JANUARY 2020

NewsBites

Twenty-Second Edition

Greetings!

We are delighted to present our news bite of Budget Special for the month of January 2020. This News Bites intends to give an overview of the Budget for FY 2020-21.

We hope you find this useful. For any feedback you can reach to us at info@sanca.in.

Best Regards,
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Chartered Accountants

Contents

Income Tax Proposals

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The tax proposals in this budget focuses on further reforms to stimulate growth, simplify tax structure, bring ease of compliance, and reduce litigations.

New simplified personal income tax regime:

- In order to bring a new and simplified personal income tax regime, income tax rates will be significantly reduced for the individual taxpayers who forego certain deductions and exemptions.

The proposed changes in tax slabs are listed in the following table:

Taxable Income Slab (Rs.)	Existing Tax Rates	New Tax Rates
0-2.5 Lakh	Exempt	Exempt
2.5-5 Lakh	5%	5%
5-7.5 Lakh	20%	10%
7.5-10 Lakh	20%	15%
10-12.5 Lakh	30%	20%
12.5-15 Lakh	30%	25%
Above 15 Lakh	30%	30%

*Surcharge and cess shall be continued to be levied at the existing rates which shall be as follows:

Surcharge:

- 10% of income tax where total income exceeds Rs. 50,00,000.
- 15% of income tax where total income exceeds Rs. 1,00,00,000.
- 25% of income tax where total income exceeds Rs. 2,00,00,000.
- 37% of income tax where total income exceeds Rs. 5,00,00,000.

Health and Education cess:- 4% of income tax and surcharge.

- The new tax regime shall be optional for taxpayers and can be switched every year. An individual who is currently availing more deductions and exemption under the Income Tax Act may choose to avail them and continue to pay tax in the old regime.
- Measures have been initiated to pre-fill the income tax return so that an individual who opts for the new regime would need no assistance to file his return and pay income tax.
- The new budget has removed around 70 exemptions and deductions of different nature provided in the Income Tax Act in the new simplified regime. The remaining exemptions and deductions would also be reviewed and rationalized in the coming years, with a view to further simplify the tax system and lowering the tax rate.

Non-Resident Taxation

Residency Provisions:

The Budget has proposed to modify residency provisions to prevent tax abuse. The new budget proposes that if a citizen of India is not liable to tax in any other country, such individual would be deemed to be a resident of India in that financial year.

Further, an Indian citizen or PIO would become resident in India if he fulfills either of the two conditions:

(i) the individual's stay in India during the financial year is 182 days or more; or

(ii) the individual's stay in India is 120 days or more in the current financial year and 365 days or more in the preceding 4 financial years.

A resident in India would be considered as not ordinarily resident if the individual has been a non-resident in India in 7 out of 10 preceding financial years.

Taxability in the hands of NRIs:

Non-residents and not ordinarily residents are taxed on income earned in India, whereas ordinarily residents are taxed in India on their worldwide income.

In case of an Indian citizen who becomes deemed resident of India under new proposed budget provision, income earned outside India by him shall not be taxed in India unless it is derived from an Indian business or profession. The new provision is not intended to include in tax net those Indian citizens who are bona fide workers in other countries.

Relief to non-residents from filing ITR in India:

The current provisions of section 115A of the Act provide relief to non-residents from filling of return of income where the non-resident is not liable to pay tax other than the TDS which has been deducted on the dividend or interest income.

The same relief has now been extended to non-residents whose total income consists only of the income by way of royalty or FTS.

Impact on India Seafarers:

- To qualify for non-resident Indian (NRI) status, like any other citizen of India, an Indian seafarer has to be outside India for 182 days, or six months in a year. Consequently, his entire foreign income is not subjected to tax.
- Indian Seafarer will now have to spend eight months or 240 days, instead of the existing 182 days to qualify for NRI status and enjoy a tax-free salary.
- Even if the Indian Seafarers are outside India for 240 days as per the new rules and qualify for NRI status, if they don't pay tax in the country or jurisdiction where they are NRI, their entire income earned outside will be taxed in India.

Contributions exceeding INR 7,50,000 to be taxed as perquisities

Contributions exceeding INR 7,50,000 made by employer to an employee's account in a recognized provident fund, notified pension scheme or approved superannuation fund would be taxable perquisite in the hands of the employees.

Taxability on dividend income

Currently, companies are required to pay Dividend Distribution Tax (DDT) on the dividend paid to its shareholders at the rate of 15% plus applicable surcharge and cess, in addition to the tax payable by the company on its profits. The Finance Minister has proposed to remove DDT and now the dividend shall be taxed only in the hands of the recipients at their applicable rate.

