Rethink. Restructure. Revive.

Union Budget 2020

WORLD TAX

RECOMMENDED FIRM

2020

Contents

Foreword

A drive towards $5 trillion economy

As the Modi Government 2.0 presents its first budget of the new decade, there have been a lot of deliberations around various measures that may be looked at for providing stimulus to the economy, means for meeting fiscal deficits, and addressing the NBFC liquidity issues, among other concerns.

Last year's path-breaking measures to alleviate economic concerns, such as the reduction of corporate tax rates and boosts for the export and real estate sectors, soared the expectations of the taxpayer fraternity in general for further relief measures.

The Finance Minister, in her second budget, discussed the vision of having a common goal of shared prosperity for the people of what is now the World's fifth-largest economy. Focusing on its four-wheel wagon of vibrant and dynamic economic development, liberalization and optimum utilization of technology, fundamental and structural reforms, and delivering ease of life, the Government continues to drive towards achieving its goal of a USD 5 trillion economy.

Dividing the budget into three broad themes of Aspirational India, Economic Development, and Caring society, a slew of measures have been proposed by the Finance Minister touching upon various areas, ranging from infrastructural development, improving healthcare and sanitization, addressing agrarian issues, rural development, education, and skill development.

On the direct tax front, reforms have been proposed towards the simplification of tax laws and the reduction of compliances to be undertaken. The introduction of the new personal tax regime is proposed to be in line with the relaxations offered to the corporates. Acceptance of the long-standing demand for removal of the Dividend Distribution Tax is definitely a welcome move.

Budget Theme
Aspirational India
Economic Development
Caring Society

Simplified Direct Tax Laws and reduction of Compliance burden

Dividend Distribution Tax Abolished

The Government also seems to be committed to ensuring hassle-free and transparent litigation resolution, as it has sought to extend the faceless facility to appeals as well. Another key highlight in this area is the introduction of the '*Vivaad se Vishwas Scheme*' to settle the litigation.

On the indirect tax front, acknowledging the contribution of Goods and Service Tax (GST) towards the structural reforms envisaged in the past, measures have been proposed to simplify and also automate the processes.

Overall, the budget is an optimistic one, especially considering the tightrope that the Finance Minister was to walk on. There are several positives emanating from the budget - Private Sector Focus, healthcare push, a strong impetus for consumption, agrarian focus, to name a few. While these moves are certainly in the right direction, with all the fiscal challenges, the real boost to the economy would depend upon the successful implementation of these measures in the times to come.

Transparent litigation resolution and faceless facility to appeals

Introduction of *Vivaad se Vishwas* Scheme

Simplified GST through automation

Economic Overview

GDP Growth

- The Union Budget announcement and the Economic Survey estimate the real GDP growth at ~5.0% in FY 19-20 (breaking up to 5.0% in Q1 and 4.5% in Q2), down from 6.8% of FY 18-19 as well as the provisional estimate of 7.2% for F 19-Y20 as estimated in the last budget session.
- The slowing trend is attributed to a general weakening of the supply side, as well as slow fixed capital formation. Government estimates show that demand on private final consumption and net exports have held the GDP growth.
- The current budget tries to improve the slowdown drivers, by giving policy impetus to improve private consumption, as well as enhancing physical infrastructure development, by embracing the PPP model.
- A rebound in GDP growth is expected from the Q1 of FY 20-21, and the expectations for FY 20-21 are positive, with an estimated GDP growth rate of 5.8% projected by the International Monetary Fund.

Index of Industrial Production (IIP)

- The IIP is estimated to have seen a modest growth of 0.6% in April-November 2019, compared to 3.8 % in FY18-19 and 4.4% for FY17-18.
- IIP for Manufacturing and Electricity sectors grew 0.9% and 0.8% respectively for April-November 2019 against 3.9% and 2.9% ins FY 18-19.
- The declining trend can be attributed to factors like the slow growth in the automobile industry and the plateauing output of the eight core industries (coal, crude oil, natural gas, refinery products, fertilizers, steel, cement, and electricity) that account for 40% of this index. More specifically, it is tagged to the contraction in production in the energy and refinery sectors.

Inflation

- Headline inflation, based on Consumer Price Index – Combined (CPIC) rose to 4.1% in April-Dec 2019, up from a three-year declining trend (3.4% in FY18-19, 3.6% in FY17-18, and 4.5% in FY16-17).

- Wholesale Price Index (WPI) inflation stood at 2.6% in December’19, averaging at 1.5% in April to December 2019. This is a welcome decline from the previous upward trend seen in FY16-17 to FY 18-19 (when it stood at an estimated 4.3%)
- Initiatives proposed in the Budget and over the last year targeting price stabilization on essential food items, trade and fiscal measures, supply chain improvements, etc. should bolster these indicators in the long run

Trade

- The Merchandise exports in April-Dec 2019 stood at USD 239.3 billion, declining 2% from the corresponding period in the previous year. This was moderated by the simultaneous decline of merchandise imports, which saw a negative growth of 8.9% in the same period, leveling down partly due to the reduced spend on crude oil (by ~11.8% valuing to ~USD 12.8 bn), due to the decline in oil prices.
- Policy exemptions and initiatives announced in the budget, and policies for local manufacturing (like the NIRVIK scheme for higher export credit disbursement) aim to drive exports.
- The net impact so far shows an improvement in the Balance of Payments, with the Current Account Deficit coming down to 1.5% in the first half of FY 19-20 (form 2.1% in FY 18-19).
- While the ‘Assemble in India’ concept introduced in the Economic Survey (as an extension to ‘Make in India’) was not elucidated in the announcement, if driven ahead over the year, it could play an important role in India’s positioning as a manufacturing major.

Fiscal Deficit

- Revised estimates place fiscal deficit at 3.8% of GDP and revenue deficit 2.4% of GDP in 2019-20, while the budgeted estimate fiscal deficit for FY20-21 stands at 3.5%.
- In the recent policy statements, a strong emphasis has been placed on maintaining fiscal discipline, resulting in contained deviations from the targets in the preceding years. The policies use disinvestment as one of the routes of achieving this, and the execution of the IPO for the Life Insurance Corporation of India (LIC) is a noteworthy development.

- It is important to note that recent initiatives have shown a higher commitment towards the development of physical and transport infrastructure, which would bear fruit in the longer term.

