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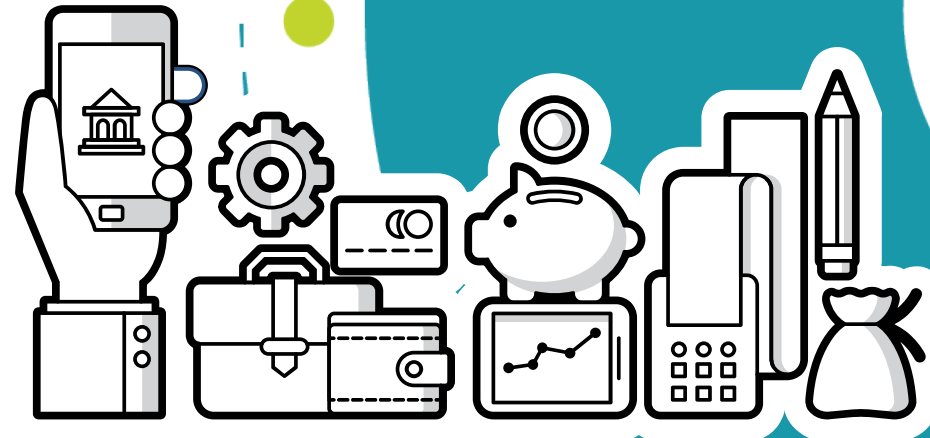
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Focus on stimulating macro-fundamentals

Making investments a central driver

The Union Budget 2019-20 was presented after a majority win by the current government. This budget comes amidst low growth cycle and subdued investment growth – both in the world economy and India. The world output fell from 3.8 per cent in 2017 to 3.6 per cent in 2018, a trend that is expected to continue well into 2019 with global growth decelerating further to 3.3 per cent.

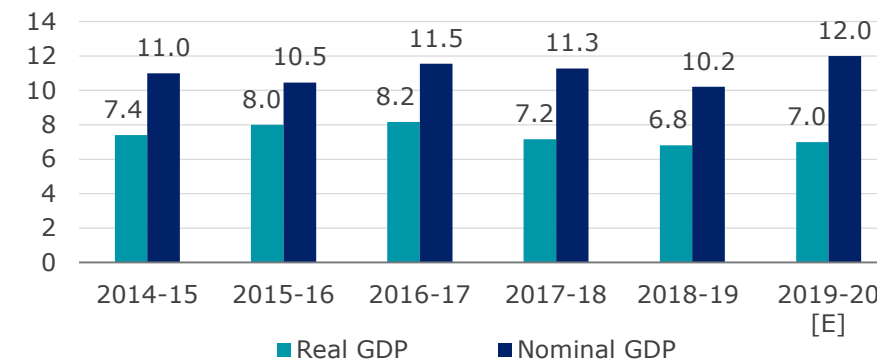
India continues to remain a mixed bag of strength and weakness. While it is the sixth largest economy and continues to remain the fastest growing, it has also now been growing at its slowest pace in four years, with government spending on infrastructure and social programs holding up growth numbers.

Growth of the Indian economy moderated in FY2018-19 to 6.8 per cent from 7.2 per cent in FY2017-18. Private consumption – a key growth stabilizer – is seemingly losing steam. This can be attributed to shifting real interest rate trends which has affected investment activity, and trade protectionism that has resulted in subdued export activity.

That said, India maintained macroeconomic stability by bringing current account deficit to manageable levels and containing inflation within the 4 per cent target. The manufacturing sector maintained higher growth in FY2018-19 at 7.1 per cent, even though it has come down gradually on a quarterly basis while the growth in agriculture sector saw some thinning.

Breaking down these trends, it is evident that while India remains one of the better performing economies, GDP growth performed below expectations.

Real and Nominal GDP (% y-o-y)



Source: CEIC, Deloitte



Focus on stimulating macro-fundamentals

Incentives to stimulate growth

On the investment side, capital formation which had slowed down for many years has started to recover—picking up from 8.3 percent in 2016-17 to 9.3 percent in 2017-18 and further to 10.0 percent in 2018-19.

Capital formation saw some strength partly on the back of positive base effects as well as increase in government capital expenditure by 15.1 percent in FY2018-19 leading to increase in share of capital expenditure in total expenditure.

