dhabi Investment Authority from funds owned by the government of UAE and by any other Sovereign Welfare Fund (fulfilling prescribed conditions) from any investment in India made in any debt or equity provided that the:
  - Investment is made in Infrastructure facility as defined or any other notified business.
  - Investment is made on or before 31 March 2024.
  - Investment is held for at least three years.

Transfer pricing

- The determination of profits attributable to the PE in India of a non-resident brought within the scope of APA and Safe Harbour Regime
- The interest paid to an Indian PE (Branch) of a non-resident bank excluded from the ambit of thin capitalisation rules under the Transfer Pricing provisions
- All the provisions of the Act which mandate filing of an audit report along with the return of income or by the due date of filing of return of income amended to furnish the same at least one month prior to the due date of filing of such return of income. This

amendment also applies to the Transfer Pricing Accountant's Report. This amendment will take effect from FY19-20.

Capital gains

- The safe harbour limit for taxing sale of immovable property (land or building or both) held either as stock in trade or capital asset and purchase/gift of immovable property (as stipulated) in comparison with the value adopted for stamp duty purposes increased from 5 per cent to 10 per cent.

  In the case of computing capital gains from a capital asset being land or building or both acquired prior to 1 April 2001, where an option is available to take the FMV of such asset as on 1 April 2001 or actual cost of asset as the cost of acquisition for such computation, the FMV as on 1 April 2001 shall not exceed the stamp duty value as of that date.

Tax incentives

- For availing the concessional corporate tax rate regime of 15 per cent, the scope of business of manufacture or production of any article or thing expanded to include the business of generation of electricity. This amendment will take effect from FY19-20.
- The timeline for obtaining approval from the competent authority to develop and build affordable housing projects eligible for tax deduction extended by one year from 31 March 2020 to 31 March 2021.
- The deduction of 100 percent of capital expenditure as investment-linked incentive to specified business made optional and thereby making claim of tax depreciation on such capital assets possible including for domestic company opting for concessional tax rate. Further, no deduction of such 100% capital expenditure claimed as investment linked incentive to be allowed under any other sections. This amendment will take effect from FY19-20.
- The benefit of carrying forward of accumulated losses and unabsorbed depreciation allowance of the amalgamating bank with the other banking institution now extended in respect of the merger/amalgamation of public sector banks. This benefit has also been extended in respect of the merger/amalgamation of public sector General Insurance Companies. This amendment will take effect from FY19-20.

Return and assessment

- The due date of filing the return of income of companies and other assessees not obliged to file the transfer pricing accountant's report extended from 30 September to 31 October. In such cases, in order to claim various deductions and meet filing audit report obligations (e.g. tax audit, etc.), the necessary audit reports along with Tax Audit Report shall be filed one month prior to the due date. This change is intended to facilitate a pre-filled income-tax return form for the taxpayers. Further, such due date

which earlier only applied to working partner now made applicable to all partners of the partnership firm.

- The return of income of a company or LLP can now be verified by any other person, as may be prescribed by CBDT in addition to the current prescribed signatories.
- The filing of prescribed accountant's report certifying computation of book profits to be submitted one month prior to the due date of filing of return of income for non-transfer pricing cases. The said provision takes effect from 1 April 2020.
- In cases of information received from the prescribed authority, the survey operations can now be conducted only by or with the prior approval of the Joint Commissioner or Joint Director. In any other case, the surveys are to be conducted by or with the prior approval from the Commissioner or Director.
- The scope of reference to DRP modified to include (i) all cases where the AO proposes to make any variation which is prejudicial to the interest of the eligible assessee (ii) ambit of eligible assessee who can file DRP expanded to include all non-resident as compared to foreign company earlier.

New Dispute Resolution Scheme (Vivad se Vishwas Scheme)

- A New Dispute Resolution Scheme (Vivad se Vishwas Scheme) under which the taxpayer would be required to pay only the amount announced of disputed taxes and will get complete waiver of interest and penalty if such disputed taxes are paid by 31 March 2020. The availment of this scheme post 31 March 2020 to result in payment of some additional amount. The scheme would remain open till 30 June 2020 and will apply to taxpayers in whose cases appeals are pending at any level.

TDS

- On payments otherwise not subject to TDS, an ecommerce operator is obliged to deduct tax at 1 per cent on payments to the e-commerce participant for the sale of goods/provision of services through the e-commerce operator's digital/electronic facility or platform even if payment is made directly by the purchaser to the e-commerce participant. If the e-commerce participant is an individual/HUF, then TDS at 1 per cent would be applicable only if the payment/credit by the e-commerce operator in the given financial year exceeds INR5 lakhs subject to furnishing of PAN/Aadhar by the Individual/HUF. If no PAN is furnished by the e-commerce participant, then higher TDS applies i.e. 5 per cent or higher rate as applicable. The amendment will take effect from 1 April 2020.
- The REIT/InVIT while distributing dividend income with unitholders now obliged to withhold tax at the rate of 10 per cent for both non-resident and resident unitholders.
- For applying the concessional withholding tax rate of 5 per cent by an Indian company or a business

trust in respect of interest paid to non-residents for monies borrowed in foreign currency, the time limit for entering into a loan arrangement or issue of any long-term bond including long-term infrastructure bond, extended from 30 June 2020 to 30 June 2023.

- A concessional withholding tax rate of 4 per cent to apply on interest paid to non-residents in respect of monies borrowed from a source outside India by way of issue of any long-term bond or rupee denominated bond on or after 1 April 2020 but before 1 July 2023 which is listed on a recognised stock exchange in any International Financial Services Centre.
- The concessional withholding tax rate of 5 per cent on interest payable to FPI on rupee denominated bonds of an Indian company or a prescribed government security extended to interest payable from 30 June 2020 to 30 June 2023.
- The concessional withholding tax rate of 5 per cent on interest payable on or after 1 April 2020 but before 1 July 2023 in respect of investments made by the FPI extended to investments made by them in prescribed municipal debt securities.
- An individual and HUF will continue to be liable to deduct TDS on various domestic payments if his turnover from business exceeds INR1 crore notwithstanding the increase in limits for audit of books of accounts
- The definition of 'work' for TDS in respect of contract manufacturing expanded to include provision of raw material from an associate of the customer as stipulated under the domestic related party payment deduction rules.
- The rates of TDS in respect of payment of technical services (other than professional services) to residents (as stipulated) reduced to 2 per cent from the existing 10 per cent
- In respect of a non-resident, the definition of 'person responsible for paying' TDS expanded to include that person, or any person authorised by such person or the agent of such person in India (as stipulated).