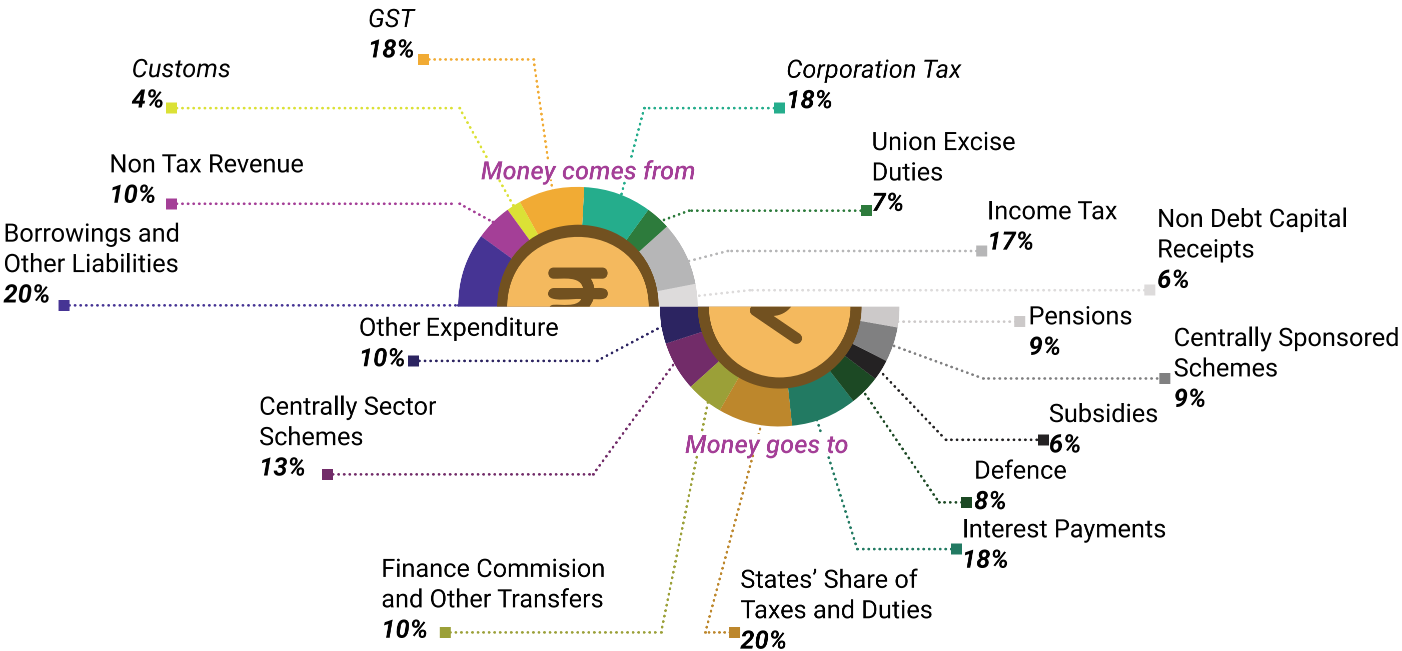
Foreign Investments

- The net FDI in H1 of FY2019-20 stood at USD 21.3 billion. In this period, India's global ranking of the 'Ease of Doing Business', as published by the World Bank, went up by 14 positions to the 63rd rank in 2019. FDI Inflows in FY 19-20 (April-November) stood at USD 24.4 billion compared to USD 21.2 billion, a clear indication of the positive global outlook of India and belief in its growth story and reform strategy.
- The policy focus on infrastructure development, promotion of the PPP model in critical sectors like healthcare, investment in skill development, simplification and revision of the taxation structure, etc. are expected to stimulate FDI inflows into the economy.

Foreign Exchange Reserves and External Debt

- FY19-20 saw a higher accretion of foreign exchange reserves, which stood at USD 457.5 billion at the end of December'19 and reaching a historic high in January 2020.
- Focused campaigns to boost other avenues of income like tourism will be beneficial in boosting FOREX.
- External debt remains low at 20.1% of GDP, as at the end of September 2019. After the significant decline since 2014-15, India's external liabilities (debt and equity) to GDP ratio has increased at the end of June 2019. This is primarily driven by an increase in FDI, portfolio flows, and external commercial borrowings (ECBs).

Source and Allocation of Funds



Personal Income Tax

Tax Rates Changes

- The tax payer can follow the new regime, with reduced tax rates and no specified exemptions/ reductions or the tax payer can continue to follow the existing tax rate system. The rates according to both are as follows (Exclusive of surcharge and cess):

Income (INR)	Existing Tax rate*	Under new regime (optional)
Upto 250,000	NIL	NIL
From 250,001 to 500,000	5%	5%
From 500,001 to 750,000	20%	10%
From 750,000 to 1,000,000	20%	15%
From 1,000,001 to 1,250,000	30%	20%
From 1,250,001 to 1,500,000	30%	25%
Above 1,500,000	30%	30%

*For Resident Individual having (a) age of 60 years to less than 80 years, the income up to INR 300,000 is non-taxable and (b) age from 80 years and above the income up to INR 500,000 is non-taxable.

- Under the new regime, individuals and HUFs have to forego all deductions and exemptions such as standard deduction, interest on housing loan, PPF and other 80 C investments, Mediclaim, etc. and can only get a deduction in respect of employees' contribution to pension scheme and a deduction in respect of employment of new employees.

Amendments in residency rules

Currently, an Indian citizen, employed overseas, will be considered as a resident if his stay in India amounts to 182 days or more. Now, this duration is proposed to be reduced to 120 days.

It is now proposed that an individual or HUF will be considered as "not ordinarily resident" in India if he has been a non-resident in India in seven out of ten years preceding that year.

It is proposed that an Indian citizen who is not liable to tax in any other country by reason of domicile, residence, etc. would be deemed to be a resident of India and thus, their global income would be taxable in India.

Cap on tax benefits available for Provident Fund, Superannuation Fund and National Pension Scheme

- Under the current tax regime, the employer’s contribution to Recognised Provident Fund (RPF) up to 12% of salary, Superannuation Fund (SF) up to INR 150,000 and National Pension Scheme (NPS) up to 10% of salary is not taxable in the hands of the employee. However, there is no cap on the overall amount of exemption claimed by the employees with respect to these three funds.
- It is now proposed to provide a combined upper limit of INR 0.75 million in respect of employer’s contribution in a year to RPF, SF and NPS, and any excess contribution is proposed to be taxable. Consequently, it is also proposed that any annual accretion by way of interest, dividend or any other amount of similar nature during the previous year to the balance at the credit of the fund or scheme will also be considered under the umbrella of total employer contribution.”

Our Comments

- The personal tax rate changes seem attractive at first blush, but it may turn out to be undesirable if an individual avails various deductions and exemptions. Infact, the current tax regime would be more beneficial. Under the pretext of simplification of taxes, the government has granted every citizen the means to compare both taxation regimes to make an informed decision.
- For Indians employed/living overseas, the reduction in duration of stay in India from 183 to 120 is adverse for people making frequent visits to India or staying in India for an extended duration.
- The deemed residency for Indian Citizens residing in countries where they are not liable to tax is a significant departure from the erstwhile regime of determining residency based on the number of days of stay. Indian citizens who have gone abroad for employment or business, especially to Middle East countries where there is no tax, will face now tax consequences in India and also have to undertake compliances in India.
- The cap on the employer’s contribution to various social security schemes provided considerable benefits to employees earning high salaries, which now would be adversely impacted.

Corporate Tax Rates

No Change in Corporate Tax Rates

- Since the Corporate Tax rates were reduced late in 2019, the current Budget doesn't propose any changes.
- However, a concessional corporate tax rate of 15% to new domestic electricity generation is proposed for companies similar to new manufacturing companies to attract investment in the power sector.