Consumption

Q1 FY2018-19:	7.2%
Q2 FY2018-19:	10.0%
Q3 FY2018-19:	7.9%
Q4 FY2018-19:	8.1%

Sectors: Automotive, housing, education, organized retail, healthcare and pharma

Investment

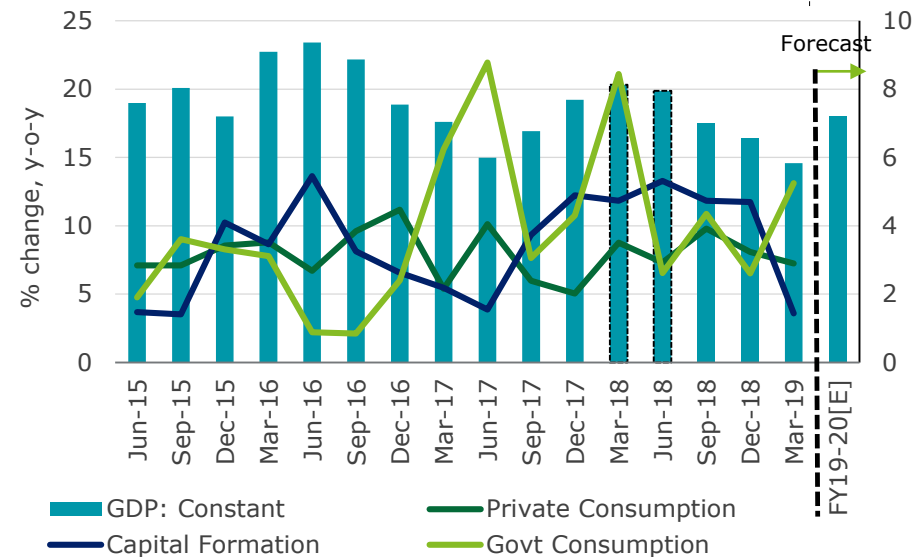
Q1 FY2018-19:	13.3%
Q2 FY2018-19:	11.8%
Q3 FY2018-19:	11.7%
Q4 FY2018-19:	3.6%

Sectors: Services, telecommunication, trading, computer software and hardware, and construction activities

Given the recent trends, it can be expected that growth in FY19-20 will pick up. In this backdrop, we expect the economy to clock growth in the 7-7.3 percent range in FY19-20.

In the Budget, key announcements were made towards the social, infrastructure, and employment sectors that are likely to set the stage for growth in the coming fiscal. Strategic public investment in these areas coupled with private investor incentives, is likely to kick-start the growth and the credit cycle.

GDP Growth Rates (% y-o-y)



Source: CEIC, Deloitte



Focus on stimulating macro-fundamentals

Economic outlook: Way forward

The year 2019-20 is likely to set the stage for future growth. We expect that political stability will augur well for pushing forward with the implementation of key programs and policies, which is likely to stimulate higher capacity utilisation and positive business sentiment in FY19-20.

We expect that growth is likely to see an upward trend which pushes to public investment with expected domino effect on domestic demand and consumption. This may be bolstered by policies towards doubling farm income, inclusion of companies with a turnover of INR 4 billion and above in the 25 percent tax net, expansion of FDI policy, and merging of NRO portfolio scheme route with foreign portfolio investment route, among others.

Further, should the transmission mechanism improve, we can expect RBI's accommodative monetary policy to help push the credit growth.

On the banking side, continued resolution of stressed assets—reflected in NPA to gross advances ratio decline—should further aid capex cycle. The budget pointed out a reduction in NPA, and further proposed capital infusion of INR 700 billion in the public sector banks (PSBs) which is likely to give a much-needed boost to the stressed banks.