In order to remove the cascading effect, the new budget has proposed to allow deduction for the dividend received by holding company from its subsidiary.

Income Tax Proposals

Taxability on ESOPs issued by start-UPS

1. Securities issued under Employee Stock Benefit Plans by employers are taxable in the hands of the employees at the time of their exercise (i.e. allotment). Further, ESOPs are also taxed for capital gains when sold.

   In case of eligible start-ups, the payment of tax on such benefit is proposed to be deferred to earliest of the following:

   - 5 years from the end of financial year in which options are exercised, or
   - date of sale of such security by the employee or
   - the date of the employee ceasing employment with the company.
2. An eligible Start-up having turnover up to 25 crores is allowed deduction of 100% on its profits for three consecutive assessment years out of seven years if the total turnover does not exceed 25 crore rupees. The Finance Minister has proposed to increase this limit to Rs. 100 crores. It is also proposed to extend the period of eligibility for claim of deduction from the existing 7 years to 10 years.
3. Eligible start up means start up that qualifies under section 80-IAC of the Income Tax Act and recognized and validated by Inter-Ministerial Board.
4. This beneficial clause of ESOP has not been extended to start-ups registered with DPIIT and Ministry of Electronics and IT (MeitY).

Due dates of audit and ITR filing revised

- Amendment in tax audit and ITR due dates are as follows:

Due date of Income Tax Return of Audited Tax Payers (Section 44AB, 44ADA, 115JB etc.)	**31st October (as against 30th September)**
Due date of Tax Audit	One month prior to due date of Income Tax Return Filing **i.e. 30th September**

- This change is intended to facilitate a pre-filled income tax return form for the tax payers.
- Further, such due date which was applicable to only working partners shall be applicable to all partners of the partnership firm.
- These amendments will take effect from 1st April, 2020 and will, accordingly, apply in relation to the assessment year 2020-21 and subsequent assessment years.

Medium, small and micro enterprises

- Turnover threshold for audit of MSMEs to be increased from Rs 1 crore to Rs 5 crore, to those businesses which carry out less than 5% of their business in cash.
- App-based invoice financing loans product to be launched, to obviate problem of delayed payments and cash flow mismatches for MSMEs.
- Amendments to be made to enable NBFCs to extend invoice financing to MSMEs.

15% tax rate for electricity generation companies

New provisions were introduced in September 2019, offering a concessional corporate tax rate of 15% to the newly incorporated domestic companies in the manufacturing sector which start manufacturing by 31st March, 2023.

In order to attract investment in the power sector, it has been proposed to extend the concessional corporate tax rate of 15% to new domestic companies engaged in the generation of electricity.

Tax concession for foreign investments

To incentivize investment by Sovereign Wealth Fund of foreign governments, the Finance Minister has proposed to grant 100% tax exemption to their interest, dividend and capital gains income in respect of the investment made in infrastructure and other notified sectors before 31st March, 2024 and with a minimum lock-in period of 3 years.

New tax rate for Co-operative Society

Cooperative societies are currently taxed at a rate of 30% with surcharge and cess. As a major concession, and in order to bring parity between the cooperative societies and corporates, the Finance Minister has proposed to provide an option to cooperative societies to be taxed at 22% plus 10% surcharge and 4% cess with no exemptions/ deductions. It is also proposed to exempt these societies from Alternative Minimum Tax (AMT), just like companies under the new tax regime are exempted from the Minimum Alternate Tax (MAT).

Additional deduction for affordable housing

In the last budget, the Finance Minister had announced an additional deduction of up to one lakh, fifty thousand rupees for interest paid on loans taken for purchase of an affordable house. The date of loan sanction for availing this additional deduction is proposed to be extended by one year, beyond 31st March, 2020.

Charity institutions

Income of Charity Institutions is fully exempt from taxation. Donation made to these institutions is also allowed as deduction in computing the taxable income of the donor. It is proposed to pre-fill the donee's information in taxpayer's return on the basis of information of donations furnished by the donee.

In order to claim the tax exemption, charity institutions have to be registered with the Income Tax Department. It is proposed to make the registration completely electronic under a unique registration number (URN) to be issued to all new and existing charity institutions

Faceless appeals

In order to impart greater efficiency, transparency and accountability to the assessment process, a new faceless assessment scheme has already been introduced. It is proposed to amend the Income Tax Act so as to enable faceless appeal on the lines of faceless assessment.