Dividend Taxation

- Under the current regime, domestic companies or mutual funds or business trusts pay Dividend Distribution Tax (DDT) at an effective rate of 20.56%. Such income is exempt for shareholders or unit holders if the dividend is below INR 1 million.
- The modification proposed would do away with the DDT, taxing such dividend income in the hands of the recipient.
- Thus, the dividends in the hands of shareholder/recipient are liable for taxation based on their tax brackets. The exemption cap of INR 1 million provided earlier will now be removed.
- The amendment is proposed to take effect with respect to dividends declared or paid after 1 April 2020.
- Only interest would be allowed as a deduction with a cap of 20% of the dividend received.
- No cascading effect on the taxation of dividend by providing deduction of dividend received by one domestic company from another domestic company to the extent of dividend distributed or actual dividend received whichever is lower.
- Withholding Tax / TDS: TDS at a rate of 10% has been proposed on dividends declared/distributed/paid by a domestic company to resident shareholder/recipient. Further, the threshold limit for TDS is set at INR 5,000.
- For a non-resident, the TDS rate as per domestic law is 20% plus applicable surcharge and cess. However, provisions of Tax treaty with the country of residence would apply if it's more beneficial.

Startups

- Startups with total revenue upto INR 1000 mn (increased from the earlier 250 mn) can claim 100% profit deduction for three consecutive years out of ten assessment years from incorporation (increased from 7 years).

Deferment of taxes on ESOP issued by Startups

- Under the current regime, an employer is obliged to withhold and deposit tax on the perquisite value of ESOP, at the time the employee exercises the option.
- However, to ease out the cash flow challenges, it is proposed that a startup employer is required to withhold and deposit tax on perquisite value of ESOP within 14 days of whichever is the earliest:
  - expiry of 48 months from the end of the relevant Assessment Year; or
  - the date of the sale of such ESOP shares; or
  - the date on which the assessee ceases to be an employee;

  whichever is the earliest.
- This amendment is effective from 1 April 2020.

Our Comments

- Abolition of DDT makes India an attractive investment destination and is on expected lines. Foreign investors were burdened with DDT, which was not available as a tax credit in their home country. Foreign Investors (including FPIs) would now be liable to dividend taxes in India at 20% as per Indian domestic law or the rate specified in the respective tax treaty.Most tax treaties have a lower rate of dividend taxation and thus, effective dividend taxation for such foreign companies would be between 5% to 20%! This may be somewhat negative for promoters who hold shares in the companies directly since their tax liability on dividends would increase based on their personal tax rate.
- With the strategic move of deferment of taxes on ESOP, the government has given a stimulus to the startups which will aid their growth.

Benefits to wholly owned subsidiary of Abu Dhabi Investment Authority and Sovereign Wealth Fund

- In order to promote investments, it is proposed to exempt any income in nature of dividend, interest or long-term capital gains of a specified person (as prescribed) arising from an investment mad in India, in the form of debt or equity, in an entity carrying on the business of infrastructure facility or as prescribed by the Central Government.
- The exemption is available if the said investment is made on or before 31 March 2024 and is locked in for minimum of three years.

Extension of certain time limits to avail deduction under affordable housing

- Under the current regime, 100% deduction is allowed on income from developing and building affordable housing projects, provided the project is approved by the competent authority before 31 March, 2020.
- Further, deduction up to INR 150,000 for interest on loan taken is allowed if the loan is sanctioned before 31 March 2020.
- In order to boost the supply of affordable houses, it is proposed to extend both the dates to 31 March 2021.

Allowing deduction to insurance companies for amount disallowed under section 43B on payment basis

- Currently, the law for computation of profits and gains of business for insurance companies other than life insurance companies provides that any expenditure debited to the profit and loss account which is not admissible under the provisions of law is to be added back including the ones that are claimable on payment basis. However, there is no specific provision that allows deduction once the payments are made in subsequent years.
- It is proposed to inserts new provision allowing the deduction, for amounts added back, in the year of actual payment.
- This amendment is proposed to be effective from 1 April 2020.

Rationalizing provisions relating to specified businesses

- Under the current regime, a taxpayer carrying out the activity of specified business is allowed to claim 100 % deduction in respect of capital expenditure incurred for business.
- For the companies that opt for concessional tax rates under the new tax regime, it is predominant that the tax payer is not allowed to claim the deduction for the capital expenditure. Further no mention is made of claim of depreciation. This leads to seizure of benefits to the taxpayers resulting in increase in the total income.
- It has been now clarified that the intention of the law is to allow legitimate deductions and hence the claim is available under the relevant provision.
- This amendment will be effective from 1 April 2020.

Our Comments

- These changes however small, have significant role in providing reliefs to the taxpayers. The incentives are supposed to be phased out gradually but looking at the need of the economy or sector, the government does provide interim relief such as real estate industry. Also, the benefits to Sovereign funds would attract investments.

Relaxing 'business connection' conditions of offshore funds

- The current regime provides exemptions to offshore funds from forming 'business connection' in India, subject to either the aggregate investment in the fund by resident (not exceeding 5% of the corpus) or maintaining a monthly average of the corpus at the end of the previous year or the end of 6 months from the month of incorporation, whichever is later.
- For calculating the aggregate investment, it is proposed to exclude the contribution of fund managers during the first three years up to INR 250 million.
- In case of funds incorporated in the previous year, it is proposed to extend the monthly average of the corpus to INR 1000 million, to be fulfilled within twelve months from the last day, of the month, of its establishment.
- This amendment is effective FY 2019-20.

Exemption to non-residents from the filing of income-tax return

- Under the current regime, a non-resident is exempt from filing tax returns if the total income consists only of a certain dividend or interest income, and the due taxes are provisionally withheld.
- It is now proposed to employ this benefit even in cases where the total income of non-residents consists of Fees for Technical Service/ Royalty and due taxes under the provisions of the Act are withheld.
- This amendment is effective from 1 April 2020.

Extension of source rule

- To align with internationally ongoing discussions, 'Income attributable to the operations carried out in India,' has been defined as:
  - Advertising revenues from ads that target Indian customers or customers who access the advertisement through an Indian IP address
  - Income from the sale of data collected from an Indian resident or from anyone through an Indian IP address
  - Income from the sale of goods and services using data collected from an Indian resident or from anyone through an Indian IP address.

Deferral of applicability of Significant Economic Presence (SEP):

- Presently, SEP of a non-resident in India constitutes 'business connection' in India. However, because of ongoing discussion in the G20-OECD BEPS project, the threshold to determine SEP of a non-resident has not yet been notified.
- Hence, it is proposed to defer the applicability of the provision with respect to Significant Economic presence to FY 2021-22.

Aligning of indirect transfer provisions for Foreign Portfolio Investment (FPI)

- The exemption from Indirect transfer provisions applied to Category-I or Category-II FPI under the SEBI (FPI) Regulations, 2014. With SEBI coming up with SEBI (FPI) Regulations, 2019, it has been proposed that the current exemption be grandfathered and protected.
- Further, a similar exemption is proposed to be extended to investment by only Category-I FPI under the SEBI (FPI) Regulations, 2019.

Rationalization of the definition of 'Royalty'

- Presently, the definition of 'Royalty' excludes the sale, distribution or exhibition of cinematographic films. As such, non-residents are not taxed in respect of such income, although the DTAA provides India the right to impose a tax.
- To avoid such discriminatory situations for Indian residents, it is proposed to amend the definition of Royalty and make the sale, distribution or exhibition of cinematographic films taxable for non-residents.