TCS

- The provisions of TCS at 5 per cent (10 per cent if there is no Aadhar/PAN) to apply to the following persons at the time of debiting the amount payable by the buyer or at the time of receipt, whichever is earlier:
  - Person being an authorised dealer who receives an amount of INR7 lakh or more in a financial year for remittance out of India from a buyer under the Liberalised Remittance Scheme (Foreign exchange law).
  - Any seller of an overseas tour program package, who receives any amount from a buyer, being the purchaser of such package unless the buyer is liable to deduct tax on payments being made to the seller.
- TCS provisions extended to certain sellers receiving any consideration for sale of goods exceeding 50 lakh rupees from a buyer in a previous year at 0.1 per cent of the sale consideration. If the buyer has no Aadhar/

PAN, the TCS will be 1 per cent. The sellers obliged to comply with TCS provisions are those whose total sales, gross receipts or turnover from the business carried on by them exceeds 10 crore rupees in the immediately preceding financial year.

Charitable Trust/Other eligible tax exempt institutions

- If a trust or institution is registered as a charitable trust/entity and its income is also exempt then the Charitable Entity registration will become inoperative. To such an entity, the charitable trust/entity scheme would become operative only if it files an application and in which case it would not be entitled to the tax exemption. This one mode of exemption scheme has been also extended to notified entities established or constituted under any Central or State or Provincial Act
- Under the new registration procedure prescribed from 1 June 2020, tax exemptions registrations and donor tax benefit exemption registrations for all charitable entities restricted to five years requiring renewal on expiry of such registrations
- Existing charitable entities holding valid registrations under the current provisions are required to reapply for registration, valid for five years, by 31 August 2020.
- Under the new registration procedure, an entity making fresh application for specified tax exemption/ eligible charitable entity approval to be granted provisional registration for three years on the basis application without any detailed enquiry even where the activities of the entity are yet to begin. Thereafter, application for registration will need to be made at least six months prior to the expiry of the provisional registration and within six months from the start of activities whichever is earlier. This scheme also extend to pending applications.
- The deduction for eligible donations to a donor to be allowed only if a statement in respect of donation is furnished by the donee. Failure to file such statement to attract penalty.
- The deduction of cash donation for scientific research or rural development restricted to INR2,000 like other eligible donations.

Appeals and penalties

- In line with the e-assessment scheme, the Central Government to notify an e-appeal scheme for disposal of appeal pending before the Commissioner (Appeals). The scheme would eliminate interface between the Commissioner (Appeals) and appellant, optimize use of resources and introduce an appellate system with dynamic jurisdiction for disposal of appeal by one or more Commissioner [Appeals]. The Central Government by notification to be issued on or before 31 March 2022 direct that any provisions of the Act relating to jurisdiction, procedure or disposal of appeal would not apply or apply with such exception and modifications as stipulated.
- A new provision for levy of penalty introduced for cases in case of a false entry (fake invoice, etc) or omission of an entry relevant for computation of

income. The penalty to be to the extent of a sum equal to omission or false entry. This penalty can also be levied on any other person who causes to make a false entry or omission thereof.

- An e-penalty scheme to be launched in line with the e-assessment scheme 2019. The e-scheme for imposing penalty would eliminate interface between the AO and the Assessee and impart greater efficiency, transparency and accountability and provide a dynamic jurisdiction for levy of penalty by one or more income-tax authorities.
- The Income-tax Appellate Tribunal to grant stay of demand or extension of stay of demand (delay not attributable to assessee) subject to the condition that the assessee deposits 20 per cent of tax, interest, fee, penalty, etc. or the assessee furnishes security of an equal amount.

Other proposals

- The CBDT is empowered to adopt and declare a Taxpayer's Charter and to issue orders, instructions, directions or guidelines to other income-tax authorities for its administration.
- Taxpayer availing the concessional corporate tax regime of 22 / 15 per cent will not be entitled to deduction under any provisions of Chapter VI-A (other than Section 80JJAA or section 80M) as against earlier restriction for deduction only under the heading 'C – Deduction in respect of certain incomes' of Chapter VI-A.
- The concessional tax rate regime of 22 per cent similar to domestic company, also made available to resident cooperative societies, subject to prescribed conditions. Option once exercised cannot be withdrawn subsequently. AMT provisions not to apply to such co-operative societies. This provision to take effect from 1 April 2020.
- In computing the profit and gains of non-life insurance companies, deduction in respect of prescribed expenses allowable on payment basis introduced on par with other taxpayers.
- For the mutual fund unitholders of the main portfolio who were allotted units in the segregated portfolio pursuant to SEBI Regulations, specific provisions introduced for computing the cost and period of holding of the units in the segregated portfolio and the main portfolio for computing capital gains. This amendment will take effect from AY 2020-21.
- The definition of term 'business trust' has been amended so as to include the units of business trust that are not listed on recognised stock exchange.
- The Scope of Authorised signatory to an income-tax return of a company or LLP and the category of an authorized representative who can appear before any income-tax authority or Income Tax Appellate Tribunal is proposed to be extended to include any other person as may be prescribed by the CBDT.

Budget proposals

Direct tax

- The CBDT to be empowered to prescribe rules to provide for the manner in which and procedure through which the income is to be arrived at in case of non-resident with respect to their operations carried out in India and their transactions or activities.
- Form 26AS which contains details of tax deducted or collected at source in respect of the taxpayer is proposed to be discontinued. Instead, an Annual Information Statement in a prescribed format to be uploaded on the registered portal of the taxpayer. Information relating to sale/ purchase of immovable properties, share transactions, etc. proposed to be included in such statement in addition to details of tax credit.
- The turnover threshold for applicability of tax audit for persons carrying on business increased from INR1 cr to INR5 cr provided that the aggregate of the receipts in cash do not exceed 5 percent of all amounts received including for total sales, turnover or gross receipts and aggregate of payments in cash do not exceed 5 percent of all payments.
- The scope of taxable commodities transaction attracting levy of Commodity Transaction Tax widened to include new derivative products i.e. 'option in goods' (as stipulated) and 'commodity futures' based on prices or indices of prices of commodity futures. Other amendments made pursuant to recognize the merger in 2015 of Forward Market Commission with SEBI and changes in operating framework.