Income Tax Proposals

New tax dispute resolution scheme

"Vivad se Vishwas" scheme will apply to tax payers in whose cases appeals are pending at any level. Under the scheme a taxpayer would be required to pay only the amount of the disputed taxes and will get complete waiver of interest and penalty, provided he pays by 31st March, 2020. Those who will avail the scheme after 31st March, 2020 will have to pay some additional amount. The scheme will remain open till 30th June 2020.

Instant PAN through Aadhaar

In order to further ease the process of allotment of PAN, a system will be launched under which PAN shall be instantly allotted online on the basis of Aadhaar, without any requirement for filling up of detailed application form.

Changes in TDS provisions:

- Budget 2020 has introduced a new section mandating e-commerce portals to deduct 1 percent TDS (tax deducted at source) from sellers on the gross amount of sales or service or both. Those who are likely to transact Rs 5 lakh or less by way of turnover on a particular e-commerce platform will not be subjected to this TDS regime. For this, they need to provide a declaration to the e-commerce player, besides furnishing their PAN or Aadhaar.
- Currently, only dividend income on mutual funds exceeding ₹1 lakh was taxed at 10 per cent. Mutual fund income over ₹5,000 will now be subject to 10 per cent tax deducted at source (TDS). No tax shall be required to be deducted by the mutual fund on income which is in the nature of capital gains.
- Section 194J presently provides for tax deduction at 10% without making any distinction between fees for professional service or technical service. In order to minimize the litigation where the taxpayers deduct tax at 2% in the case of technical service, the Finance Bill, 2020 proposes an amendment. Thus where any sum is paid by way of fee for technical services (not being a professional service), tax is deductible at source @ 2% instead of 10%.
- Interest credited or paid by a co-operative society to a member or to any other co-operative society is now liable for tax deduction at source @ 10 percent if the aggregate amount of interest credited or paid is more than Rs. 50,000 to a senior citizen and Rs. 40,000 to any other person.
- Sections 194A, 194C, 194H, 194-I and 194J provided for deduction of tax at source when the aggregate turnover of the taxpayer was beyond the limits specified in section 44AB(a) or section 44AB(b) which were referring to the turnover of Rs. 100 lakhs and Rs. 50 lakhs respectively. In order to avoid any ambiguity in interpretation, the Finance Bill, 2020 has amended all the TDS provisions referred above to clarify that the requirement for tax deduction at source would apply when the aggregate turnover exceeds Rs. 100 lakhs in the case of business or Rs. 50 lakhs in the case of profession. These amendments are clarificatory in nature to avoid any litigation in future.

Indirect Tax

GST

A simplified GST return shall be implemented from the 1st April, 2020. It will make return filing simple with features like SMS based filing for nil return, return pre-filling, improved input tax credit flow and overall simplification. Dynamic QR-code is proposed for consumer invoices. GST parameters will be captured when payment for purchases is made through the QR-code.

Customs

On the Customs side, India has taken a quantum leap in the "Trading Across Border" parameter of Ease of Doing Business rankings by the World Bank. India's rank has improved from 146 to 68.

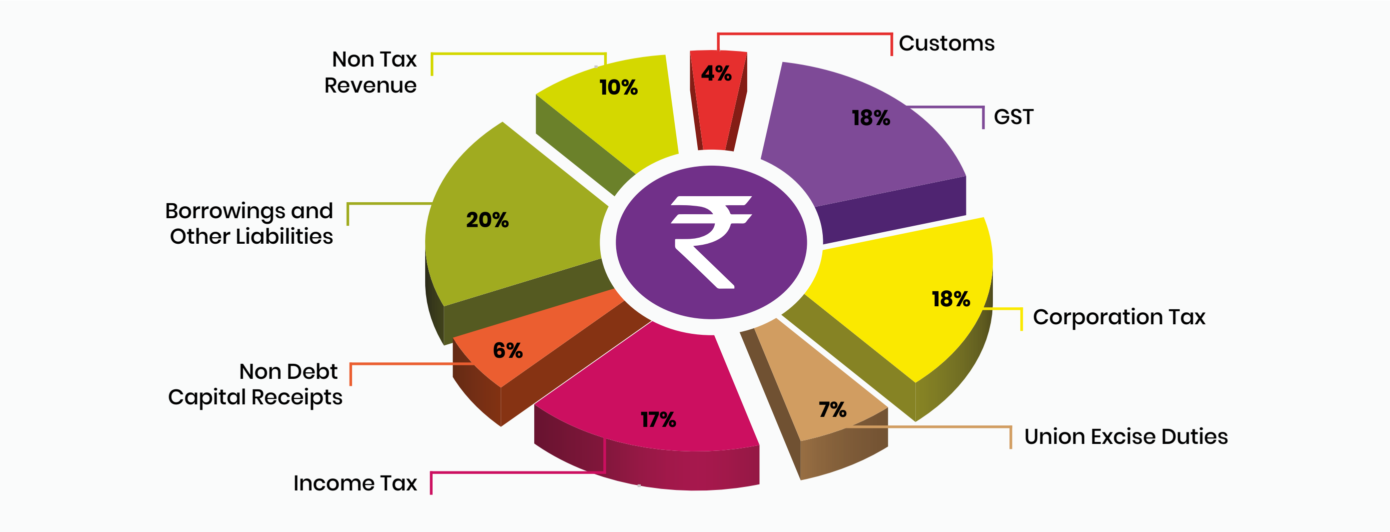
Imports under Free Trade Agreements are on the rise. Undue claims of FTA benefits have posed threat to domestic industry. In the coming months, Rules of Origin requirements shall be reviewed, particularly for certain sensitive items, so as to ensure that FTAs are aligned to the conscious direction of our policy.