Aligning Double Taxation Avoidance Agreements (DTAA) with Multilateral Instrument (MLI)

- India has signed the MLI with representatives of many other countries, and the provisions of the MLI apply to India's DTAAs from FY 2020-21 onwards. The MLI applies alongside existing DTAAs.
- Article 6 of MLI provides for modification of the Covered Tax Agreement to include the following preamble text: *"Intending to eliminate double taxation with respect to the taxes covered by this agreement without creating opportunities for non-taxation or reduced taxation through tax evasion or avoidance (including through treaty-shopping arrangements aimed at obtaining reliefs provided in this agreement for the indirect benefit of residents of third jurisdictions),"*

  To align the scope under the preamble text of the MLI with the scope mentioned under the Act, an amendment is proposed to sections 90 and 90A to insert the above modification.

Our Comments

- The exemption from filing a tax return for foreign companies would ease the compliance burden for international companies in India.
- Deferral of SEP is in the right direction, and it is good to see the Government waiting for the international consensus to emerge on the issue of digital taxation.
- Relaxation from Indirect Transfer to FPIs is only restricted to erstwhile Cat I and Cat II funds and would not be available to erstwhile Cat III funds (now Cat II funds under SEBI 2019 regulations).

Tax Deduction at Source

TDS on e-commerce transactions

- To include e-commerce participants under the tax net, it is proposed to levy withholding tax at the rate of 1% on e-commerce transactions. In case the e-commerce participant doesn't hold a PAN in India, taxes would be withheld at the rate of 5%.
- Under the proposed provisions, an e-commerce operator is required to withhold tax on the gross amount of sale of goods or provision of services made through its electronic platform paid or credited (whichever is earlier) to e-commerce participants. In case any payment is directly made by the purchaser of goods or services to an e-commerce participant, it is to be considered as amount credited or paid by the e-commerce operator for the purposes of tax withholding.
- The said provision will not apply to an Individual or HUF e-commerce participant whose gross amount of sales or services or both does not exceed INR 0.5 million, and such an e-commerce participant has furnished his PAN or Aadhaar to the e-commerce operator.
- It is clarified that transactions on which tax has been withheld under this section will not be subjected to withholding under any other provisions. However, this withholding tax would apply even in cases where Equalization Levy is applicable in respect to the amount received by e-commerce operator for hosting advertisements or providing any other services which are not in connection with sales of goods or services through e-commerce.
- In case the e-commerce operator is a non-resident in India, the operator himself or any person authorized or agent of such a person in India would be liable to withhold tax on e-commerce transactions.
- This amendment is proposed to be effective from 1 April 2020.

Reduction in TDS rate on payment of Fees for Technical Services (FTS)

- There are many on-going litigations on the issue of short deduction of tax, where on certain payments, tax is deducted considering the same to be contractual payment at a lower rate (2%), while the tax officers claim that the said payments are like FTS, subject to withholding tax at a higher rate (10%).
- To reduce litigation, it is proposed to align the rate of withholding tax under both the provisions and reduce the rate of tax withholding in case of fees for technical services (other than professional services) to 2% from the current 10%. For professional services, the withholding rate would remain the same at 10%.
- Further, these provisions would apply to any individual and HUF whose sales, gross receipts or turnover exceed INR 10 million in case of business or INR 5 million in case of the profession during the year immediately preceding the financial year in which such income is credited or paid.
- This amendment is proposed to be effective from 1 April 2020.

Extending the scope of TDS on interest credited or paid by a co-operative society

- Under the current tax regime, withholding tax provisions do not apply to interest income paid by co-operative societies to its members or other co-operative societies, and on interest income in respect of deposits with co-operative societies or co-operative banks (other than those engaged in banking business), or with a primary agricultural credit society, or a co-operative land mortgage bank or a co-operative land development bank.
- It is now proposed that a co-operative society referred above (other than a co-operative society engaged in banking business) will be liable to withhold tax on interest income if:
  - The total sales, gross receipts or turnover of the co-operative society exceeds INR 500 million during the financial year immediately preceding the financial year in which interest is credited or paid; and

– The amount of interest or the aggregate of such interest credited or paid, during the financial year is more than INR 50,000 in the case of a senior citizen and INR 40,000 in other cases.

- This amendment is proposed to be effective from 1 April 2020.

Amendment in the definition of work for payment to contractors

- Currently, withholding tax provisions are applicable in respect of payments made to contractors for carrying out any work. For the purposes of this provision, work includes customized manufacturing or supplying of specific products by using raw material purchased from such customer but does not include cases where such raw materials were purchased from a person other than such customer.
- It is now proposed to amend the definition to provide that in a contract manufacturing, the raw material supplied by the customer or his associate, would be considered as work subject to withholding tax.
- This amendment is proposed to be effective from 1 April 2020.

Relaxation of time limit and withholding tax rate on certain bonds

- Under the current regime, tax at a beneficial rate 5% is available on interest paid to non-residents on borrowings made in foreign currency, including long-term infrastructure bonds issued before 1 July 2020. Further, the concessional rate of interest is also applicable in respect of rupee-denominated bond (RDB) issued before 1 July 2020.
- To attract fresh investments, it is proposed to extend the concessional rate for monies borrowed or bonds issued till 1 July 2023.
- Further, in case of monies borrowed by the issue of a long-term bond or RDB, issued on or after 1 April 2020, but before 1 July 2023, and listed in the stock exchange located in IFSC, the rate would be 4%.

Relaxation for Withholding tax on interest paid to FIIs and QFIs

- Under the current regime, the concessional withholding tax rate of 5% is available on interest payment to FII's and QFI's on investments made in Government securities or RDBs of an Indian company before 1 July 2020.
- To boost foreign investment, it is proposed to extend the period for making investments up to 1 July 2023. Also, it is proposed to extend the concessional rate of interest on the investment in municipal debt security.

Our Comments

- The TDS levied on e-commerce transactions would significantly increase the compliance burden of e-commerce operators. Further, it would discourage e-commerce participants from selling their goods or services on e-commerce platforms for it may create cash flow issues. Even in cases of penetration pricing followed by e-commerce participants, who may not even be making profits, there will still be TDS.
- While the intention of reducing the rate of FTS is to minimize litigation and controversy, the proposed amendment will open a new debate on professional fees v/s FTS. In essence, the litigation is here to stay.
- The extension of time limit for the beneficial 5% withholding tax rate would give a boost to Indian debt market and attract more investments.

Tax Collection at Source

Widening the scope of TCS

- **On amounts remitted under Liberalized Remittance Scheme (LRS):** An authorized dealer (banker) receiving amounts aggregating to INR 0.7 million or more in a financial year from an Individual, who is remitting such amount out of India under the Liberalised Remittance Scheme (LRS) of Reserve Bank of India, is liable to collect TCS at the rate of 5% on such overseas remittances. In case the buyer doesn't hold a PAN / Aadhar, TCS at the rate of 10% would apply.
- **On Overseas Tour Program by Tour Operator:** Similarly, a seller of an overseas tour program who receives any amount from a buyer who purchases such overseas tour package is liable to collect TCS at the rate of 5% on the gross amount including expenses for travel, hotel stay, boarding, lodging, etc. In case the buyer doesn't hold a PAN / Aadhar No, taxes shall be collected at the rate of 10%.

