



An Economic boost to trigger a Self-reliant Nation

The global economy has succumbed to the uninvited guest, COVID-19, which arrived at the beginning of the year and brought an onslaught of huge ramifications on the economy and businesses as a whole. The COVID-19 pandemic has brought the entire nation to a standstill for more than two months now. This has significantly hampered the GDP of the country, along with cash flow issues. The Indian rupee continues to weaken by the day. Needless to say, the negative impact on businesses and profitability is leading to the closure of several businesses, leaving employments at stake. The brunt of business loss has severely affected the tax collections and administration.

To circumvent this situation, the Indian government has provided some relief in these unprecedented times, which have been implemented both by central and state governments from time to time. Further, the Hon'ble Prime Minister, while addressing the nation on 12 May 2020, to make India self-reliant, i.e., Atma Nirbhar Bharat, announced a stimulus package worth INR 20 lakh crore, which was equal to 10% of the GDP of India. The package focused on various aspects like land, labor, liquidity and laws. The five pillars for being self-reliant were identified as economy, infrastructure, system/technology, demography and demand. These pillars were given due preference in the stimulus package.

In order to lay the foundation of self-reliant India and taking steps towards accomplishing the vision of Hon'ble Prime Minister and at the same time to boost the businesses and the economy from the damage caused due to the pandemic, the Finance Minister (FM) announced a slew of measures taking into consideration each section of the society. Over the period of five days, the FM announced the specific contours of the stimulus package highlighted as under :-

Direct tax perspective

The Central Board of Direct Tax, in the recent past, had announced a series of measures including the extension of due dates for various compliances to be done under the Act, reduction in the rate of interest for delay in compliance, issuance of refund up to INR 5 lakh, clarifying on the residential status of individuals who are stranded in India because of the pandemic.

- i. Relaxing the provisions relating to residential status was need of the hour considering the fact that there was an amendment in the Finance Act 2020, which had reduced period of stay in India from 182 days to 120 days for a certain category of individuals;
- ii. During the lockdown, the tax authorities would be clearing rectification petitions and effect orders;
- iii. The pending refunds will be issued to charitable and non-corporate entities. It seems that this time there is no threshold kept on the maximum amount of refund that can be given to a specific assessee unlike the limit of INR 5 lakh proposed prior to this announcement;

- iv. It has been conveyed that no cohesive action will be taken during the lockdown;
- v. Further to provide some relief to the businesses and to infuse liquidity, the following additional measures were announced:

Reduction in TDS/ TCS rates to provide liquidity to businesses

With the intention to provide more funds at the disposal of the taxpayers, the FM announced a move wherein the TDS rates for all non-salaried payment to residents, and TCS rates are reduced by 25% of the existing specified rates. This reduction in the rates shall be in operation from 14 May 2020 to 31 March 2021.

Note: - The above reduction in rates shall not be applicable in the following scenarios: -

- Where tax is deductible from payments made under the head salary as per provisions of section 192 of the Income-Tax Act, 1961 (the Act);
- Where payment is made to a non-resident, not being a company or to a foreign company;
- Where tax is deductible at 20% on payments made to a person resident in India where he fails to furnish PAN or Aadhar;
- Where a lower deduction certificate has been obtained u/s 197 of the Act;
- TDS on cash withdrawals under section 194N and TCS on alcoholic liquor for human consumption, TCS on foreign tour, and TCS on remittances under the Liberalised Remittance Scheme.

The reduction in rate is an apt measure given that the profitability is difficult to predict, and in fact, for many, it could be a tough breakeven or even a loss. Lower withholding tax certification is a process by itself and is time-consuming, in such a scenario, this brings some relief although not very substantial. This can be explained by an example, say you were liable to deposit INR 1 lakh as TDS, and now you shall be required to deposit only INR 75,000. This does leave you with a cash surplus of INR 25,000 until you actually pay to the deductee/creditor. While the TDS is payable immediately by the 7th of the following month, higher credit terms for the deductee can help improve the cash flow to some extent.

It is pertinent to note that the above measure intended to increase liquidity in the hands of the taxpayers is hit by the fact that there is no consequent reduction in the liability to be discharged quarterly on account of advance tax. The due dates and payment schedule under advance tax remains unaltered. Hence, one may visualize and conclude that it is only a timing difference to prevent any further liquidity crisis.