Labour intensive sectors in MSME are critical for employment generation. Cheap and low-quality imports are an impediment to their growth. Keeping in view the need of this sector, customs duty is being raised on items like footwear and furniture. Rate of Duty for footwear is being raised from 25% to 35%; and for "parts of footwear" from 15% to 20%. Rate of Duty for specified Furniture goods is being raised from 20% to 25%.

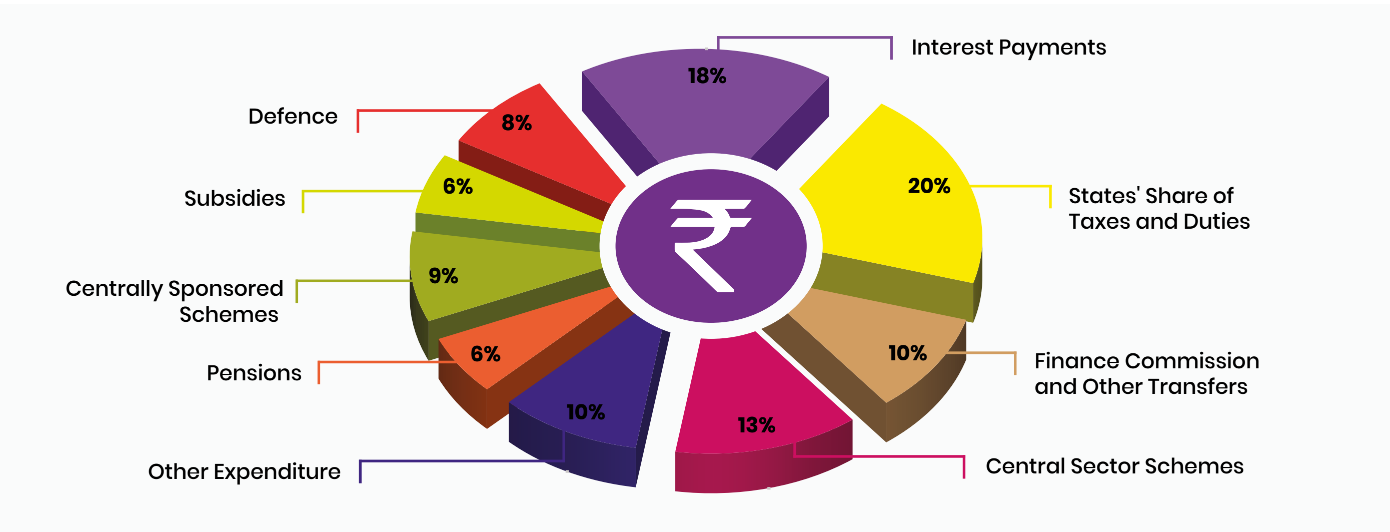
To give impetus to domestic industry, and to generate resource for health services, it is proposed to impose a nominal health cess of 5% on imports of specified medical equipment. Basic customs duty on imports of newsprint and light-weight coated paper is being reduced from 10% to 5%. An increase is proposed in National Calamity Contingent Duty (NCCD) on Cigarettes and Tobacco products. NCCD on Bidis remains unchanged.

Budget at a Glance

Rupee Comes From



Rupee Goes To



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