

UNION BUDGET 2020

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EDITION #1

The Hon'ble Finance Minister Nirmala Sitharaman presented the Union Budget 2020-21 in the Lok Sabha. This is the second budget after Narendra Modi led National Democratic Alliance returned to power for a second term. Prominent Themes of Union Budget 2020 moves around three ideas — (1) Aspirational India, (2) Economic Development, (3) Caring Society. Central government to provide ₹99,300 crore for Educational Sector in FY21. Nirmala Sitharaman also proposed new income tax slabs and lower rates. These income tax rates are optional and are available to those who are willing to forego some exemptions and some deductions.

Government also estimated nominal growth of GDP for year 2020-21 at 10%, on the basis of trends available fiscal deficit of 3.8% in RE 2019-20 and 3.5% for BE 2020-21.

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DIRECT TAX PROPOSAL

Individual tax rates:

Finance Minister has introduced a new set of individual Income Tax slab and has given an option to Individual/ HUF assessee to Choose from one out of two slab rates. A new Section 115BAC has been proposed to be inserted to provide an alternative to Individuals and HUFs to pay tax at lower rates. Option under this scheme can be exercised by every individual or the HUF. However, an individual and HUF having business income, the option once exercised for a previous year shall be valid for that previous year and for all subsequent years.

Tax Rates applicable for Resident Individuals/ HUF in Financial Year 20-21

Income		Rates of Income Tax (Option 1)		
S. No.	Total Income	Individual (Age less than 60 Years)/HUFs	Senior Citizen (Age 60 Years or above)	Super Senior Citizen (Age-80 Years or above)
1	Up to Rs.2,50,000	Nil	Nil	Nil
2	Rs.2,50,000 to Rs.3,00,000	5%	Nil	Nil
3	Rs.3,00,000 to Rs.5,00,000	5%	5%	Nil
4	Rs.5,00,000 to Rs.10,00,000	20%	20%	20%
5	Above Rs.10,00,000	30%	30%	30%

New simplified personal income tax regime (Option 2)

Tax Rates applicable for Resident Individuals/ HUF in Financial Year 20-21

S. No.	Total Income	Tax rates <i>{For all Individuals}</i>
1	Up to Rs.2,50,000	Nil
2	Rs.2,50,001 to Rs.3,00,000	5%
3	Rs.3,00,001 to Rs.5,00,000	5%
4	Rs.5,00,001 to Rs.7,50,000	10%
5	Rs.7,50,001 to Rs.10,00,000	15%
6	Rs.10,00,001 to Rs.12,50,000	20%
7	Rs.12,50,001 to Rs.15,00,000	25%
8	Rs.15,00,001 and above	30%

Note: To Avail Option 2, The assessee shall not allowed:

- Specified deduction under Chapter VI-A (Except Employer Contribution U/s 80CCD and 80JJAA)
- Specified exemptions like House Rent Allowance (HRA) and Leave Travel Allowance (LTA)
- Standard deduction, deduction for entertainment allowance and employment/professional tax
- Additional depreciation, Interest on self-occupied house property, Donations, etc.
- Set-off of carry forward of losses and unabsorbed depreciation
- Inter-head set-off of loss from rented house property
- Alternate Minimum Tax (AMT) provisions will not be applicable In Case of Business Income.

CORPORATE TAX RATES:

No further change has been proposed in corporate tax rates in this budget. The corporate tax rate shall be as below for AY 2021-22:

Income	Domestic Company with turnover less than 400Cr in previous year	Domestic Company with turnover of 400Cr or more in previous year	Other Company
Total income less than 1 Crore in current year	25% plus cess 4%	30% plus cess 4%	40% plus cess 4%
Total income more than 1 Crore but less than 10 Crore in current year	25% plus surcharge of 7% plus cess 4%	30%* plus surcharge of 7% plus cess 4%	40% plus 2% surcharge plus cess 4%
Total income more than 10 Crore in current year	25% plus surcharge of 12% plus cess 4%	30%* plus surcharge of 12% plus cess 4%	40% plus 5% surcharge plus cess 4%

Note:The Taxation Laws (Amendment) Act, 2019 inserted section 115BAA and section 115BAB to provide domestic companies with an option to pay tax at the concessional tax rates @22% and 15% respectively plus 10% surcharge. The Finance Bill, 2020 proposes that companies opting for the concessional rates shall not be allowed a deduction under any provisions of Chapter VI-A other than section 80JJAA or section 80M.