- **On Sale of Goods:** It is also proposed that TCS shall apply at the rate of 0.1 percent to a seller of goods whose total sales, gross receipts or turnover from business exceeds INR 100 million during the immediately preceding financial year. TCS is to be made applicable on consideration of more than INR 5 million. In case the buyer doesn't hold a PAN / Aadhar, TCS at the rate of 1% would apply.
- The above provisions related to TCS on goods do not apply to goods already covered in existing provisions of section 206C or in a case where the buyer is liable to withhold tax under any other provision or certain categories of buyers such as Government, Consulates, High Commissions Embassies, etc. In addition to the specified categories, the Government may specify more categories of 'buyers' and 'sellers' where TCS would not be applicable.
- This amendment is proposed to be effective from 1 April 2020.

Our Comments

- TCS, a lesser-known devil, has sprung a surprise in the Budget. TCS on sale of goods would increase compliance burden and create cash flow issues, with unintended consequences such liability of tax TCS to be collected even on export sales (where the buyer is outside India). Similarly, TCS on LRS remittances seems absurd – bringing investments made by Indians outside India under tax consideration.

Transfer Pricing compliance due dates are preponed

- Presently, the transfer pricing compliance in India (Furnishing accountants report in Form 3CEB and maintaining contemporaneous transfer pricing documentation, etc.) are due on the same day as the day for filing the tax returns viz. 30 November of the Assessment Year.
- It is now proposed to prepone the due date from 30 November to 31 October. This amendment is effective from FY 19-20, which implies that the due date for transfer pricing compliances for March 2020 would be 31 October 2020.

Interest paid to PE of a foreign bank not covered under the limitations of interest deductions

- Under Section 94B the interest on borrowings (exceeding INR one crore), paid to the AE, is limited. The provisions restrict the allowable interest expenses to the tune of 30% of the taxpayer's earnings before interest, taxes, depreciation and amortization (EBITDA) or interest paid or payable to AE, whichever is less. The excessive interest beyond the said threshold can be carried forward up to 8 years. Further, a loan is deemed to be from an AE, if an AE provides an implicit or explicit guarantee in respect of that loan.
- Based on the current reading of the provisions, the interest of a loan from the branch of a foreign bank could have attracted provisions of interest limitation.
- The new proposal suggests excluding interest charges incurred by the taxpayer and paid for debt issued by a lender, which is a PE of a non-resident engaged in the business of banking in India.

Profit attribution to PE in India can now be covered under APA and Safe Harbor

- Indian Advance Pricing Agreement (APA) program, introduced by the Finance Act 2012, has been regarded successful for providing certainty to taxpayers. The APA team have set a new benchmark for the time taken to complete the APA proceedings; in some case, the Unilateral APA's were concluded within 12 months. All of this has also resulted in a record number of taxpayers approaching Indian revenue for achieving tax certainty through the APA mechanism. Similarly, the safe harbor rules provide protection to small taxpayers from the litigative transfer pricing environment for covered transactions.

- It is now proposed to extend the benefit of APA and safe harbor to profit attribution to PE of non-residents in India. This is a welcome move that is likely to provide much-needed tax certainty to non-residents having PE and had to face litigation on the attribution of profits in India. This amendment is effective from April 2020.

- It is important to note that the existing safe harbor rules are applicable only till FY 2018-19, therefore, new rules for period FY 2019-20 and onwards are yet to be prescribed by the authority.

Our Comments

- Positive changes announced by the government are in the right direction. Expanding the benefits of APA and safe Harbor to attribution of profits to PE will provide certainty to foreign companies and reduce the scope for litigation.

- Relief on interest limitation deduction would avoid any hardship to a taxpayer that has taken a loan from the Indian branch of a foreign bank and may have to limit his interest deduction.

Improving Effectiveness of Tax Administration

Scope of e-assessment, e-penalty, e-appeal introduced/enhanced

The current e-assessment scheme is applicable to the scrutiny assessments.

This will eliminate the interface between the Assessing Officer and the taxpayer, optimize resources, and create teamwork. The directions for these schemes are required to be issued before 31 March 2022 and will be effective from 1 April 2020.

Stay of demand before the Income Tax Appellate Tribunal (ITAT)

It is now proposed that the ITAT be allowed to grant stay of demand for the period of 180/365 days, as the case may be, only after the taxpayer has made a payment or provides a bank guarantee of at least 20% of the tax demand, including interest and other charges.

This amendment is proposed to be effective from 1 April 2020.

Insertion of Taxpayer's Charter

It is proposed to empower the Central Board of Direct Tax to adopt and declare a Taxpayer's Charter and issue guidelines to income-tax authorities for the administration of charter.

This amendment is proposed to be effective from 1 April 2020.

No Dispute but Trust Scheme – 'Vivad Se Vishwas' Scheme

- Under the proposed scheme, a taxpayer would be required to pay only the amount of the disputed taxes and will get a complete waiver of interest and penalty, provided he pays by 31 March 2020. Those who avail this scheme after 31 March 2020 will have to pay some additional amount. The scheme will remain open till 30 June 2020.
- Taxpayers in whose cases appeals are pending at any level can benefit from this scheme.

Penalty for Fake Invoice

- Penalty for fraudulent books of accounts is proposed to be a sum that is equal to the aggregate amount of false entries or omitted entries.
- This includes the use or the intention to use:

  a. Forged or falsified documents such as a false invoice or, in general, a false piece of documentary evidence; or

  b. Invoice in respect of supply or receipt of goods or services or both issued by the person or any other person without actual supply or receipt of such goods or services or both; or

  c. Invoice in respect of supply or receipt of goods or services or both to or from a person who does not exist.
- This amendment is proposed to be effective from 1 April 2020.

Our Comments

The E-assessment and faceless assessment scheme launched recently is going through testing times, and the department should let this new system stabilize before expanding to other areas such as penalties and appeals.

The 20% tax payment at the ITAT level will create hardships for genuine taxpayers who have faced unreasonable and high-pitched assessments.

The Vivad to Vishwas Scheme was eagerly awaited, and depending on how the scheme is drafted, it could significantly reduce litigation efforts and the number of cases stuck in the judicial system. It could also unlock significant revenue for the Government.

Insertion of taxpayer charter in the statute is a bold move and would provide legal backing. This would need a serious mindset change of the tax officers at a lower level, and if implemented in the right spirit, it will change the way the taxpayer perceives the tax department.

Rationalization and Relief from Compliances

Increase in threshold limit for applicability of Tax Audit

- Under the current regime, every person carrying on business is required to get its accounts audited under the Act, if its turnover, sales, or gross receipts exceeds INR 10 million in the previous year.
- In order to reduce the burden on small and medium enterprises, it is proposed to increase the threshold limit, for getting accounts audited under the Act, to INR 50 million subjects to:
  - An aggregate of all receipts in cash not exceeding 5% of the total revenue;
  - An aggregate of all payments in cash not exceeding 5% of the total payment.
- The amendments are proposed to take effect from FY 2019-20.