Personal tax

- A new optional tax regime introduced for individuals and HUF with modified tax slabs and rates without considering prescribed exemptions/ deduction. An individual or HUF may opt to compute tax in respect of his/her total income as per the optional tax regime instead of the existing tax regime (refer Tax rate card on page 31).
- The choice of the new tax regime comes with a few pre-requisite conditions such as:
  - Foregoing prescribed exemptions and deductions such as leave travel concession, house rent allowance, standard deduction, professional tax, home loan interest in respect of self-occupied property, etc.
  - Denial of specified deductions for investments, expenditure and donations
  - Restriction on other specified exemptions/ deductions, set-off, etc. depending upon certain specific cases.
- The option of new tax regime can be exercised every year, if the individual or HUF does not have business income. In case of individual or HUF having business income, option once exercised would be applicable for all subsequent years (with a one time option to change), except where such person ceases to have any business income.
- The condition for determining tax residency for individuals/ HUF modified as follows:
  - The period of stay in India triggering residency for an Indian citizen or a Person of Indian Origin who being outside India comes on a visit to India

reduced from 182 days to 120 days

– An Indian citizen would be deemed to be a resident in India if such an individual is not liable to tax in any other country or territory on account of his residency or domicile (or any other prescribed criteria) in that country.

– Currently, an individual qualifies to be a "not ordinarily resident" in India in a previous year if he/she is a non-resident in nine out ten previous years or if he/she has stayed in India for 729 days or less in the previous seven years. It is now proposed that an individual would qualify as "not ordinarily resident" if he/she is non-resident in India in seven out of the ten previous years. The condition of 729 days stay or less in India in the preceding seven years has been deleted.

– Likewise, an HUF will be "not ordinarily resident" in India in a previous year whose manager has been non-resident in seven out ten previous years.

- Under the existing provisions, the employer contribution to Provident Fund in excess of 12 per cent of specified salary, employer contribution to Superannuation Fund in excess of INR150,000 and employer contribution to National Pension Scheme in excess of 10 per cent of specified salary is taxable as salary. It is now proposed that aggregate of such employer contributions exceeding INR750,000 is taxable as perquisite. Further, annual accretion (interest, dividend or other income) to the extent it relates to the taxable employer's contribution as above, is treated as a taxable perquisite.
- The time limit for sanctioning of housing loans from any financial institution for affordable residential house property to avail additional interest deduction of INR150,000 per annum extended from 31 March 2020 to 31 March 2021.
- Currently, employers are obliged to withhold tax on ESOPs at the time of allotment of specified securities. The employers who are eligible start-ups are now permitted to defer the TDS or the payment of taxes directly by employees in respect of ESOP of start-ups within 14 days from the earlier of:

i. after expiry of 48 months from the end of the relevant assessment year in which securities under ESOPs are allotted or

ii. from the date of the sale of such specified security or sweat equity share by the employee or

iii. from the date of cessation of employment.

iv. The rate for withholding tax or tax payment to be at the rate applicable in the year in which the specified securities are allotted to the employees by the start-up employer.

Note: The direct tax amendments are generally applicable from the next financial year beginning from 1 April unless otherwise specified.

Budget proposals

Indirect tax

- The Finance Minister emphasised the implementation of a new simplified GST return structure from 01 April 2020 and various other simplification measures such as SMS-based filing for NIL GST returns, auto population of GST returns, improved input tax credit flow, automation of refund process, Aadhar-based verification of taxpayers, deliberation of GST rate structure so as to address issues like inverted duty structure
- The FM also reiterated the implementation of E-invoicing mechanism, along with other features like dynamic QR code for consumer invoices capturing GST parameters, cash rewards to customers seeking invoices, etc.
- Deep data analytics and artificial intelligence tools being used for reviewing input tax credits and refunds claimed by taxpayers and to detect frauds
- In line with reorganisation of the state of Jammu & Kashmir, Ladakh has been added in the list of Union Territories as defined in the GST Act
- Retrospective effect given to disallowance of refunds of accumulated credit on account of inverted duty structure on tobacco products
- To ensure a level playing field for the domestic industry, various measures have been proposed such as:
  - Strengthening provisions to avoid dumping of goods (anti-dumping rules)/ import of subsidised goods, realignment of Customs duty rates by increasing rates/ withdrawing exemptions
  - Stringent checks on undue benefits being claimed under Free Trade Agreement Rules
- Imposition of Health cess on import of medical devices falling under headings 9018 to 9022 at the rate of 5 per cent ad valorem
- Excise duty has been increased on cigarettes and tobacco products
- Various amendments proposed in the Customs Act, 1962 such as insertion of a new section providing for creation of an electronic duty credit ledger in the customs automated system and manner of its utilisation, inclusion of any other goods other than gold or silver, the import/ export of which may be prohibited by Central Government in order to prevent injury to the economy.

Goods and Services Tax

- Specific provision introduced to specify the time and manner of issuance of tax invoice in respect of the specific categories of services
- Penalty provision extended to the person retaining the benefit of a transaction and whose instance such transaction is conducted (such as supplies

made without invoice or basis false invoice, issue of invoice without actual supply of goods and services, availing input tax credit in contravention of GST provisions, etc.)

- Prosecution provisions are made applicable to person who causes to commit fraudulent transactions and retains the benefits of such transactions
- Restriction in time limit to claim input tax credit for debit note raised for invoice of preceding financial year removed
- New form of TDS certificate will be specified by the Government. Failure of issuance of TDS certificate will not trigger late fees
- Composition scheme would not be available to taxpayer engaged in supply services which are not leviable to GST, inter-state supply of services, or supply of services through electronic commerce operator
- Schedule II to the CGST Act (Activities to be treated as supply of goods or services), has been retrospectively amended with effect from 01 July 2017 to omit supplies relating to transfer of business assets without any consideration
- Refund of Compensation cess is restricted under inverted duty structure for tobacco and tobacco products retrospectively i.e. with effect from 01 July 2017
- Tax payers who had voluntarily obtained GST registration allowed to file application for cancellation of registration
- Transitional provisions are amended with effect from 01 July 2017 to prescribe the manner and time-limit for taking transitional credit
- The time period provided for issuance or removal of difficulty order has been extended from three to five years, with effect from 01 July 2017
- CGST/ IGST/ UTGST rates have been retrospectively amended to 6 /12 /6 per cent on pulley, wheels and other parts falling under heading 8483 and used as parts of agricultural machinery of heading 8432, 8433 and 8436 from 01 July 2017 to 31 December 2018. Further, no refund would be granted of the tax collected on such supplies
- Retrospective exemption from CGST/IGST/UTGST on fishmeal falling under HSN 2301 from 1 July 2017 to 30 September 2019. Further, no refund would be granted of the tax collected on such supplies
- Provisions for enabling the Jurisdiction Commissioner to exercise powers under Section 66(5) [determination of expenses and remuneration of CA/ CWA] and second proviso to Section 143(1) [extension of time period of one year and three years in case of job work] have been introduced.