Further extension of due dates for various compliances under the Income-Tax Act, 1961

Considering the possibility that businesses and economy may not revive fully and in some parts of the nation, the lockdown may remain operational for a longer period as compared to others; the FM has proposed the extension of various due-dates under the Act which are as follows:

Particulars	Due date prescribed under the relevant Act	Extended Due date
Extension of time limit for making payment under the Vivad se Vishwas Scheme without the requirement of making 10% additional payment	31 March 2020 and further extended to 30 June 2020	31 December 2020
Filing of return of income for AY 2020-21	31 July 2020 or 31 October 2020	30 November 2020
Furnishing of Tax audit report u/s 44AB	30 September 2020	31 October 2020
Time limit for completion of assessment proceedings for AY 2018-19	30 September 2020	31 December 2020
Time limit for completion of assessment proceedings which are getting time-barred on 31 March 2021	31 March 2021	30 September 2021
Filing of Revised return for AY 2019-20	31 March 2020	30 June 2020

It is important to note that the due date for filing return of income in the case where a person is required to furnish a report under section 92E (transfer pricing) remains unaltered at 30 November 2020 and also the due date to furnish a report u/s 92E remains unaltered at 31 October 2020.

The above measures will be applicable to assesseees of all industries and sectors. These come into play with immediate effect.

Indirect Tax Measures

- i. Late fee for delay in filing of GSTR 1 for the month of March, April and May 2020 has been waived off, provided GSTR 1 is filed before 30 June 2020
- ii. Late fee for delay in filing GSTR 3B for the month of Feb, March, April and May 2020 has been waived off, provided GSTR 3B is filed before the revised prescribed due dates
- iii. For taxpayers having an aggregate turnover of less than INR 5 crore, no interest for delay in payment of tax, if the tax paid before revised due date for submission of GSTR 3B.
- iv. For taxpayers having an aggregate turnover of more than INR 5 crore, interest at 9% (as against normal 18%) would be leviable for the delay in payment of GST beyond 15 days of normal due date – provided GSTR 3B is filed within revised prescribed due dates.
- v. The validity of all e-way bill expiring between 20 March to 15 April extended till 31 May 2020
- vi. Guidelines to conduct hearings electronically through virtual modes has been issued
- vii. Due date for the payment required to be made under Sab Ka Vishwas Legacy Dispute Resolution scheme extended till 30 June 2020
- viii. Instructions have been issued to expedite pending GST refund claims
 - a. Reportedly, the Government of India has earmarked around INR 18,000 crore in a bid to provide relief to taxpayers amidst the COVID-19 crisis.
 - b. Refund to around 1 lakh businesses including MSMEs are being granted expeditiously
- ix. Obligation to have a LUT in place for the export of goods extended till 30 June 2020
(Reference of earlier LUT to be given on export invoices)

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Other Measures announced under other laws

MSME Act

- i. Expanding the definition of MSME by increasing investment and turnover significantly.
 - **Micro Units:** Companies with Investments up to INR 1 crore and turnover of below INR 5 crore
 - **Small Units:** Companies with Investment of up to INR 10 crore and turnover of below 50 crore
 - **Medium Units:** Companies with Investment of up to INR 20 crore and turnover of below INR 100 crore
- ii. Collateral free loan for an emergency infusion of working capital:- The Scheme aims at reducing the distress being faced by MSMEs by providing them with additional funding of up to INR 3 lakh crore in the form of a fully guaranteed emergency credit line (GECL).
- iii. The distinction between manufacturing and service MSMEs has been done away with.
- iv. Subordinate debts being issued:- Provision made for INR 20,000 crore subordinate debt for two lakh MSMEs, which are NPA or are stressed. The government will support them with INR 4,000 crore to Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE). Banks are expected to provide the subordinate-debt to promoters of such MSMEs equal to 15% of the existing stake in the unit subject to a maximum of INR 75 lakhs.
- v. Fund of Funds:- Government will set up a Fund of Funds with a corpus of INR 10,000 crore that will provide equity funding support for MSMEs. The Fund of Funds shall be operated through a Mother and a few Daughter funds. It is expected that with leverage of 1:4 at the level of daughter funds, the Fund of Funds will be able to mobilize equity of about INR 50,000 crore.
- vi. E-linkage:- E-market linkage for MSMEs will be promoted to act as a replacement for trade fairs and exhibitions.
- vii. MSME receivables from Government and CPSEs will be released in 45 days.

This is a major change and will have a huge impact on the small and medium business. This will give a well-deserved boost to the MSME sector. With these changes, a number of business houses will now be able to avail of funds. Though the press release does not specify any registration requirements, nonetheless, one needs to wait for the actual fine print of the notification to understand the benefits available and conditions attached to it.

