

Highlights of The Union Budget 2020-21

(A brief 7 page summary of the Finance Act (after President's assent) notified on 27.03.2020 and announcement in Budget Speech)

(Changes in Finance Act as compared to Finance Bill marked in RED)

Tax Rates

1. Personal Tax Rates:

Option 1:

Income (Rs)	Proposed rate of tax (AY 2021-22)
Upto 2,50,000*	Nil
2,50,001-5,00,000**	5%
5,00,001-10,00,000	20%
10,00,001 and above	30%

*Senior Citizen Exemption Limit is Rs.3,00,000 and Super Senior Citizen (80 years and above Exemption Limit is Rs.5,00,000

**Rebate under Section 87A continues for a resident individual (whose income does not exceed 5,00,000.

Option 2:

Income (Rs)	Proposed rate of tax (AY 2021-22)	Break-Even Deduction/ Exemption*
Upto 2,50,000	Nil	NA
2,50,001-5,00,000	5%	NA
5,00,001-7,50,000	10%	1,25,000
7,50,001-10,00,000	15%	1,87,500
10,00,000-12,50,000	20%	2,08,333
12,50,001-15,00,000	25%	2,50,000
15,00,001 and above	30%	2,50,000

* **Interpretation:** If your total income without claiming deductions/ exemptions is 15,00,000 and you claim deductions/ exemptions such that your Taxable income reduces by more than 2,50,000, there will be less tax outgo in sticking to the old regime.

For an Individual with 15,00,000 of Taxable Income and who used to claim no deduction in former tax regime, tax savings due to the new regime will be 78,000.

List of Deductions/ Exemptions/ Set-Off required to be foregone:

Salary: LTC [10(5)], HRA [10(13A)], Special allowance for Expenses (Other than Transport Allowance to Divyang employee, Conveyance Allowance, Travel Allowance and Daily Allowance to meet actual expenses while performing office duties)[10(14)],

Standard Deduction, Deduction for Entertainment Allowance & Professional Tax [16], Free Food & beverage through vouchers [Rule 3]

House Property: Interest paid for Self-Occupied House Property [24(b)]

Business: SEZ [10AA], Additional Depreciation [32(1)(ia)], Additional Depreciation (Backward Area) [32AD], Tea/ Coffee/ Rubber Development account [33AB], Site Restoration Account [33ABA], Additional Expenditure on Scientific Research [35 (1) & (2AA)] (Other than 35(2AB)), Capital Expense for specified businesses [35AD], Expenditure on Agricultural Extension Project [35CCC]

Other Sources: MLA/MP Allowances [10(17)], Clubbed Income of Minor Child [10(32)], Deduction from Income from Family Pension [57(ia)]

Deductions: Chapter VI-A (Other than Employer Contribution to NPS [80CCD(2)] & Deduction for employment of new employees [80JJAA])

Set-Off: 1. Loss carried forward or depreciation from earlier AY, where loss or depreciation is attributable to above. 2. Set-Off of House Property loss with other heads (Loss from Rented Property to be carried forward and not set-off from other income heads). Once the option for lower tax rates is chosen, all previous carried forward losses or depreciation shall not be available in future.

Depreciation: Depreciation [32]

Miscellaneous: Any exemption or deduction for allowances or perquisites

Switching between options

1. Annual switching allowed for Individuals not having business **or professional** income
2. Individuals having business income not allowed to switch to old regime once they select new regime.

The option can be withdrawn only once where it was exercised by the individual or HUF having business income for a previous year other than the year in which it was exercised and thereafter, the individual or HUF shall never be eligible to exercise option under this section, except where such individual or HUF ceases to have any business income.