Budget proposals

Indirect tax

Customs duty

General

- General Basic Customs duty (BCD) rate remains unchanged

Amendments (effective from enactment of Finance Bill, 2020)

Customs Act, 1962 (Customs Act)

- Power to restrict import or export of goods extended where the same is causing injury to the Indian economy
- Explanation to Section 28 amended to state that show cause notices issued prior to 29 March 2018 would continue to be governed by the earlier provisions of Section 28 as it stood prior to the 29 March 2018
- Specific power to recover customs duties if scrip/authorisation/license/certificate/duty credit being obtained by means of collusion, willful misstatement or suppression of facts under any law or any scheme of Central Government
- Specific provision introduced for remission of any duty or tax or any other financial benefit on any material used in the manufacture or processing of goods for carrying out any operation on such goods
- Specific provision inserted to empower the Central Government to make regulations in respect of manner of maintaining electronic duty credit ledger, conditions, restrictions, etc. and time limit relating thereto
- Introduction of provisions relating to 'Administration of Rules of Origin under Trade Agreement':
  - Obligation on importer claiming preferential rate of duty to make declaration that imported goods qualify as originating goods, furnish information regarding origin criteria, and exercise reasonable care
  - Proper officer has been granted the authority to seek information from importer if he has reason to believe that origin criteria have not been met
  - If the importer fails to furnish information sought by proper officer, the proper officer may cause further verification, and pending verification, he may temporarily suspend the preferential tariff treatment to such goods
  - Where the preferential rate of duty is suspended, imported goods may be released by proper officer upon importer furnishing a security amount equal to the difference between the duty provisionally assessed and the preferential duty claimed by the importer
  - Alternatively, customs department may, instead of security, require the importer to deposit the differential duty amount in the ledger
  - Proper officer is empowered to restore preferential tariff in cases where the specific information is furnished within the specified time

Indirect tax

- In case the information is not furnished within the specified time or the information furnished is not found satisfactory, the proper officer shall disallow the preferential tariff treatment for reasons to be recorded in writing
- The preferential tariff treatment may be refused without verification in the following circumstances in all such cases and the certificate of origin shall be marked as ''INAPPLICABLE'', namely:
  i. the tariff item is not eligible for preferential tariff treatment
  ii. complete description of goods is not contained in the certificate of origin
  iii. any alteration in the certificate of origin is not authenticated by the Issuing Authority
  iv. the certificate of origin is produced after the period of its expiry
- If the departmental verification establishes non-compliance of the imported goods with the country of origin criteria, preferential tariff treatment to the imports of identical goods from the same producer or exporter may also be rejected
- Contravention of any of the specific provisions pertaining to 'administration of rules of origin under trade agreement' will trigger confiscation provision
- Specific provision inserted to empower the Central Government to make rules for 'Administration of Rules of Origin under Trade Agreement'
- Specific provision for 'Administration of Rules of Origin under Trade Agreement' requires importers to submit additional information/ document, verification from the issuing authority, face temporary suspension of the benefit, submission of the security etc.

• Further, changes have been introduced in Anti-Dumping Duty Rules by way of introduction of Customs Tariff (Identification, Assessment and Collection of Anti-dumping Duty on Dumped Articles and for Determination of Injury) Amendment Rules, 2020 to include specific provision to extend the ambit of anti-dumping investigation to the exporters not originally and initially investigated

• Changes have been introduced in Countervailing Duty ('CVD') on 'Subsidised Articles Rules' by way of introduction of Customs Tariff (Identification, Assessment and Collection of Countervailing Duty on Subsidised Articles and for Determination of Injury) Amendment Rules, 2020, as under:
  - Domestic industry defined to cover producers engaged in manufacture of like articles in India
  - Specific provision introduced for consultation with the Government of the exporting country to deal with the situation of subsidy being offered or arrive at a mutually agreed solution

• The salient features, common to both the aforesaid Rules, are enumerated as follows:

Budget proposals

Indirect tax

- Definition of 'Related Party' introduced in the anti-dumping/safeguard provision to remove ambiguities around eligibility criteria for filing petition in the capacity of 'Domestic Industry'
- Provisions introduced to include specific instances which result into possible circumvention of duty, such as import of goods from different country or import of goods in different form i.e. unassembled form, which fall within ambit of circumvention of duty

- Introduction of a new levy- 'Health cess':
  - Levy of Health cess on import of medical devices falling under headings 9018 to 9022,
  - Health cess shall be levied at the rate of 5 per cent ad valorem on the assessable value as determined under Section 14
  - No export promotion scrips shall be used for payment of Health cess
  - No Health cess if the respective medical devices are exempted from BCD
  - Inputs/parts used in the manufacture of medical devices will continue to be exempt from Health cess

Customs Tariff Act, 1975

- Central Government empowered to apply safeguard measures, which shall include imposition of a safeguard duty or application of a Tariff Rate Quota or any other measure that it may consider appropriate as safeguard measure

Amendments in BCD (effective from 2 February 2020)