Increase in threshold limits for a safe harbor on transactions in immovable property

- Under the current regime, in case of transactions in immovable property, i.e., land or building or both, are affected below the value considered by the stamp authorities, then the value adopted by such authority is to be considered as the full value of consideration if the deviation is in excess by 105%. Thus, the authorities have provided a safe harbor of 5%.
- However, the practicality of effecting a transaction with such a small leeway was far under-sighted.
- It is, therefore, now proposed to increase the current safe harbor from 5% of the stamp duty value of the capital asset to 10%.
- This amendment has been proposed for immovable property, which may be a capital asset or business asset.

Rationalization of provisions to compute the cost of acquisition

- As per the existing provisions, while computing capital gains on transfer of capital asset being land or building or both, the taxpayer has the option to take higher of the fair market value of the asset as on 1 April 2001 or the actual cost of such asset as cost of acquisition.
- With a view to rationalize the provision, it is proposed that while computing the cost of acquisition, the fair market value of the asset as on 1 April 2001 shall not exceed the stamp duty value of such an asset as on 1 April 2001, where such stamp duty value is available.

Rationalization of provisions relating to trust, institution, and funds

- During the current regime, the process of obtaining approval or registration for exemption is cumbersome and time-consuming. Further, these persons face practical difficulty in obtaining approval before starting the activities.
- To facilitate faster approvals, the process is proposed to be simplified by provisionally approving or registering the person/persons for three years without a detailed inquiry despite the activity not begun. Further, to ensure that the conditions of approval and registration are followed, the approval, registration or notification is to be renewed at regular intervals with the period of approval not exceeding five years at one time.
- Also, a proposal similar to the tax collection/tax deducted at source is proposed to be introduced whereby the entities receiving donation will be required to furnish a statement and issue a certificate to the donor. The claim for deduction to the donor will be allowed only on the submission of such a certificate.
- These amendments will take effect from 1 June 2020.

Rationalization and Relief from Compliances

Due dates for Tax Return changed

- In case of taxpayers where transfer pricing (TP) is applicable, in line with the change in due date for transfer pricing compliance, the due date for Tax audit has been preponed to 31 October from 30 November. However, the tax return filing deadline remains 30 November in the case where TP is applicable.
- In the case where transfer pricing is not applicable, to enable pre-filling of return of income, it is proposed to amend the due date by postponing it to 31 October.
- Further, the due date for filing return of income for a non-working partner is brought at par with that of a working partner.
- The amendment is proposed to take effect from FY 2019-20.

Allowing carry forward of losses or depreciation in certain amalgamations

- In the current regime, carry forward of accumulated losses and unabsorbed depreciation is allowed only in case of amalgamation of banking company with any other banking institution as per Banking Regulation Act, 1949.
- In view of the dynamic business trends and the current market situations, it is proposed to extend the benefits of the Act to the amalgamation of below companies as well:
  - Corresponding new banks with any other new bank under a scheme brought in force by the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 or 1980; and
  - One or more Government company under a scheme set up by the General Insurance Business Act, 1972.
- This amendment will be effective from 1 April 2020.

Change in the definition of 'business trust'

- Under the current regime, a business trust is defined as a trust registered as Infrastructure Investment Trust or Real Estate Investment Trust under the Securities and Exchange Board of India (SEBI) Act, 1992, units of which are listed on a recognized stock exchange.
- SEBI has recently amended the provisions and done away with the requirement of mandatory listing of business trusts. In order to align with the amendment from SEBI, the said change is proposed in the Act.

Our Comments

- Providing relief from Tax audits to SMEs would ease the compliance burden as well as encourage SMEs to be less dependent on cash functioning.
- An increase in tolerance range for a property transaction is also a welcome move and provides flexibility as well as addresses genuine cases.
- Aligning due dates for tax return and tax audits would provide some relief to taxpayers and space out the compliance deadlines.

Goods and Services Tax

(effective on enactment of the Finance Bill, 2020)

Key changes proposed to the GST law are as follows:

- The time limit for availing Input Tax Credit (ITC) by the recipient in relation to a debit note issued by the supplier has been de-linked from the date of the original invoice.

The recipient can now claim ITC pertaining to a debit note till September of the year following the year in which such debit note has been issued. Earlier, this limit was to be calculated from the date of the original invoice. This can be explained through the following illustration:

Particulars	Old provision	Amended provision
Invoice date	1 February 2020	1 February 2020
Date of debit note	1 November 2020	1 November 2020
Can recipient claim ITC in respect of the debit note?	No. The time limit expired on 30 September 2020.	Yes. The time limit to claim ITC expires on 30 September 2021.

- Provision for cancellation of registration has been extended for a person who had obtained voluntary registration.
- The GST Council has been granted powers to prescribe the time limit and manner of issuance of tax invoice for specified services which will be notified.
- The scope of the penal provisions under the GST law has been extended to any person who 'retains the benefit of a fraudulent transaction' and the transaction was conducted 'at the instance of such a person'. A similar amendment has also been brought under the penal provisions providing for criminal punishment in case of offenses exceeding prescribed monetary limits.

With the use of data analytics, the government has been able to identify GST frauds amounting to thousands of crores. The amendment intends to make the beneficiary of such transactions liable to penal provisions under the GST law.

- The provision for criminal punishment in cases of wrongful availment of ITC has now been made applicable even in cases where such availment has been made in the absence of a valid invoice. Furthermore, the beneficiary of such transactions has been made liable to criminal punishment.

  The provision intends to rectify a lacuna in the law which made provision for criminal punishment applicable only in cases where there is wrongful availment of ITC against an invoice issued in violation of the GST law.

- The provisions of transitional credit have been retrospectively amended with effect from 1 July 2017 providingthe government powers to prescribe the time and manner in which the transitional credit can be availed.

- The fact that the due date of availing transitional credit has been prescribed through the CGST Rules is a subject matter for various writ petitions before the High Courts. It appears that by introducing a retrospective amendment, the government intends to make these proceedings infructuous.

  Schedule II of the CGST Act has been amended whereby, the phrase "whether or not for a consideration" has been deleted from Para 4 of the said Schedule which provides for categorization of the transfer of business assets into 'supply of goods' and 'supply of services'.

- As per the definition of supply, the expression 'supply' means 'supply' made for a 'consideration'. It appears that the above amendment intends to harmonize Schedule II with the supply definition, as activities to be treated as 'supply' even in the absence of 'consideration' have been specifically provided under Schedule I.