[Section 115BAC]

2. From FY 2020-21, Resident Cooperative Societies given the option to pay 22% tax as already allowed to companies. [Sec. 115BAD]
3. Tax concession available made available to Domestic Companies amended w.e.f. FY 2020-21 to allow deduction of Dividend received by such company from any Domestic Company, **Foreign Company or Business Trusts (REITs or InVITs)** when computing taxable income under special provisions. [115BAA, 115BAB & 80M]
4. Concessional Rate of 15% extended to new companies engaged in generation of Power. [115BAB]

Direct Tax Proposals

General

1. Return Filing Due date for companies and Tax Audit cases changed to 31st October. Due date for all partners of a firm to which tax audit is applicable extended to 31st October. (Only Working Partners were allowed earlier) [139]
2. Dividend distribution Tax payable by companies for dividends paid by companies abolished and adopt classical system of taxing dividend in the hands of the recipient of dividend. [115-O, 10(34), 115R, 10(35), etc]. Deduction u/s 57 limited to Interest subject to upper limit of 20% of Dividend Received. **Dividend where DDT has been paid not be to be taxed in individual hands.**
3. **For REITs and InVITs, it is clarified that no exemption shall available to a unit holder of business trust in respect of a dividend received from SPV if such SPV has not exercised the option of section 115BAA of the Income-tax Act. For SPVs which have not exercised the option of section 115BAA to pay a flat 22% tax, unit holders of REITS and InVITS shall be liable to pay tax on Dividend Income from such SPVs.** [Section 10(23FD)]
4. TDS on Dividend @ 10% Subject to threshold of Rs. 5000 for dividend paid other than Cash. [194, 194LBA, 194K, 196C, 196D]. **194K amended to clarify that TDS is not applicable on Capital gain arising from sale of Mutual Fund Units. Special Rate of 20% to apply for Dividend payments to Foreign Company instead of peak rate of 30% or 40% u/s 195.**
5. Benefit of Withholding tax rate of 5% under section 194LD extended to more instruments including Municipal Bonds and the lower withholding tax rate will be available for more time. **Special TDS Rates for Foreign Companies u/s 115A rationalised.**
6. Changes in TDS regime:
 - a. **Changes in TDS on Cash Withdrawal from Banks have been introduced, now:**
 - i. **Where a person has not filed ITR for the previous 3 years before return filing due date, banks shall deduct 2% TDS on cash withdrawals over 20 Lakhs in the FY and 5% TDS on cash withdrawal over 1 Crores.**
 - ii. **For persons who have filed the said ITRs on time, 2% TDS on cash withdrawal over 1 Crore in a FY shall be applicable.** [194N]
 - b. TDS on Technical Services (Other than Professional Services) reduced to 2% from 10%. TDS on Professional Services retained @ 10%. **TDS on Royalty Income to a person by way of sale, distribution or exhibition of Cinematographic Films reduced to 2% as already applicable to call centres.** [194J]
 - c. Co-operative Societies now required to deduct TDS on Interest Payments [194A]
 - d. TDS on E-Commerce Cases by E-Commerce Operators @ 1% on Gross amount of sale of service provided by E-Commerce Participant with PAN/ Aadhar (5%

- for operators without PAN/ Aadhar). No TDS to be deducted for Individual/ HUF E-Commerce Participant having PAN with Sales in previous year where gross sales do not exceed 5 Lakhs. No other TDS to be deducted for the transaction where TDS has been deducted by E-Commerce Operator (Including TDS on Commission payable to E-Commerce Operator). TDS deductible on Advertisement by E-Commerce Participant on E-Commerce Website. **Now applicable from 01.10.2020.** [194-O]
- e. TCS to be collected by Authorised Dealer (Banker) @ 5% (With PAN)/ 10% (Without PAN) for making payment through LRS of more than 7 Lakhs in a FY. **TCS to be collected on the amount exceeding 7 Lakhs. TDS to be deducted @ 0.5% where amount remitted towards education loan repayment. Now applicable from 01.10.2020.** [206C]
- f. TCS to be collected by Seller of an overseas tour program @ 5% (With PAN)/ 10% (Without PAN) (Not applicable where TDS is deducted by buyer). **No Threshold Prescribed. TCS to apply for any sum paid via LRS or otherwise. Now applicable from 01.10.2020** [206C]
- g. TCS to be collected @ 0.1% (With PAN)/ 1% (Without PAN) for Receipt of consideration of more than 50 Lakhs in previous year. Applicable only to those sellers whose turnover exceeds 10 Crores During previous FY. No TCS to be collected by payee where TDS is deducted by payer. **No TCS to be collected for Import or Export of Goods. Now applicable from 01.10.2020.** [206C]
- h. Definition of 'Work' modified to include Contract Manufacturing done by assessee using material from associate (Section 40A) of customer or assessee. [194C]
- i. **Power to exempt or reduce rate of TDS delegated to Central Government for Section 194A & 197A (1F)**
7. **Levy of Equalisation Levy extended to Foreign E-Commerce Operators who do not have a PE in India and who collect any sum for e-Commerce supply of goods or services. Such E-Commerce Operators who have a turnover or gross receipts of more than 2 Crores during the previous year, shall be required to pay 2% as equalisation levy. Such tax is not required to be paid by the goods or services recipient but by the E-Commerce Operator.**
As per existing Equalisation Levy Rules, a specified person making any payment to a Non-resident for Online Advertisement Services is required to pay 6% Equalisation Levy.
8. Registration of Charity organisations to be made completely electronic. 12A, 80G & 80GGA Registrations to be required afresh for existing entities. Registration to be valid for a 5 year period. **Funds received towards Corpus and their application clarified.** (w.e.f. 1.6.2020) [12AB]
9. Faceless appeal to be enabled [260(6B)] and faceless Penalty Proceedings to be enabled [274(2A)]