Budget proposals

Indirect tax

Changes in tariff rates of key products

S. No.	Heading, sub-heading tariff item	Commodity	Tariff Duty rates (per cent)	To
1	Various chapters	Specified household items	10	20
2	Chapter 84 and 85	Household appliances	10	20
Machinery				
3	8414 51 40	Railway Carriage fans	7.5	10
4	8414 51 90	Other fans with a self-contained electric motor not exceeding 125W	7.5	20
5	8414 59 10	Air circulator	7.5	10
6	8414 59 30	Industrial fans blowers and similar blowers	7.5	10
7	8414 59 90	Other industrial fans	7.5	10
8	8414 30 00, 8414 80 11	Compressor of refrigerator and gas compressor for air conditioner	10	12.5
9	8419 89 10	Pressure vessels	7.5	10
10	8418 10 10	Commercial type combined refrigerator freezers, fitted with separate external doors	7.5	15
11	8418 30 10	Commercial freezer of chest type, not exceeding 800lt capacity	7.5	15
12	8418 30 90	Other chest type freezers not exceeding 800lt capacity	10	15
13	8418 40 10	Electrical freezers of upright type, not exceeding 900lt capacity	7.5	15
14	8418 40 90	Other freezers of upright type, not exceeding 900lt capacity	7.5	15
15	8418 50 00	Refrigerating or freezing display and storage counters, cabinets, show- cases and the like	7.5	15
16	8418 61 00	Heat pumps other than AC machines	7.5	15
17	8418 69 10	Ice making machinery	7.5	15
18	8418 69 20	Water cooler	10	15
19	8418 69 30	Vending machine, other than automatic	10	15
20	8418 69 40	Refrigerating equipment/devices used in leather industry	7.5	15
21	8418 69 50	Refrigerated farm tanks, industrial ice cream freezer	7.5	15
22	8418 69 90	Others [refrigerating and freezing equipment]	7.5	15
23	8515 (except 8515 90 00)	Welding and plasma and electric machines and apparatus whether or not capable of cutting	7.5	10

Budget proposals

Indirect tax

S. No.	Heading, sub-heading tariff item	Commodity	Tariff Duty rates (per cent)	To
Other Electronic goods				
24	8504 40 (except 8504 40 21)	Static converters	15	20
25	8504 40 21	Dip bridge rectifier	10	20
26	8517 70 10	Populated, loaded or stuffed printed circuit boards	10	20
Automobile and automobile parts				
27	8421 39 20, 8421 39 90	Catalytic convertor	10	15
Furniture Goods				
28	9401	Seats and parts of seats	20	25
29	9403	Other furniture and parts	20	25
30	9404	Mattress supports; articles of bedding and similar furnishing	20	25
31	9405	Lamps and lighting fittings including searchlights and spotlights and parts thereof; illuminated signs, illuminated name plates and the like, having a permanently fixed light source, and parts thereof except solar lantern and solar lamps	20	25
Toys				
32	9503	Tricycles, scooters, pedal-cars and similar wheeled-toys; dolls carriages; dolls; other toys; reduced-size ('scale') models and similar recreational models, working or not; puzzles of all kinds	20	60
33	Chapter 83	Specified stationary items	10	20

Budget proposals

Indirect tax

Entries added to the Customs Tariff

S. No.	Heading, sub-heading tariff item	Commodity	Effective Duty rates (per cent)	
			(per cent)	To
1	8414 51 50	Wall fans	20	20
2	8529 90 30	Open cell for television set	15	0
3	8541 40 11	Solar cells not assembled	20	0
4	8541 40 12	Solar cells assembled in modules or made up in panels	20	0

Changes in effective BCD rates of key products

S. No.	Commodity	Effective Duty rates (per cent)	
		(per cent)	To
Machinery			
1	Goods specified in list 10 of Notification No. 50/2017 – Customs dated 30.6.2017, required for use in high voltage power transmission project	5	7.5
2	Rotary tillers/weeder	2.5	7.5
3	Goods specified in List 14 of Notification No. 50/2017 – Customs dated 30.6.2017, required for construction of road like paver finisher, machines for filling up cracks in roads, mobile bridge inspection units etc.	Nil	Applicable BCD
4	Motors like single phase AC motors, stepper motors, wiper motors etc.	7.5	10
Electronic goods, parts thereof			
5	Copper and articles there of used in manufacturing of specified electronic items	Nil	Applicable BCD
6	Specified chargers and power adapters	Applicable BCD	20
7	Headphones and earphones	Applicable BCD	15
8	Following parts of microphone for use in manufacture of microphone namely, a. microphone cartridge b. microphone holder c. microphone grill d. microphone body etc.		
9	Micro-fuse base, sub-miniature fuse base, micro-fuse Cover and sub-miniature fuse cover for use in manufacture of micro fuse and sub-miniature fuse	7.5	Nil

Budget proposals

Indirect tax

S. No.	Commodity	Effective Duty rates (per cent)	
		(per cent)	To
Automobile and automobile parts			
10	Noble metal solutions and noble metal compounds used in manufacture of catalytic converter and their parts	5	Applicable BCD
11	Platinum or palladium used in manufacturing of catalytic converter and their parts	5	Applicable BCD
12	a. Parts of catalytic converter for manufacture of catalytic converters. b. The following goods for use in the manufacture of catalytic converters and its parts, namely: - i. Raw substrates (ceramics) ii. Wash coated substrates (ceramics) iii. Raw substrates (metal) iv. Wash coated substrates (metal) v. Stainless steel wire cloth stripe vi. Wash coat	5	7.5
Defence sector			
13	Exemption from import duty for specified military equipment, when imported by defence PSUs and other PSUs for defence forces	As applicable	Nil

Amendments in BCD (effective from 1 April 2020)

S. No.	Heading, sub-heading tariff item	Commodity	Tariff Duty rates	
			(per cent)	To
1	8517 70 10	PCBA of cellular mobile phones	10	20
2	8517 70 90	Vibrator/ringer of cellular mobile phones	Nil	10
3	8702, 8704	Completely built units (CBUs) of commercial vehicles (other than electric vehicles)	30	40
4	8702, 8704	Completely built units (CBUs) of commercial electric vehicles	25	40
5	8703	Semi knocked down (SKD) forms of electric passenger vehicles	15	30
6	8702, 8704, 8711	Semi knocked down (SKD) forms of electric vehicles- bus, trucks and two wheelers	15	25
7	8702, 8703, 8704, 8711	Completely knocked down (CKD) forms of electric vehicles - passenger vehicles, three wheelers, two wheelers, bus and trucks	10	15

Budget proposals

Indirect tax

- Exemption from Social Welfare surcharge introduced on all commercial vehicles (including electric vehicle)

Amendments in BCD (effective from 1 October 2020)

S. No.	Heading, sub-heading tariff item	Commodity	Tariff Duty rates	
			(per cent)	To
1	8517 70 90	Display panel and touch assembly of cellular mobile phones	Nil	10

Other changes (effective from 2 February 2020)

- Exemption on import of goods under Preferential trade agreement from SAARC countries withdrawn
- Exemption from levy of additional duty of customs on goods imported from Nepal withdrawn
- Preferential rate of BCD on specified products withdrawn
- Exemption from BCD withdrawn on specified products
- Exemption from Social Welfare surcharge withdrawn on specified goods of chapter 84, 85 and 90 of First Schedule to Customs Tariff Act, 1975 and exemption introduced on certain new products