New Section for Co-Operative Societies:

A new section 115BAD has been proposed to be inserted to provide an option to the co-operative societies to pay tax at the rate of 22% plus 10% surcharge and 4% cess. The income of such societies shall be computed without claiming specified exemption, deduction or incentive available under the Act. Provisions of Alternate Minimum Tax (AMT) shall not apply to such co-operative societies

ABOLITION OF DIVIDEND DISTRIBUTION TAX (DDT):

It is proposed to remove dividend distribution tax (DDT) and taxable in hand of shareholder on or after 01, 2020. Dividend from the domestic company or income from units of a mutual fund shall be taxable in the hands of shareholders or unit holders at the applicable rate and the domestic company or mutual funds shall not be required to pay any distribution tax. It is proposed interest expenditure be allowed as deduction from dividend income, subject to a cap of 20% of such income. However, taxes shall be deducted from the payment of dividend or income of units, as the case may be.

The Budget also proposes to eliminate the cascading tax effect in case of inter-corporate dividends by providing a deduction in respect of dividends received by a domestic company to the extent such dividend is distributed.

New Section inserted 194 K for Deduction of TDS @10% in respect of income of Mutual Funds specified under clause (23D) of section 10, with the Threshold Limit: ₹ 5,000 upto which no TDS is required to be deducted.

STRAT UP:

- ❖ It is proposed to increase the turnover cap for eligible start-ups claiming tax holiday from Rs. 25 crore to Rs.100 crore.
- ❖ The window for claiming tax holiday is proposed to be expanded to three consecutive years in a block of 10 years from the current block of seven years.
- ❖ **ESOP:**
The tax on perquisite under the head Salary is required to be paid at the time of exercising of option which may lead to cash flow problem as this benefit of ESOP is in kind. In order to ease the cash flow burden on employees of eligible start-up, the budget proposes to defer the deduction and payment of TDS on such taxable perquisite. Eligible start-up would now be required to deduct and pay

TDS within 14 days from:

- expiry of 48 months from the end of the relevant AY
 - date of sale of such securities, or
 - date on which an individual ceases to be an employee
- whichever is earlier, at the rates in force in the FY when the option was exercised.

TAX AUDIT LIMIT ENHANCED TO RS. 5 CR WITH CONDITION

Under section 44AB of the Act, every person carrying on business is required to get his accounts audited, if his total sales, turnover or gross receipts, in business exceed or exceeds Rs. 1 crore in any previous year. In case of a person carrying on profession he is required to get his accounts audited, if his gross receipt in profession exceeds Rs. 50 lakhs in any previous year. In order to reduce compliance burden on small and medium enterprises, it is proposed to increase the threshold limit for a person carrying on business from Rs. 1 cr to Rs. 5 cr in cases where, -

- i. aggregate of all receipts in cash during the previous year does not exceed 5% of such receipt; and
- ii. aggregate of all payments in cash during the previous year does not exceed 5% of such payment.

EXTENSION OF DUE DATES FOR FILING OF RETURN

Further, to enable pre-filing of returns in case of persons having income from business or profession, it is required that the tax audit report may be furnished by the said assessee at least one month prior to the due date of filing of return of income. This implies that the due date of filing tax audit will be 30th September for all assessee and 30th October in case the assessee is liable for transfer pricing audit.

Further, the due date for filing return of income under sub-section (1) of section 139 is proposed to be amended by:-

Providing 31st October of the assessment year (earlier 30th September) as the due date for an assessee referred to in clause (a) of Explanation 2 of sub-section (1) of Section 139 of the Act; removing the distinction between a working and a non-working partner of a firm with respect to the due date as mentioned in sub-clause (iii) of clause (a) of Explanation 2 of sub-section (1) of Section 139 of the Act.