Employees Provident Fund Act

- i. Initially, the government had announced that it shall provide for the contribution of all workers for three months, i.e., March, April, and May, who are covered under the PM Garib Kalyan Package (PMGKP). This support has been further extended for a period of three months, i.e., June, July and August 2020.
- ii. Further, in the case of establishments covered under EPFO, reduction in the statutory contribution of both employer and employee from 12% to 10% has been announced, which will, in turn, provide liquidity.

This will be applicable to all assesseees and would help in increasing the cash flow of the organizations as well as the employees.

Insolvency and Bankruptcy Code

- i. In order to prevent businesses from going insolvent, the minimum threshold for insolvency has been raised to INR 1 crore from INR 1 lakh. This is a big boost that has been given to the businesses that are struggling to be on their toes.
- ii. Further, it has also been decided to exclude the debts that are related to COVID-19 from default under IBC. Further up to one year, there will be no fresh case of insolvency.

Companies Act

- i. Several compoundable offenses under the Companies Act have been done away with. Further, there would be some alternative framework for some other offenses. This would also reduce the burden/de-clog the Criminal Courts and even the National Company Law Tribunal (NCLT)
- ii. The due dates for Board Meeting extended by 60 days to 30 September 2020
- iii. Extra Ordinary General Meeting can be conducted via Video Conferencing.

Promoting ease of doing business

- i. To further help the companies with raising resources so that they can carry on their business with ease, the government said that it will allow direct listing of securities by Indian public companies in foreign jurisdictions.
- ii. Further, it has also been clarified that private companies which list their non-convertible debentures (NCDs) on stock exchanges in foreign jurisdictions will not be regarded as listed companies

FEMA Regulations

- i. FM increased the FDI cap in defense manufacturing under the automatic route from 49% to 74%.
- ii. An extension of the due date for receipt of export dues. The time period for realization and repatriation of export proceeds for exports made up to or on 31 July 2020, extended to 15 months from the date of export.

SEBI regulations

- i. Top 100 listed entities by market capitalization whose financial year ended on 31 December 2019, may hold their Annual General Meeting (AGM) within a period of nine months from the closure of the financial year (i.e., by 30 September 2020) instead of holding the AGM within a period of 5 months from the end of the financial year
- ii. In the case where a company has undertaken buyback of shares, there was a restriction of one year before it can issue fresh shares. This time limit has been relaxed to six months, and relaxation is available till 31 December 2020.
- iii. An exemption has been given for publication of advertisements in newspapers for all events (i.e., information notice of the board meeting, financial results, etc.) scheduled till 15 May 2020
- iv. The due date for furnishing financial results is extended from 15 May 2020 to 30 June 2020 for Quarterly reporting and from 30 May 2020 to 30 June 2020 for annual reporting requirements
- v. Due date with respect to the filing of secretarial compliance report has been extended from 30 May 2020 to 30 June 2020.

Key Takeaway

At a rate, as much as 10% of GDP, the package did not appear to leave any major sphere untouched. Firstly, an extension in date of filing returns for 2019-20, followed by the date of assessments, would allow the businesses to focus more on its revival rather than focusing on the compliance part, as revival would be of utmost importance at least in the coming months. Further, various relaxations under other laws inter-alia reduction of TDS and TCS rates by 25% and infusion of funds in the hands of businesses/ MSMEs will bring a much-required stimulus to the affairs of the businesses which will help the country as a whole in achieving the desired objective of Atma Nirbhar Bharat.

As the lockdown comes to an end, it is imperative for the businesses to look at impact assessment, re-imagine the cost matrix, evaluate alternative business models, explore alliances and optimize the workforce while considering the automation. These conditions may bring some hidden opportunities to light while taking care of survival.

- To make the most of the above and to combat the current situation, businesses need to decode the support schemes announced by the government. This will require active forecasting of the future under the various scenarios and restate their budgets.
- There may be a need to re-negotiate the supplier agreements. All in all, review and recast their Business Outlook Models.
- Businesses will need to perform a cash flow analysis/ projections for which it would have to work out a strategy to recover their receivables in order to sail through the situation. This will require cash flow planning, sensitivity analysis, and close monitoring of capital expenditure besides working capital optimization.
- Businesses will also have to look at alternative approaches like outsourcing and/or setting up shared services across the group.
- It would also be pragmatic to identify the specific tax impact on the business, take advantage of the concessions provided under the various laws for compliance and other activities. It will also be necessary to revisit the transfer pricing positions and margins.

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