Budget Proposals to Boost Growth

- Proposal on a modern tenancy law
- Loans of up to INR 10 million to be provided to MSMEs for ease of access
- INR 100 trillion investment proposed for infrastructure over the next five years
- 100% FDI for insurance intermediaries while local sourcing norms to be eased for FDI in single-brand retail
- Merging of NRI portfolio scheme route with foreign portfolio investment route
- Investment of INR 5 trillion for railways infrastructure till 2030



Focus on stimulating macro-fundamentals

Economic outlook: Way forward (continued)

Budget Proposals on Agriculture, Rural, and Social Sectors

- Government to replicate zero-budget farming – The concept will help double farm incomes by 2022. Ease of doing business and ease of living should apply to farmers.
- Government to support private entrepreneurs in agriculture and the government to focus more on agricultural infrastructure
- 19.5 million houses to be constructed under PMAY from FY20-22
- 1,25,000 km of roads to be upgraded under PM Gram Sadak Yojana
- Drinking water to all rural households by 2024
- Government to explore additional funds for Jal Shakti by accessing the Compensatory Afforestation Fund Management and Planning Authority Fund.

Budget Proposals on Banking and Financial Sector

- NPAs of commercial banks declined by INR 1 trillion while number of public sector banks have been reduced by 8, through consolidation.
- INR 700 billion recapitalisation proposed for public sector banks
- Government to provide one-time six-month partial credit guarantee for public sector banks, for the purchase of pooled assets of financially sound NBFCs
- Pension Fund Regulatory Authority to be separated from the National Pension Scheme Trust
- To improve capital inflows, Government to readjust its holdings in CPFCs; strategic disinvestment of select CPFCs will continue to remain a priority
- Air India disinvestment to be reinitiated, with an enhanced target of INR 1.05 trillion from disinvestment



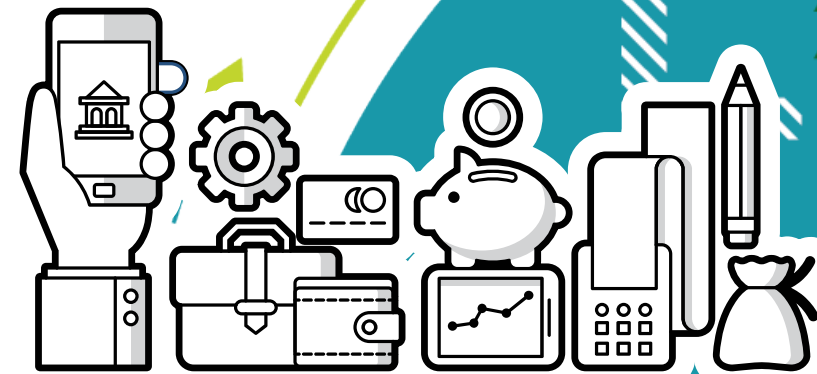
Inflation and monetary policy

Benign prints to warrant further cuts

In FY18-19, inflationary pressures were largely contained, principally due to muted food prices and some softening in fuel and light pricing. For over 10 months now, inflation has been below the 4 percent target, laying emphasis on the domestic demand slowdown and investment activity in the economy. In fact, food inflation declined to a low of 0.1 percent during FY18-19.

Core Inflation—a proxy for domestic demand—is a more stable variable for identifying underlying inflation trends. Core inflation has remained largely sticky above the 5 percent mark for the entire year, increasing to 5.8 percent in FY18-19 from 4.6 percent in FY17-18. Refined core inflation, which equals CPI excluding food and fuel group, petrol and diesel, too moved closely with core inflation.

Segregating services and goods inflation, it was seen that the gap between the two is increasing with services inflation coming in to be higher than goods inflation. In fact, services inflation has influenced headline inflation in recent times as, contributing more than its weight of 23.4 percent. These trends clearly suggest a demand slowdown, which is also apparent through growth deceleration and thinning manufacturing sector.



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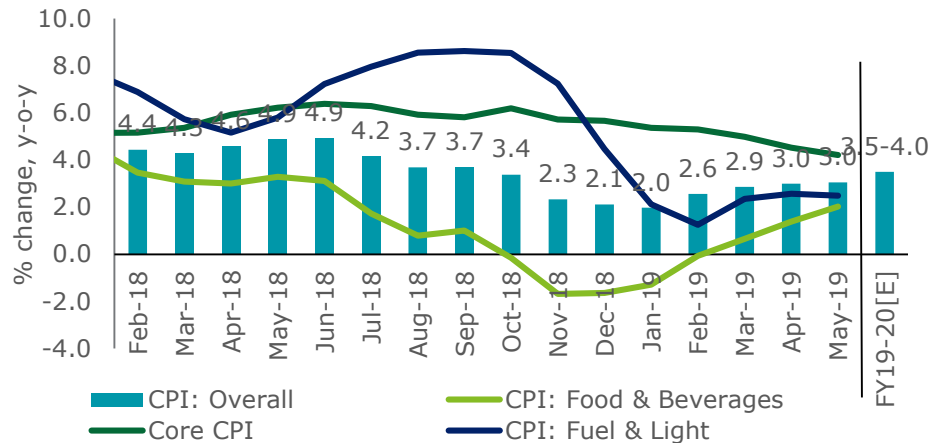