DONATIONS

Section 80G is proposed to be amended to provide that entities receiving donation shall be required to file a statement of the donation received and shall issue a certificate to donor. The mechanism shall be similar to TDS/TCS. Pre Fill donation details will be available in assess form while filing the income tax return.

TAX DEDUCTION AT SOURCE

New TDS on E-commerce transactions

In order to widen and deepen the tax net by bringing participants of e-commerce within tax net, it is proposed to insert a new section 194-O in the Act so as to provide for a new levy of TDS at the rate of 1% with the following key points:

1. The TDS is to be paid by e-commerce operator for sale of goods or provision of service facilitated by it through its digital or electronic facility or platform;

2. E-commerce operator is required to deduct tax at the time of credit of amount of sale or service or both to the account of e-commerce participant or at the time of payment thereof to such participant by any mode, whichever is earlier.
3. The tax at 1% is required to be deducted on the gross amount of such sales or service or both.
4. Any payment made by a purchaser of goods or recipient of services directly to an e-commerce participant shall be deemed to be amount credited or paid by the e-commerce operator to the e-commerce participant and shall be included in the gross amount of such sales or services for the purpose of deduction of income-tax.
5. The sum credited or paid to an e-commerce participant (being an individual or HUF) by the e-commerce operator shall not be subjected to provision of this section, if the gross amount of sales or services or both of such individual or HUF, through e-commerce operator, during the previous year does not exceed Rs. 5 lakh and such e-commerce participant has furnished his Permanent Account Number (PAN) or Aadhaar number to the e-commerce operator.
6. A transaction in respect of which tax has been deducted by the e-commerce operator under this section or which is not liable to deduction under the exemption discussed in the previous bullet, there shall not be further liability on that transaction for TDS under any other provision of Chapter XVII-B of the Act. This is to provide clarity so that same transaction is not subjected to TDS more than once. However, it has been clarified that this exemption will not apply to any amount received or receivable by an e-commerce operator for hosting advertisements or providing any other services which are not in connection with the sale of goods or services referred to in sub-section (1) of the proposed section.
7. "e-commerce operator" is defined to mean any person who owns, operates or manages digital or electronic facility or platform for electronic commerce and is a person responsible for paying to e-commerce participant.
8. "e-commerce participant" is defined to mean a person resident in India selling goods or providing services or both, including digital products, through digital or electronic facility or platform for electronic commerce.
9. "electronic commerce" is defined to mean the supply of goods or services or both, including digital products, over digital or electronic network.
10. Section 206AA is also amended to provide for TDS at 5 per cent in non-PAN/ Aadhaar cases.

TDS on fees for technical services (other than professional services) from 10% to 2%.

For TDS to be deducted on payment to non-professionals for technical service provided was always in dispute w.r.t. TDS u/s 194J or 194C. Now, to reduce litigation and bring certainty, it is proposed to reduce rate for TDS in section 194J in case of fees for technical services (other than professional services) to 2% from 10%. The TDS rate in other cases under section 194J would remain same at 10%.

TDS on Interest income under section 194A of the Act

In order to extend the scope of this section to interest paid by large co-operative society, it is proposed to amend to provide that a cooperative society shall be liable to deduct TDS u/s 194A, if-

- (a) the total sales, gross receipts or turnover of the co-operative society exceeds Rs. 50 crore during the financial year immediately preceding the financial year in which the interest is credited or paid; and
- (b) the amount of interest, or the aggregate of the amount of such interest, credited or paid, or is likely to be credited or paid, during the financial year is more than Rs. 50,000 in case of payee being a senior citizen and Rs. 40,000, in any other case.

New TCS on Liberalized Remittance Scheme (LRS) and Foreign Tours

It is proposed to levy TCS on overseas remittance under LRS and for sale of overseas tour package, as under:

- ❖ An authorised dealer receiving an amount or an aggregate of amounts of Rs. 7,00,000 or more in a financial year for remittance out of India under the LRS of RBI, shall be liable to collect TCS, if he receives sum in excess of said amount from a buyer being a person remitting such amount out of India, at the rate of 5%.
- ❖ A seller of an overseas tour program package who receives any amount from any buyer, being a person who purchases such package, shall be liable to collect TCS at the rate of 5%.