10. Vivaad se Vishwas Scheme – No dispute but trust scheme – Measure to reduce Tax Litigation in Lines with Sabka Vishwas Scheme. Taxpayer will be required to pay only the basic amount without any interest or penalty upto **30.6.2020**. Scheme will remain open upto 31.7.2020 (with some additional amount). Taxpayers who have any appeal pending may use the scheme.

Real Estate/ Capital Gain Tax

1. Exemption from tax for Affordable Housing extended by one year to 31.3.2021 [80-IBA]
2. Time-Limit for taking loan for Affordable Housing to claim deduction extended by one year to 31.3.2021 [80EEA]
3. Overall Relaxation of 10% (Increase from 5%) in transacting in real estate for less than Stamp Duty Value [43CA, 50C & 56]
4. Fair Market Value of Capital asset as on 1st April, 2001 restricted to Circle Rate for computation of Stamp Duty as on 1st April, 2001 where such stamp duty is available. [55]

Personal Income Tax

1. Upper Limit of Rs. 7,50,000 on Contribution to Recognised PF, NPS & Superannuation Fund under EEE Regime. Contribution beyond the said amounts to be deemed taxable. Interest, Dividend or any other income on surplus amount shall also be taxable. [17]
2. Every Person carrying on any business and satisfying two conditions i.e. not more than 5% of the business Gross Turnover is received in cash and not more than 5% of the expenditure of the business is made in cash, shall be required to get its books of accounts Tax Audited only if its Turnover exceeds 5 Crores. Tax Audit Report to be furnished by 30th September, one month prior to return filing due date. [44AB]
3. PAN to be instantly allotted based on Aadhar.

Non-Residents/ Residential Status

1. Non-Residents exempted from filing ITRs where tax has been deducted at source u/s 115A and Non-Resident has no income in India other than Dividend, Interest Income and Royalty or fees from Technical Services (FTS) [115A] (w.e.f. AY 2020-21)
2. Change in terms for determination of Residential Status of Individuals [6]
 - a. Clause (b) of Explanation 1 of Section 6 modified to decrease 182 days available to an Indian Citizen or PIO (**having income of more than 15 Lakhs from sources other than foreign sources**) to 120 days. Therefore, an Indian Citizen or PIO could have stayed in India upto 182 days and still could have been entitled to declare himself as a Non-Resident, can now stay in India only upto 120 days in a year. **Individuals earning upto 15 Lakhs income from sources other than foreign sources, can stay in India upto 182 days in India.**
 - b. Indian Citizens **having total income, other than foreign sources, of more than 15 Lakhs** who are not liable to tax in any other country shall be deemed to be resident in India.