Inflation and monetary policy

Benign prints to warrant further cuts

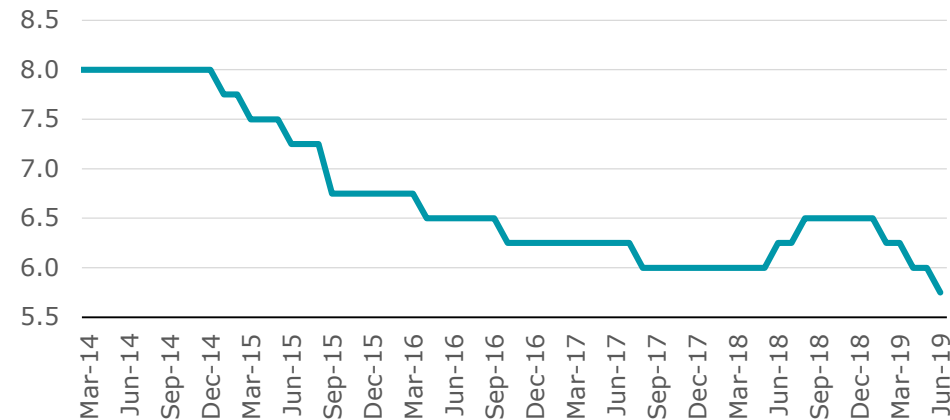
The above, together with low inflation prints over the last year, warranted three rate cuts by the Central Bank, since the beginning of CY2019, where the policy rate has been brought down to 5.75 percent to boost consumption demand and manufacturing growth. Beyond the rate cuts, the monetary policy in June 2019 was marked by change in stance to accommodative, indicating possibility of further monetary easing in the coming months.

Components of Consumer Price Index (% change, y-o-y)



Source: CEIC, Deloitte
Note: Conservative Estimate for FY2019-20

Repo Rate



Source: CEIC, Deloitte

The policy decision has largely been based on growth concerns, widening output gap, and global headwinds reflecting slowing manufacturing and trade activity, followed by inflation concerns. Further, the cut will likely also help the financial system navigate to a lower-term structure of interest rates, while accommodating growth concerns. Signs of building pressure are somewhat visible, especially for core inflation while food and beverages prices have been showing an upward trend since February 2019. The Indian monetary policy continues to be marked by several lags; policy measures must be undertaken to ensure that that monetary policy is transmitted to reach the market.

Path to fiscal consolidation

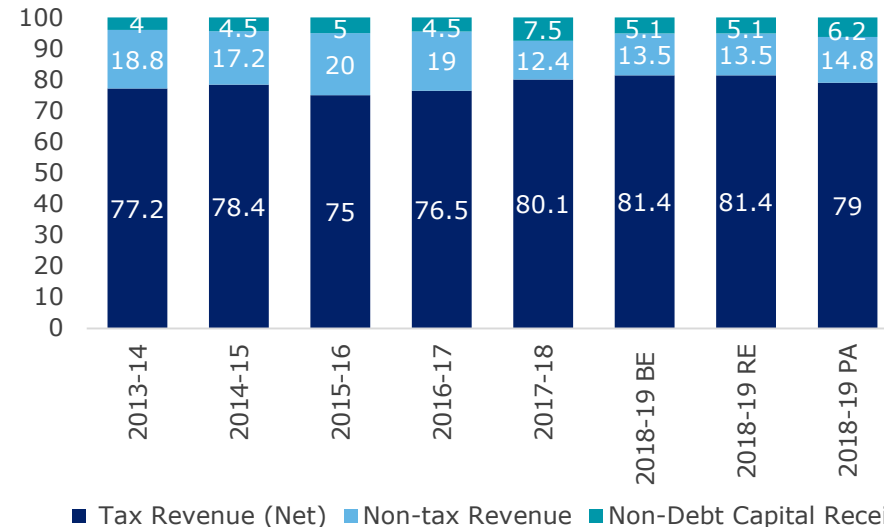
Government intervention to dictate deficit levels

Budget 2018-19 re-established the need for fiscal consolidation by introducing a new fiscal targeting framework, wherein revenue augmentation and expenditure rationalisation continue to be integral to fiscal reforms.