In non PAN/Aadhaar cases the rate shall be 10% in both the cases.

The above TCS provision shall not apply if the buyer is,

- a. liable to deduct tax at source under any other provision of the Act and he has deducted such amount.
- b. the Central Government, a State Government, an embassy, a High Commission, legation, commission, consulate, the trade representation of a foreign State, a local authority as defined in Explanation to section 10(20) or any other person notified by the Central Government in the Official Gazette for this purpose subject to such conditions as specified in that notification.

- "authorised dealer" is proposed to be defined to mean a person authorised by the Reserve Bank of India under FEMA Law to deal in foreign exchange or foreign security.

- "Overseas tour program package" is proposed to be defined to mean any tour package which offers visit to a country or countries or territory or territories outside India and includes expenses for travel or hotel stay or boarding or lodging or any other expense of similar nature or in relation thereto.

New TCS on Sales exceeding Rs. 50 lakhs (Sec 206C)

A new levy of TCS on sale of goods above specified limit, was introduced which is as under:

- ❖ A seller of goods is liable to collect TCS at the rate of 0.1 per cent on consideration received from a buyer in a previous year in excess of Rs. 50 Lakh

- ❖ In non-PAN/ Aadhaar cases the rate shall be 1%.
- ❖ Only those seller whose total sales, gross receipts or turnover from the business carried on by it exceed Rs. 10 crore during the financial year immediately preceding the financial year, shall be liable to collect such TCS.
- ❖ Central Government may notify person, subject to conditions contained in such notification, who shall not be liable to collect such TCS.
- ❖ No TCS is to be collected from the Central Government, a State Government and an embassy, a High Commission, legation, commission, consulate, the trade representation of a foreign State, a local authority as defined in Explanation to section 10(20) or any other person as the Central Government may, by notification in the Official Gazette, specify for this purpose, subject to conditions as prescribed in such notification.

FMV OF PROPERTY PURCHASED BEFORE 01-4-2001 SHOULD NOT EXCEED STAMP DUTY VALUE:

The existing provisions of section 55 of the Act provide that for computation of capital gains, an assessee shall be allowed deduction for cost of acquisition of the asset and also cost of improvement, if any.

However, for computing capital gains in respect of an asset acquired before 1st April, 2001, the assessee has been allowed an option of either to take the fair market value of the asset as on 1st April, 2001 or the actual cost of the asset as cost of acquisition. It has been proposed that such fair market value of such an asset on 1st April, 2001 shall not exceed the stamp duty value of such asset as on 1st April, 2001 where such stamp duty value is available.

CHARITABLE TRUST

- a) The perpetual registrations under Section 12AA, 10(23C) has been removed. Now the registrations will be granted for 5 years only. Also the existing registered trusts and societies have to re-apply for the registration again within 3 months of the commencement of Finance Act 2020 so as to get the 5 years certificate.
- b) An entity already approved under section 80G shall also be required to apply for approval and on doing so, the approval, registration or notification in respect of the entity shall be valid for a period not exceeding five years at one time.
- c) Application for approval under section 80G shall be made to Principal Commissioner or Commissioner
- d) An entity making fresh application for approval under clause (23C) of section 10, for registration under section 12AA, for approval under section 80G shall be provisionally approved or Analysis of Budget 2020 38 Tax Research Foundation registered for three years on the basis of application without detailed enquiry even in the cases where activities of the entity are yet to begin and then it has to apply again for approval or registration which, if granted, shall be valid from the date of such provisional registration. The application of registration subsequent to provisional registration

should be at least six months prior to expiry of provisional registration or within six months of start of activities, whichever is earlier.

- e) The application pending for approval, registration, as the case may be, shall be treated as application in accordance with the new provisions, wherever they are being provided for.
- f) New section 12AB has been introduced under which Charitable trusts and societies will get registration earlier which was granted in 12AA.