The Finance Bill has introduced substantial amendments to the Customs laws which aim to cut down on imports and exemptions which are hurting domestic manufacturing. The key changes are as follows:

Changes in Customs duty (effective from 2 February 2020)

- Upward revision in rate/withdrawal of exemption

Sector	HSN	Illustrative list of goods	Old rate	Revised rate
Food (Sugar)	1703	Molasses resulting from the extraction or refining of sugar	10%	30%
Food (Sugar)	1704 10 00	Chewing gum whether or not sugar coated (Exempted from levy of SWS)	30%	45%
Food (Chocolate)	1806 90	Chocolate and other food preparations containing cocoa	17.5%	30%
Food (Vegetable)	2004 10 00	Preserved Potatoes	30%	35%
Media	Chapter 37	Colour positive unexposed cinematographic film in jumbo rolls and colour negative unexposed	5%	10%
Leather	4114 20 10	Patent Leather	NIL	10%
Jewellery	7103, 7104	Rubies, emeralds, sapphires, Semi-precious, precious, gem stones (rough and colored)	NIL	0.5%
Electronics	8540 11	Color television picture tubes for use in the manufacture of cathode ray televisions	NIL	10%

Sector	HSN	Illustrative list of goods	Old rate	Revised rate
Automobiles	Various entries in Chapter 87	Electrically operated vehicles	10-25%	15-40%
Footwear	Various entries in heading 6401 to 6405	Footwear	25%	35%

Legislative changes in Customs law (effective from date of enactment of Finance Bill unless otherwise specified)

- The government has been granted powers to prohibit import or export of any goods in order to prevent injury to the economy of the country by uncontrolled import or export of such goods.

  Earlier, the government had imposed such prohibition only on import or export of gold or silver.

- Comprehensive amendments have been introduced making an importer claiming preferential rate of duty under a trade agreement to undertake the following:
  - make a declaration that goods qualify as originating goods for preferential rate of duty under such agreement;
  - possess sufficient information as regards the manner in which country of origin criteria, including the regional value content and product specific criteria, specified in the rules of origin in the trade agreement, are satisfied;

- exercise reasonable care as to the accuracy and truthfulness of the information furnished etc. Submission of a certificate
- of origin shall not absolve the importer of the responsibility to exercise reasonable care.

- Further, the proper officer has been empowered to –
  - Complete a time bound verification with regard to the country of export in case of any doubt
  - Suspend preferential duty benefit on import of goods without any verification, basis the information available with the department.

This amendment comes in the backdrop of various Indian manufacturers having complained to the government in relation to duty free imports by certain companies hurting domestic production. It has been alleged that these imports do not fulfil the 'origin' criteria prescribed in the trade agreements.

- An Electronic Duty Credit Ledger will be introduced wherein the government will credit remission of any duty or tax or levy or any other financial benefit.
- The existing provision limited to imposing safeguard duty have been expanded to imposing 'safeguard measures' which include application of tariff-rate quota or any other measures which it may consider appropriate to prevent serious injury to domestic industry.
- The government has introduced levy of 'Health Cess' (effective from 2 February 2020) at the rate of 5% of assessable value on import of medical equipment falling under Headings 9018, 9019, 9020, 9021 and 9022 (such as ECG, ultra-sound scanner etc.)

Further, duty credit scrip cannot be used for payment of Health Cess. However, in cases where such medical equipment are exempt from BCD, Health Cess would also be exempt.

There has been tremendous growth in India's capability to manufacture high quality medical equipment. The introduction of health cess intends to utilize this indigenous manufacturing capabilities by disincentivizing imports of medical equipment.

Other Announcements

- The new simplified return filing system will be implemented from April 2020
- The implementation of already notified e-invoicing from 1 April 2020 to be implemented in phased manner
- System of cash reward is envisaged to incentivise customers to seek invoice
- Scheme for Remission of duties and taxes on exported products (RODTEP) will be launched this year to refund to exporters embedded taxes such as electricity duty and VAT on fuel used for transportation for which no credit is otherwise available.

Sectoral Highlights

In her speech on 1st February 2020, Finance Minister Nirmala Sitharam dedicated the Union Budget FY20-21 to the 'Ease of Living' of all citizens, which dovetails three broad themes – Aspirational India, Economic Development, and Caring India, with robust support from corruption-free, policy-driven governance, and a sound financial sector.

Key policy highlights related to some critical sectors for the economy are summarized in this section.

Healthcare

The healthcare sector saw various updates in the budget of FY 20-21. Here is a glimpse of the important announcements:

- The Finance Minister (FM) announced INR 690 billion for the healthcare sector in the Budget 2020, inclusive of INR 64 bn for 'Jan Arogya Yojana'.
- Mission 'Indradhanush' has been expanded to cover 12 diseases with five new vaccines
- Government of India to launch a dedicated program to eradicate Tuberculosis by 2025 with the slogan of 'TB Harega, Desh Jitega'.
- The 'Jan Aushadhi Kendras' will be expanded to all districts, providing 2000 medicines and 300 Surgicals by 2024, thereby enabling access of medicines at affordable prices.
- The 'Pradhan Mantri Jan Arogya Yojana (PMJAY), currently has 20,000 empanelled hospitals. However, several districts in the country still don't have a single empanelled hospital. Hence, the government proposes to set up hospitals, on a priority basis, in the 112 identified 'aspirational districts'.
- The government has also proposed setting up of medical colleges attached to district hospitals via the public-private-partnership (PPP) model. The Central government will provide 'viability gap funding' to those State Governments that provide land at concessional prices to these colleges.
- National Board of Examination (NBE) imparts PG medical qualifications; Diploma and Fellow of National Board (DNB/FNB). The Government will, therefore, encourage large hospitals with sufficient capacity to offer resident doctors with DNB/FNB courses under the NBE.

- The government proposes to design bridge courses for teachers, nurses, paramedical staff, and caregivers with the help of the Health and Skill Development ministry to make them employable abroad.
- The government has introduced a Health Cess of 5% on imported medical devices falling under the headings of 9018 to 9022. Medical devices that are exempt from Basic Customs Duty will also remain exempt from this Health cess.

Our Comments

The budget outlay for FY 20-21, despite its initially stated theme of Wellness, can be construed as disappointing for the Healthcare sector. Experts have been calling for a substantial increase in healthcare spending, which is in line with the Government of India's health policy.

While this year's budget doesn't seem to make a significant move in that direction, the proposals to provide viability gap funding for PMJAY-hospitals in tier 2 and tier 3 towns where there are currently no empanelled facilities and the proposed initiative for building medical colleges attached to district hospitals with relevant state government support is also innovative and encouraging, and opening these initiatives to the private sector through the PPP model will attract much-needed capital to the sector and bring in efficiencies in the ecosystem. These steps will increase the accessibility and availability of healthcare services in the semi-urban and rural areas, while also addressing the challenge of inadequate doctors in the country.

The government also announced a scheme under which large hospitals can offer diploma and fellowship postgraduate courses , which could be pivotal to skill development, and addresses the current, acute shortage of specialists. While there is a huge need for nurses and paramedical staff in the country, creating bridge courses for them to tap work opportunities abroad seems confusing. This step might lead to further growth in demand for high-quality support staff within the country itself.

With 70-75% of medical devices being imported, imposing a cess of 5% will make them more expensive for users. This appears to be aimed at supporting the viability gap funding programs, while also providing encouragement to domestic manufacturers. It is important to acknowledge that India's medical devices market is a nascent stage, and while domestic manufacturing needs encouragement, the policy framework needs to be far more holistic than just looking it at from an import-export prism.

We will also need to understand better the quantum of resources that this 5% cess can generate for the hospital viability funding.

- The National Health Policy of 2017 envisions healthcare expenditure being raised to 2.5% of the GDP to achieve the targeted results. However, with the budget allocation for 2020-21 only marginally higher than that of 2019-20, there is a fear of it falling even below 1% of the projected GDP. With health and wellness stated as an important objective for the government in successive budgets, this allocation seems quite inadequate. Healthcare in India needs a coherent and integrated strategy of allocating adequate resources and leveraging advanced technology that can bring in higher efficiency, and ultimately get higher returns for the expenditure made.