The new fiscal targeting framework, which is based on the twin pillars of reducing debt and fiscal deficit, envisaged achieving fiscal deficit of 3 percent of GDP by FY20-21 and Central Government debt to 40 percent of GDP by 2024-25.

In the recent period, improvements have been made in tax to GDP ratio, while government finances have seen significant consolidation of revenue expenditure and improvements in capital spending, which have led to progressive reduction in primary and fiscal deficits.

Composition of Non-Debt Receipts



Source: Union Budget Documents & CGA

BE: Budget Estimates, RE: Revised Estimates (as per Interim budget), PA: Provision Actuals

But the tax to GDP ratio continues to be low and because of this, the concern is that of a possible widening of fiscal deficit, especially as the current softening in demand sentiments warrant an increase in expenditure. The government now faces the challenge of providing sufficient funds for investment and infrastructure expansion while maintaining fiscal discipline.



Path to fiscal consolidation

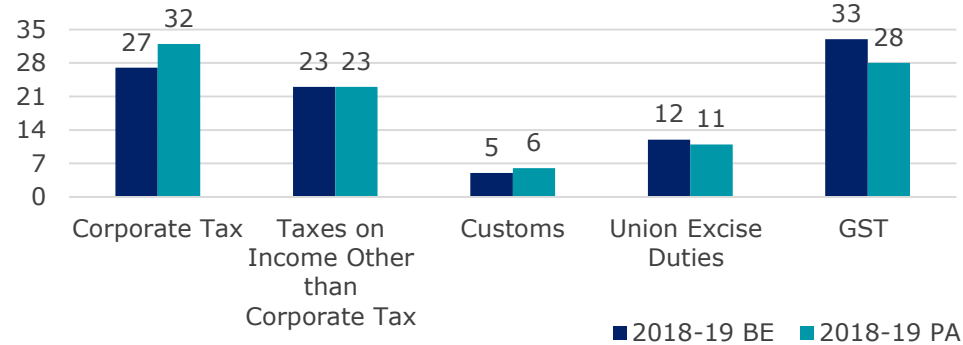
Government intervention to dictate deficit levels

Looking at general Government finances, it is evident that combined liabilities of the Centre and States have declined to 67 percent of GDP as on end-March 2018 from 68.5 percent of GDP as on end-March 2016. Thus, the revenue and expenditure side point to an imbalance, which may pose risk to the fiscal consolidation part. The success on disinvestment target is an important factor, along with increased tax revenue collections. Additionally, conditions in the global and domestic financial markets will also serve to influence the fiscal deficit.

Staying within the target is important, however, given the budget reforms and the increase in expenditure, fiscal deficit needs to be monitored, especially if a reduced target of 3.3 percent for FY19-20 needs to be achieved.

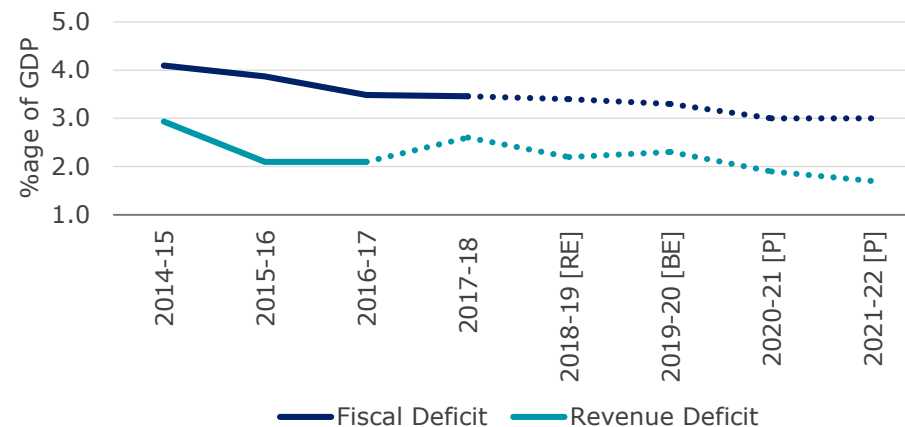
Overall, given the collective state and central debt, it is important to ensure policy expenditure is economically stimulating. Furthermore, improving the composition and quality of expenditure towards capital spending is also significant.