RESIDENTIAL STATUS

Period of stay for Indian citizens visiting India

The Budget proposes to reduce the period of stay criteria for Indian citizens/PIO visiting India to determine their residential status. They will now qualify as residents if their stay in India is:

- more than 120 days (earlier limit was 182 days), and
- more than 365 days during the preceding four previous years.

Change in condition for qualifying as Not Ordinary Resident (NOR)

Existing provisions provide two criteria for an individual to qualify as NOR. The individual:

- is a non-resident in 9 out of 10 preceding years, or
- stays in India for 729 days or less in seven preceding years.

The above provisions are proposed to be replaced with a new provision whereby an individual will qualify as NOR if he/she has been a non-resident in India in 7 out of 10 preceding years.

Deemed residency criteria for citizens of India

The Budget proposes to introduce the concept of citizenship-based taxation in a limited manner.

- Indian citizens who are not liable to tax in any other country by virtue of residency, domicile or any other similar criteria would be deemed tax residents of India.
- This may result in global income being liable to tax in India, unless they qualify as NOR based on the new condition proposed.

TAX INCENTIVE FOR AFFORDABLE HOUSING

The existing provision of section 80EEA to provide a deduction in respect of interest up to Rs 1.5 Lakh on loan taken for residential house property from any financial institution subject to the following conditions:

- loan has been sanctioned by a financial institution between 1st April, 2019 to 31st March 2020.
- the stamp duty value of house property does not exceed Rs 45 Lakh
- assessee does not own any residential house property on the date of sanction of loan.

In order to continue promoting purchase of affordable housing, the period of sanctioning of loan by the financial institution is proposed to be extended to 31st March, 2021

OTHER AMENDMENTS

1. In order to simplify the taxation structure, a new scheme "**Vivaad se Vishwas Scheme**" has been introduced which will reduce or simplify the litigations under which an assessee will not be required to pay heavy penalties and interests in case of any pending dispute with the department. Only pending tax amount have to be paid. Currently, the assessee files further appeals because of heavy penalties and interest amounts and after the implementation of this scheme, the assesseees under dispute will no longer be required to pay any penalty and interest which will automatically reduce the litigations. Complete waiver of interest and penalty provided if the assessee pays by 31 March 2020. Person availing after 31 March 2020 will have to pay some additional amount and the Scheme open upto 30 June 2020 only.
2. New Section 271AAD has been introduced, according to which if an assessee pass a false entry or omit an entry in the books with an intention to evade tax, the penalty will be equal to the amount of the false or omitted entry. For eg: if the amount of the false or omitted entry is Rs. 50 lacs then the penalty will also be Rs. 50 lacs
3. After the faceless assessments, now faceless appeals (e-appeals) and faceless penalties (e-penalties) system will be implemented which is intended to bring more transparency in the system.
4. New Section 119A has been introduced which says, The board shall adopt and declare a taxpayer's Charter and issue such orders, instructions, directions & guidelines to other Income Tax Authorities as it may be deem fit for the administration of such chapter. This Charter will be taxpayer centric which will look into the problems of taxpayers.
5. Amendment in Section 133A (Power of Survey) says, In case any information for the assessee has been given by prescribed authority, then after the approval of Joint Commissioner any AO can visit for the survey but In case, No Information has been given by the prescribed authority, then power to take action of survey is only held after the approval of Director or the Commissioner.
6. New Section 234G has been proposed which says, if Institutions covered under Section 35 do not issue certificates on time to the donors then fee of Rs. 200 per day has to be paid by such institutions.
7. A process will be introduced for instant allotment of PAN on the basis of Aadhaar without any requirement for filling up of application form.

8. An additional deduction up to Rs. 1.5 lakh will be continued to be provided for purchase of first residential house property, if the loan has been sanctioned between 01 April 2019 and 31 March 2021. The time limit for loan sanction has been extended from 31 March 2020 to 31 March 2021

9. Employer's aggregate contribution in excess of Rs.7.5 lakh toward:

- ▶ Recognised Provident Fund
- ▶ National Pension Scheme
- ▶ Approved Superannuation Fund

shall be taxable in the hands of employees. Any accretion like interest on the said funds (on exceeds of 7.5 lacks) will also be taxable.