Excise duty

Rate changes (effective from 1 February 2020)

S. No.	Heading, sub-heading tariff item	Description of goods	Unit	From	To
1	2402 20 10	Other than filter cigarettes, of length not exceeding 65 millimetres	Tu	INR 90 per thousand	INR 200 per thousand
2	2402 20 20	Other than filter cigarettes, of length exceeding 65 millimetres but not exceeding 70 millimetres	Tu	INR 145 per thousand	INR 250 per thousand
3	2402 20 30	Filter cigarettes of length (including the length of the filter, the length of filter being 11 millimetres or its actual length, whichever is more) not exceeding 65 millimetres	Tu	INR 90 per thousand	INR 440 per thousand
4	2402 20 40	Filter cigarettes of length (including the length of the filter, the length of filter being 11 millimetres or its actual length, whichever is more) exceeding 65 millimetres but not exceeding 70 millimetres	Tu	INR 90 per thousand	INR 440 per thousand
5	2402 20 50	Filter cigarettes of length (including the length of the filter, the length of filter being 11 millimetres or its actual length, whichever is more) exceeding 70 millimetres but not exceeding 75 millimetres	Tu	INR 145 per thousand	INR 545 per thousand

Budget proposals

Indirect tax

S. No.	Heading, sub-heading tariff item	Description of goods	Unit	From	To
6	2402 20 90	Other (Cigarettes containing tobacco)	Tu	INR 235 per thousand	INR 735 per thousand
7	2402 90 10	Cigarettes of tobacco substitutes	Tu	INR 150 per thousand	INR 600 per thousand
8	2403 11 10	Hookah or gudaku tobacco	Kg.	10	25
9	2403 19 10	Smoking mixtures for pipes and cigarettes	Kg.	45	60
10	2403 19 90	Other smoking tobacco	Kg.	10	25
11	2403 91 00	'Homogenised' or 'reconstituted'' tobacco	Kg.	10	25
12	2403 99 10	Chewing tobacco	Kg.	10	25
13	2403 99 20	Preparations containing chewing tobacco	Kg.	10	25
14	2403 99 30	Jarda scented tobacco	Kg.	10	25
15	2403 99 40	Snuff	Kg.	10	25
16	2403 99 50	Preparations containing snuff	Kg.	10	25
17	2403 99 60	Tobacco extracts and essence	Kg.	10	25
18	2403 99 90	Other (manufactured tobacco and substitutes)	Kg.	10	25

Budget proposals

Direct tax rate card

These rates are subject to enactment of the Finance Bill, 2020. The rates are for the Financial Year 2020-21.

Tax rates

1. Individual, Hindu Undivided Family, Association of Persons, Body of Individuals and Artificial Juridical Person

- General rates

Total income	Tax rates
Up to INR250,000 (a)(b)	NIL
INR250,001 to INR500,000(c)	5%
INR500,001 to INR1,000,000	20%
INR1,000,001 and above	30%

- Alternatively, on satisfaction of certain prescribed conditions, an individual or Hindu Undivided Family may opt to compute tax in respect of total income (without considering prescribed exemptions/ deductions), as per the following rates:

Total income	Tax rates
Up to INR250,000	NIL
INR250,001 to INR500,000(c)	5%
INR500,001 to INR750,000	10%
INR750,001 to INR1,000,000	15%
INR1,000,001 to INR1,250,000	20%
INR1,250,001 to INR1,500,000	25%
INR1,500,001 and above	30%

a. For a resident individual aged 60 or above but less than 80, the basic exemption limit is INR300,000

b. For a resident individual aged 80 or above, the basic exemption limit is INR500,000.

c. Rebate from tax of up to INR12,500 or 100 per cent of the tax whichever is less available for a resident individual whose total income does not exceed INR500,000.

- AMT[Note (a)] is levied at 18.5 per cent of the adjusted total income where income-tax payable on the total income (according to the normal provisions of the Act) is less than 18.5 per cent of the adjusted total income
- Surcharge is applicable at following rates:

Sr.No.	Total income	Surcharge[(c)]
I	More than INR5,000,000 but less than INR10,000,000 [including income in (a) & (b)]	10%
II	More than INR10,000,000 but less than INR20,000,000 [including income in (a) & (b)]	15%
III	More than INR20,000,000 but less than INR50,000,000 [excluding income in (a) & (b)]	25%
IV	Exceeds INR50,000,000 [excluding income in (a) & (b)]	37%
V	Exceeds INR20,000,000 [including income in (a) & (b) and not covered under III and IV above](d)	15%

Direct tax rate card

a. For Individuals, Hindu Undivided Families, Association of Persons, Body of Individuals and Artificial Juridical Persons having income by way of short-term or long-term capital gains arising from the transfer of an equity share or a unit of an equity-oriented fund or a unit of a business trust liable for securities transaction-tax

b. For Foreign Institutional Investors (FPIs) having income by way of short-term or long-term capital gains arising from the transfer of any security including derivatives

c. Surcharge on income in (a) & (b) cannot exceed 15 per cent.

d. Surcharge on income in III & IV other than income in (a) & (b) shall be applicable at 25% and 37% respectively.

- Health and education cess at 4 per cent is applicable on income-tax (inclusive of surcharge, if any)

Note (a): AMT will not apply to:

i. an Individual, HUF, AOP, BOI or an Artificial Judicial Person if the adjusted total income of such person does not exceed INR2,000,000 or

ii. an Individual and HUF who has exercised the option to avail concessional tax regime

2. Firms (including Limited Liability Partnerships)

- Firms (including LLPs) are taxable at 30 per cent
- AMT is levied at 18.5 per cent of the adjusted total income where income-tax payable on the total income (according to the normal provisions of the Act) is less than 18.5 per cent of the adjusted total income
- Surcharge at 12 per cent is applicable where total income exceeds INR10,000,000.
- Health and education cess at 4 per cent is applicable on income-tax (inclusive of surcharge, if any)

3. Domestic companies

Domestic manufacturing companies set up and registered on or after 1 October 2019 and commencing manufacturing on or before 31 March 2023

- Domestic companies set up and registered on or after 1 October 2019 and engaged solely in the business of manufacture or production of any article or thing (including generation of electricity) or research in relation to, or distribution of such article or thing which commences manufacturing or production on or before 31 March 2023 may, at their option, be taxable at the rate of 15 per cent, provided they do not claim specified benefits or deductions.
- MAT is not applicable.
- Surcharge at 10 per cent is applicable on income-tax
- Health and education cess at 4 per cent is applicable on income-tax (inclusive of surcharge)