Composition of Gross Tax Revenue



Source: Union Budget Documents & CGA
BE: Budget Estimates, PA: Provision Actuals

Fiscal Deficit and Revenue Deficit (% of GDP)



Source: CEIC. Deloitte



The external sector

Intertwined trade, crude oil, and CAD effects

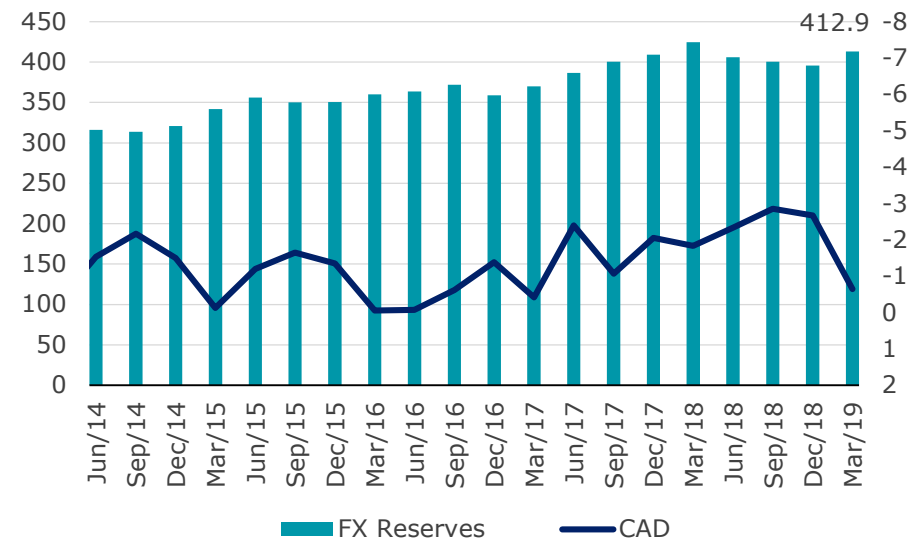
The current account deficit (CAD), CAD came in at a higher 2.1 percent of GDP in FY18-19, up from 1.8 percent in FY17-18, however remains within reasonable levels. This stretch in CAD can be linked to the widening of trade deficit from 6.0 percent of GDP to 6.7 percent across the two years. In fact, the consistently larger growth in imports have now widened the trade deficit to USD 15.4 billion.

The trade deficit in turn has been affected by a rise in crude prices in Q4 of FY18-19 and fall in merchandise exports growth. That said, some cushioning to CAD has seemingly been provided by acceleration in remittances. Further on the positive, share of foreign investments rose while foreign portfolio reduced in total liabilities reflect a more stable component to finance CAD.

Overall, the effects of CAD—which has seen some acceleration of late—are likely to remain under control, given foreign exchange reserves continue to be comfortably placed in excess of USD 400 billion.

Financing current account deficit is also likely to ease as a result of appreciation in INR value which traded below 70 for FY18-19 and is expected to build further strength in the coming year.

CAD and FOREX (% , Actuals)