Agriculture and Food Processing

Target:

- Double farmer income by 2022.
- Double milk processing capacity by 2025, (108 million metric tonnes (MT) from 53.5 million MT).
- Raise Fish production to INR 20 mn tonnes by 2022-23.
- Raise Fisheries export to INR 1 trillion by 2024-25.

Fund Allocation:

- INR 1.6 trillion– Agriculture, Irrigation Allied Activities.
- INR 1.23 trillion – Rural development.

Key Action points:

- Agriculture credit target of INR 15 trillion announced for the year 2020-21.
- Inclusion of 2 million farmers the for setup of Stand-alone Solar Pumps.
- 1.5 million farmers to be supported for solarizing their grid-connected pump sets.
- Viability Gap funding for setting up efficient warehousing by land support by State and PPP mode.
- The Food Corporation of India (FCI) and the Central Warehousing Corporation (CWC) to undertake warehouse building on the relevant land.
- Establishment of ‘Kisan Rail’ through PPP arrangement, with refrigerated coaches in Express and Freight trains for perishables.

- As a backward linkage, proposal of a Village Storage scheme, which would be run by Self Help Groups (SHGs) to provide farmers better holding capacity and to reduce their logistics cost.
- The portal on 'jaivikkheti', an online national organic products market, to be strengthened.
- Support to set up Solar Power generation capacity for farmers possessing fallow or barren lands and the facility to sell to grid.
- 100 Water stressed districts to be aided with comprehensive measure.

Education and Skill Development

Fund Allocation:

- INR 0.99 trillion for the Education sector.
- INR 30 billion specifically for skill development.

Key Action Points:

- New Education Policy to be announced in the financial year.
- 150 higher educational institutions to start apprenticeship embedded courses by March 2021.
- Internship opportunities to new engineers in urban areas for up to one year.
- Full-fledged, degree-level online education programs to be introduced to enhance accessibility.
- Bridge courses for skill improvement to be implemented.

Industry and Commerce

Fund Allocation:

- INR 273 billion allocation for the development and promotion of Industry and Commerce

Key Action Point:

- **Investment Clearance Cell to provide 'end to end' facilitation** and support, including pre-investment advisory, information related to land banks, and facilitating clearances at the Center and State levels through the portal.

- Develop five new smart cities with the state in PPP mode for upcoming economic corridors, driving the revitalization of manufacturing and technology.
- Electronics: New focused scheme on the manufacturing of mobiles phones, electronic equipment, and semiconductor packaging to be announced.
- Textile: National Textile Mission with a four-year implementation path (from FY21 to FY24), with a total outlay of INR 14.8 billion.
- Exports: Scheme for reversal of the duties (electricity) and taxes (GST) paid on fuel used for transportation.
- **GeM** (Government E-marketplace) for the procurement of goods, services, and works – an opportunity for MSMEs (with 0.324 million vendors on the platform, the turnover is expected to reach INR 3 trillion).
- **NIRVIK** scheme introduced for higher export credit disbursement.

Infrastructure, Transport, and Power

Fund Allocation:

- INR 1.7 lakh crores towards transport infrastructure.
- INR 220 billion for power and renewable energy sector.
- INR 60 billion to Bharatnet Program.
- INR 80 billion for Quantum Technology and application over a period of 5 years.

Key Action Points:

- Project preparation facility for infrastructure projects.
- INR 103 trillion National Infrastructure Pipeline projects announced to create longterm debt for infrastructure projects.
- **The National Logistics Policy** will be released soon, which would provide clarity on the roles of stakeholders, and will aim to create a single window e-logistics market and would focus on skill improvement, employment generation, and making MSMEs competitive.
- **Highway development:** 2,500 km of access highways, 9,000 km of economic corridors, 2,000 km of coastal and land port road, 2,000 km of strategic highways are to be constructed.
- **FASTag** mechanism to be implemented for at least 12 lots of highways, covering over 6,000 km, by 2024.

- **Indian Railways:**
  - Aim to electrify 27,000 km of track.
  - Solar power capacity to be established alongside tracks.
  - 150 passenger trains to be operated through PPP mode.
  - More trains connecting tourist destinations to be introduced.
  - 148 km long Bengaluru-Suburban transport project support to be provided (with 20% investment by the Central government and 60% external assistance), at the cost of INR 186 billion.
- **Waterways:**
  - Consider corporatization of one major port and stock exchange listing.
  - Dhubri-Sadiya connectivity, of 890 km to be executed by 2022.
  - Airways: 100 more airports to be constructed by 2024, with the airfleet increasing from 600 planes to 1200.
- **Power:** 'Smart' metering – prepaid energy meters in to be established over the next three years to provide freedom to consumers to choose the supplier.
- **Oil and Gas:**
  - 137,000 sq. km. to be provided for exploration.
  - City gas distribution rights to be awarded.
  - Nation gas grid expansion from 16,200 km to 27,000 km to be undertaken.
  - Facilitate transparent price discovery.
- **New Economy, using Data, IoT, AI, etc.:**
  - New policy to set up 'Data Center' parks.
  - Fiber to the Home (FTTH) through Bharanet program to link 100,000 gram panchayats digitally.
  - National Forensic Science University proposed in field of cyber forensics.
- **IPR:** Digital platforms to be established for application, which would capture the IPRs.

Other Key announcement impacting business setups in India include:

MSMEs

- NBFCs to extend invoice financing to MSMEs through TReDS.
- New scheme to be introduced for provision of subordinate debt to MSME entrepreneurs (such debt will be considered as quasi-equity).
- RBI considering an extension for the MSME restructuring window to 31st March 2021 (0.5 million MSMEs have already benefited from such restructuring).
- App-based invoice financing loan products to remove delayed payment and cash flow issues.
- For MSMEs in Pharma, Auto components and others, handholding support to be provided for export market business, INR 10 billion will be anchored for this initiative.
- The audit requirement threshold will be increased to INR 50 million (from INR 10 million), an option available to only MSMEs carrying out less than 5% of their business in cash transactions.

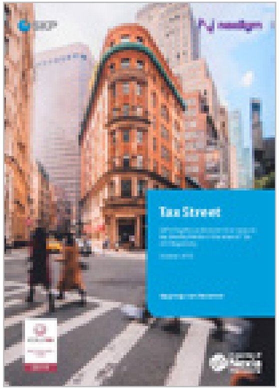
Insurance

- Disinvestment in LIC (Life Insurance Corporation) by IPO.
- Amalgamated public sector insurance companies to become eligible to take benefit from unabsorbed losses and depreciation of amalgamating companies.
- Expense disallowed to insurance companies for the late payment of statutory dues to be allowed in the year of payment.

Startups

- To boost the startup economy, ESOP taxability deferred to payment of tax by 5 years, leaving the company, or selling shares, whichever is earlier.
- Startups with total revenue upto INR 1 billion (increased from the earlier 0.25 billion) can claim 100% profit deduction for three consecutive years out ten (increased from 7 years) assessment years.

Tax **Street**



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