Budget proposals

Direct tax rate card

Domestic manufacturing companies set up and registered on or after 1 March 2016

- Domestic companies set up and registered on or after 1 March 2016 engaged solely in the business of manufacture or production of article or thing may at their option be taxable at 25 per cent provided, they do not claim specified benefits or deductions.
- MAT is levied at 15 per cent of the adjusted book profit where income-tax payable on the total income (according to the normal provisions of the Act) is less than 15 per cent of the adjusted book profit
- Surcharge is applicable at following rates:

Total income	Rate
More than INR10,000,000 but less than INR100,000,000	7%
Exceeds INR100,000,000	12%

- Health and education cess at 4 per cent is applicable on income-tax (inclusive of surcharge, if any)

Other Domestic Companies opting for concessional rate

- Domestic companies may, at their option, be taxable at the rate of 22 per cent provided they do not claim specified benefits or deductions
- MAT is not applicable.
- Surcharge at 10 per cent is applicable on income-tax
- Health and education cess at 4 per cent is applicable on income-tax (inclusive of surcharge)

Other Domestic Companies whose total turnover or gross receipts do not exceed INR4,000,000,000

- Domestic companies whose total turnover or gross receipts in the FY 2018-19 does not exceed INR4,000,000,000 are taxable at 25 per cent
- MAT is levied at 15 per cent of the adjusted book profit where income-tax payable on the total income (according to the normal provisions of the Act) is less than 15 per cent of the adjusted book profit
- MAT is levied at 9 per cent of adjusted book profit for companies being units located in an International Financial Services Centre which derive income solely in convertible foreign exchange where income-tax payable on the total income (according to the normal provisions of the Act) is less than 9 per cent of the adjusted book profit.
- Surcharge is applicable at following rates:

Total income	Rate
More than INR10,000,000 but less than INR100,000,000	7%
Exceeds INR100,000,000	12%

- Health and education cess at 4 per cent is applicable on income-tax (inclusive of surcharge, if any)

Direct tax rate card

Other Domestic Companies

- Domestic companies not covered above are taxable at 30 per cent
- Special method for computation of total income of life insurance companies. The rate of tax on profits from life insurance business is 12.5 per cent
- Special code of tonnage tax on income earned by domestic shipping companies
- Presumptive tax regime applies to certain businesses
- MAT is levied at 15 per cent of the adjusted book profit where income-tax payable on the total income (according to the normal provisions of the Act) is less than 15 per cent of the adjusted book profit
- MAT is levied at 9 per cent of adjusted book profit for units located in an International Financial Services Centre which derive income solely in convertible foreign exchange where income-tax payable on the total income (according to the normal provisions of the Act) is less than 9 per cent of the adjusted book profit.
- Surcharge is applicable at following rates:

Total income	Rate
More than INR10,000,000 but less than INR100,000,000	7%
Exceeds INR100,000,000	12%

- Health and education cess at 4 per cent is applicable on income-tax (inclusive of surcharge, if any)

4. Foreign companies

- Foreign companies are taxable at 40 per cent
- Presumptive tax regime applies to foreign companies in certain businesses
- MAT is leviedNote (a) at 15 per cent of the adjusted book profit where income-tax payable on the total income (according to the normal provisions of the Act) is less than 15 per cent of the adjusted book profit
- MAT is levied at 9 per cent of adjusted book profit for units located in an International Financial Services Centre which derive income solely in convertible foreign exchange where income-tax payable on the total income (according to the normal provisions of the Act) is less than 9 per cent of the adjusted book profit.
- Surcharge is applicable at following rates:

Total income	Rate
More than INR10,000,000 but less than INR100,000,000	2%
Exceeds INR100,000,000	5%

- Health and education cess at 4 per cent is applicable on income-tax (inclusive of surcharge, if any)

Budget proposals

Direct tax rate card

Note (a): MAT is not applicable, if

i. Such company is resident of a country or a specified territory with which India has a DTAA or Central Government has adopted any agreement and such company does not have a permanent establishment in India; or

ii. Such company is resident of a country with which India does not have DTAA and such company is not required to seek registration in India under the Companies Act

iii. Income is taxable under the presumptive tax regime

5. (A) Co-operative societies resident in India

- Co-operative societies resident in India may, at their option, be taxable at a concessional tax rate of 22 per cent provided they do not claim specified benefits or deductions
- AMT is not applicable
- Surcharge at 10 per cent is applicable on income-tax
- Health and education cess at 4 per cent is applicable on income-tax (inclusive of surcharge)

5. (B) Co-operative societies other than above

- Other co-operative societies are taxable at 30 per cent
- AMT is levied at 18.5 per cent of the adjusted total income where income-tax payable on the total income (according to the normal provisions of the Act) is less than 18.5 per cent of the adjusted total income.
- Surcharge at 12 per cent is applicable where total income exceeds INR10,000,000.
- Health and education cess at 4 per cent is applicable on income-tax (inclusive of surcharge, if any)

Tax on dividend

- No DDT on dividends declared, distributed or paid by domestic companies or income distributed by a Mutual Fund on or after 1 April 2020.
- The dividend received by a domestic company from another domestic company to be set-off while calculating its total income, to the extent of dividends further distributed by it upto one month prior to the due date of filing of return.
- Dividends earned by an Indian company from a foreign company in which it holds 26 per cent or more equity shares shall be taxable at the rate of 15 per cent (plus applicable surcharge and cess) on gross amount of such dividends.

Budget proposals

Direct tax rate card

- Key tax rates applicable to dividend income:

Nature of income	Rate
Received by a non-resident or a foreign company	20%
Received on GDRs	10%
Received by a FII(a)	20%

a. other than dividend from units of a mutual fund purchased in foreign currency

- Tax rates will further increase by applicable surcharge.
- Health and education cess at 4 per cent is applicable on income-tax (inclusive of surcharge, if any).