- c. “Not Ordinarily Resident” Residential Status definition extended to include individuals who will no longer be Non-residents due to above notification, therefore income which accrues or arises to such individuals outside India shall not be included in their total income unless it is derived from a business controlled in or a profession set up in India.**
3. TDS @ 20% on Income to Non-Residents making investment in Mutual Funds. No TDS will be deducted in case the investment has been made from NRE Account or from funds in Foreign Exchange. [196A]

Other Minor changes

5. Tax Exemption revoked for Certain Perquisites and allowances paid to UPSC Members & Election Commissioners.
6. Exemption from tax for any income of Abu Dhabi Investment Authority (ADIA) or Sovereign Wealth Funds **or Pension Fund Created under any law of a foreign country** in the nature of dividend, interest or long-term capital gains arising from an investment made by it in India, whether in the form of debt **or share capital or Units of InVITs or Category-I/II AIFs**, in a company or enterprise carrying on the business of developing, or operating and maintaining, or developing, operating or maintaining any infrastructure facility. [10(23FE)].
7. Conditions for Offshore Funds exemption from “Business Connection” relaxed [9A]
8. Extension of Pass Through Taxation Status to Unlisted InvITs [2 & 115UA]
9. Transfer Pricing: Safe Harbour Rules & Advance Pricing Agreements extended to Permanent Establishments of companies. [92CB & 92CC] (w.e.f. AY 2020-21)
10. Alteration in Explanations in related to “Business Connection and Significant Economic Presence” to allow income from advertisement that targets Indian customers or income from sale of data collected from India or income from sale of goods and services using such data collected from India. [9]
11. Any Director of the company or Partner of the company or any person prescribed may sign the Return of Income [140]
12. Annual Information Statement to be made available by the department on Assessee Portal [285BB]

Tax Proposals

1. Tax Payers Charter to be institutionalised as part of the Tax statute. This will lead to prevention of tax harassment. [119A]
2. To prevent misuse, authorisation required from senior officials in case no information is received from prescribed authority to conduct a survey [133A]
3. Requirement to deposit 20% Tax to get stay of demand from ITAT introduced [254]
4. Changes to be made in the recruitment process for Members to Tax Tribunals.
5. Penalty amounting to 100% of Invoice Amount for False Invoice, Invoice without supply and Invoice for supply from person who does not exist. Penalty also applicable to any person who causes the assessee to make such a false entry. [271AAD]

Start-ups

1. Tax Exemption for Start-ups: 25 Crores Turnover limit increased to 100 Crores. Period of eligibility increased from existing 7 years to 10 years. (80-IAC)
2. ESOPs Taxation eased for employees of start-up companies – Employees may delay payment of taxes by upto 5 years from date of allotment and Start-Up Employer is not required to deduct TDS on the same. [192, 17, 156, 191]

Indirect Taxes

GST

1. Relief Given for IGST levied and collected w.e.f. 1st July, 2017 for Fishmeal, pulley, wheels and other parts and used as parts of agricultural machinery.
2. Simplified Return under GST to be introduced from 1.10.2020
3. Refund Process has been simplified and made automatic
4. System of cash reward to incentivise customers to seek Tax Invoice

Custom Duties

5. Custom Duty raised for items like Furniture and Footwear
6. New Chapter VAA added to the Custom Act, with the heading “Administration of Rules of Origin Under Trade Agreement”
7. Concept of Electronic Duty Credit Ledger Introduced.
8. Health Cess to be levied on Custom Duty imposed on import of medical equipment

Announcement in Budget speech for MSMEs

1. Necessary amendments to be made to Factoring Regulation Act, 2011 which will allow MSMEs to factor their invoices.
2. Scheme to provide subordinate debt to (be provided by Banks) – Debt to be treated as Quasi Equity and will be guaranteed by the Central Government on lines with CGTMSE Scheme.
3. MSME Loan Restructuring scheme deadline to be extended by RBI to 31.3.2021 (by 1 year)
4. App based system to encourage prompt payments to MSMEs to be introduced.

The above summary has been made from interpretation of The Finance Act, 2020 (after presidential assent) as notified by the government and the Budget Speech, on a best effort basis.

For any clarification please feel free to contact CA Ankit Goel at 9811133226 or ankitgoel@akgindia.in