Tax on buy-back of shares

- Any amount of distributed income by the company on buy-back of shares (including shares listed on a recognised stock exchange) from a shareholder shall be charged to tax at the rate of 20 per cent on such distributed income other than buy back of shares (being shares listed on a recognised stock exchange) in respect of which public announcement was made before 5 July 2019 in accordance with the provisions of SEBI (Buy-back of Securities) Regulations, 2018
- Surcharge at 12 per cent is applicable.
- Health and education cess at 4 per cent is applicable on tax (inclusive of surcharge)

Key rates for Non-Residents

The following incomes in the case of non-residents are taxed at special rates on a gross basis:

Nature of income	Rate
Interest received on loans given in foreign currency to Indian concern or Government of India	20%
Interest received from Indian company or business trust on monies borrowed from a source outside India - in foreign currency and approved by the Central Government: • On issue of long-term infrastructure bond from 01 July 2012 to 30 June 2014 - Under a loan agreement from 01 July 2012 to 30 June 2023 - On issue of long-term bond from 01 October 2014 to 30 June 2023 • On issue of rupee denominated bond upto 30 June 2023(a) • On issue of long-term bond or rupee denominated bond from 01 April 2020 to 30 June 2023 listed only on recognized stock exchange located in any International Financial Services Centre	5% 4%
Interest received by a Foreign Institutional Investor or a Qualified Foreign Investor from • 01 June 2013 to 30 June 2023 from investment made in rupee denominated bond of an Indian Company or Government Security • 01 April 2020 to 30 June 2023 from investment made in municipal debt security	5%
Royalty for agreements entered into on or after 1 April 1976	10%
FTS for agreements entered into on or after 1 April 1976	10%

a. Exempt where rupee denominated bond issued during the period from 17 September 2018 to 31 March 2019

Budget proposals

Direct tax rate card

- Tax rates will further increase by applicable surcharge.
- Health and education cess at 4 per cent is applicable on income-tax (inclusive of surcharge, if any)

Capital Gains

Particulars	Short-term capital gains tax rates[a]	Long-term capital gains tax rates[a]
Sale transactions of listed equity shares[b]/unit of an equity-oriented fund[c]/unit of business trust[c]	15%	10%[d]
Sale transaction other than mentioned above		
Individuals (resident and non-residents)	Progressive slab rates	20%/10%[e][f]
Resident companies	15%[g]/ 22%/25%/ 30%[h]	
Overseas financial organisations specified in section 115AB	40% (corporate) 30% (non-corporate)	10%
FIIs	30%	10%
Foreign companies	40%	20%/10%[e][f]

a. These rates will further increase by the applicable surcharge and cess.

b. Provided STT is paid both on acquisition and transfer (other than those notified).

c. Provided STT is paid on transfer.

d. Rate of 10 per cent applies to long term capital gains exceeding INR100,000 without benefit of indexation and foreign currency fluctuation.

e. Rate of 20 per cent with indexation and 10 per cent without indexation applies in respect of listed securities (other than equity shares and units) and zero-coupon bonds.

f. Rate of 10 per cent applies to long term capital gains of non residents/foreign companies from transfer of unlisted securities or shares of a company, not being a company in which the public are substantially interested, without benefit of indexation and foreign currency fluctuation

g. Short-term capital gain is taxable at 22 per cent on the non-depreciable assets of domestic manufacturing companies availing concessional tax rate of 15 per cent

h. Based on the option exercised by a domestic company

Securities Transaction Tax

- STT in the range of 0.001 to 0.2 per cent is payable by purchaser/seller, as the case may be, on the value of taxable securities transactions.

Equalisation levy

- Equalisation levy at 6 per cent is applicable on the amount of consideration for online advertisement, any provision for digital advertising space or any other facility or service for the purpose of online advertisement.

Glossary

AMT	Alternate Minimum Tax
AO	Assessing Officer
AOP	Association of Person
APA	Advance Pricing Agreement
BCD	Basic Customs Duty
BEPS	Base Erosion and Profit Shifting
BOI	Body of Individual
CA	Chartered Accountant
CWA	Cost and Work Accountant
CBDT	Central Board of Direct Taxes
CBU	Completely Built Units
CGST	Central Goods and Services Tax
CKD	Completely Knocked Down
CPI	Consumer Price Index
CDSL	Central Depository Services (India) Ltd
CTT	Commodity Transaction Tax
CVD	Countervailing Duty
DDT	Dividend Distribution Tax
DEA	Drug Enforcement Administration
DGFT	Directorate General of Foreign Trade
DRP	Dispute Resolution Panel
DTAA	Double Taxation Avoidance Agreements
ESOP	Employee Stock Option Plan
FDI	Foreign Direct Investment

FIEO	Federation of Indian Export Organisations
FII	Foreign Institutional Investors
FMV	Fair Market Value
FPIs	Foreign Portfolio Investments
FTS	Fees for Technical Services
FY	Financial Year
GDP	Gross Domestic Product
GFCE	Government Final Consumption Expenditure
GST	Goods and Services Tax
HSN	Harmonised System of Nomenclature
HUF	Hindu Undivided Family
IGST	Integrated Goods and Services Tax
IIP	Index of Industrial Production
INR	Indian Rupees
InvIT	Infrastructure Investment Trust
LIC	Life Insurance Corporation of India
LLP	Limited Liability Partnerships
MAT	Minimum Alternate Tax
MLI	Multilateral Instrument
MOSPI	Ministry of Statistics and Programme Implementation
MPC	Monetary Policy Committee
MSME	Micro Small and Medium Enterprises
NSDL	National Securities Depository Limited

OECD	Organisation of Economic Co-operation and Development
PAN	Permanent Account Number
PCBA	Printed Circuit Board Assembly
PE	Permanent Establishment
PFCE	Private Final Consumption Expenditure
PSU	Public Sector Undertaking
PPP	Public-private partnership
RBI	Reserve Bank of India
REIT	Real Estate Investment Trust
SAARC	South Asian Association for Regional Cooperation
SEBI	Securities and Exchange Board of India
SEP	Significant Economic Presence
SHR	Safe Harbour Regime
SKD	Semi Knocked Down
STT	Securities Transaction Tax
TAN	Tax Deduction and Collection Account Number
TCS	Tax Collection at Source
TDS	Tax Deducted at Source
The Act	Income-tax Act, 1961
UAE	United Arab Emirates
UPSC	Union Public Service Commission
USD	United States Dollar
UTGST	Union Territory Goods and Services Tax

KPMG in India contacts:

Hitesh D. Gajaria
Partner and Co-Head
Tax
T: +91 22 3090 2110
E: hgajaria@kpmg.com

Rajeev Dimri
Partner and Co-Head
Tax
T: +91 124 307 4077
E: rajeevdimri@kpmg.com

home.kpmg/in

#KPMG josh

Follow us on:
home.kpmg/in/socialmedia