Source: CEIC, Deloitte



What's in store for the INR

Positive on the INR

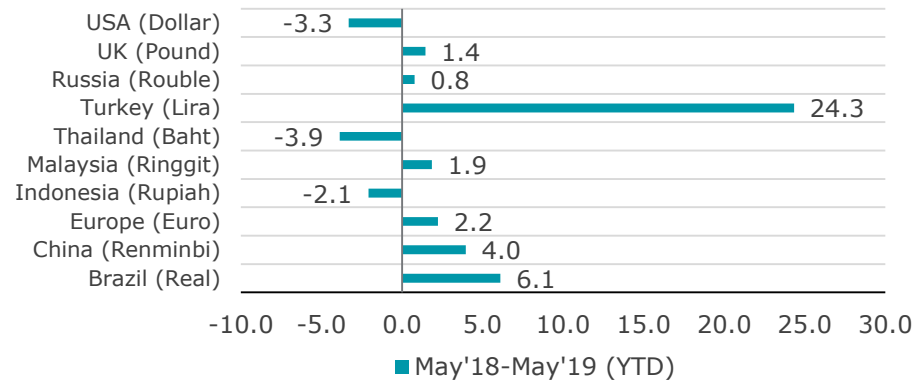
INR was one of the least volatile Emerging Market (EM) currencies during FY17-18 but suffered significantly in FY18-19, touching a low of 74.4 per USD in October 2018.

Overall, the rate of the Indian Rupee against that of the dollar has followed a volatile trajectory over the past fiscal. INR remained weak in H1FY18-19 due to concerns related to widening of CAD owing to rising crude oil prices, and affected by tightening financial conditions in the US. However, it picked up gradually on account of easing monetary policy stance across major central banks, softening crude oil prices, and FPIs inflows.

Overall, in FY2018-19 INR traded below INR 70 per USD for the entire year, and we expect it to remain within the INR 68-70 per USD range in FY19-20—with continued appreciation in the first half of the year with gradual depreciation thereafter.

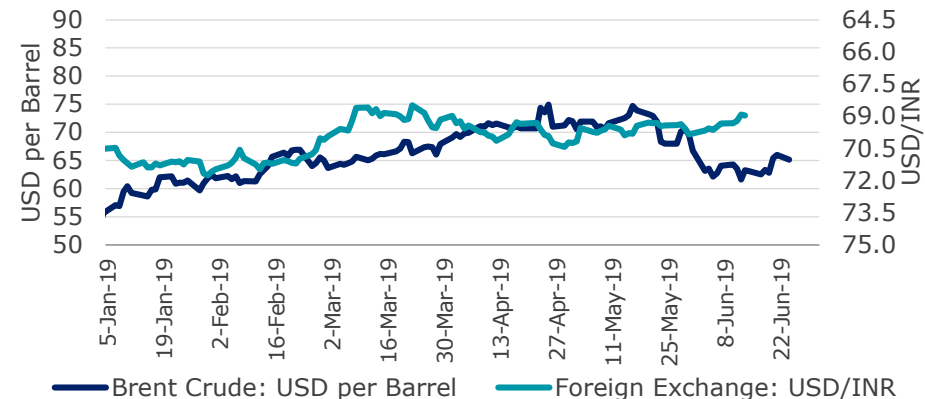
That being said, it is important to note that over the fiscal, the REER has remained above 100, suggesting that the currency is overvalued at current levels.

Performance of INR against major global currencies (% , YTD)



Source: CEIC, Deloitte

Brent Crude and Exchange Rate



Source: CEIC, Deloitte



Direct Tax

- Individual Taxation
- Corporate Tax
- Non-resident taxation
- Transfer Pricing
- Capital Gains
- Procedural and miscellaneous

Note: Unless otherwise specified, the income-tax proposals will be effective from the assessment year 2020-21



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Individual Taxation

Individuals/HUFs

- There is no change in the tax slabs and tax rates for individuals/HUFs. The levy of surcharge has been increased depending on the taxable income. A health and education cess of 4 percent continues for FY19-20.
- Rebate under section 87A continues to remain the same.

Tax Rates

Income slabs (in INR)	Rate of Tax (%)
Up to 250,000	NIL
250,000 to 500,000	5
500,000 to 1,000,000	20
Above 1,000,000	30

Notes

- For resident senior citizens (60 years and above but less than 80 years) and very senior citizens (80 years and above), the basic exemption limit remains unchanged at INR 300,000 and INR 500,000, respectively.
- Progressive rates of surcharge for individuals/HUFs having higher taxable income are as follows:

Taxable income (in INR)	Surcharge (%)	Effective (%)
>5,000,000 up to 10,000,000	10	34.32
>10,000,000 up to 20,000,000	15	35.88
>20,000,000 up to 50,000,000	25	39.00
> 50,000,000	37	42.744

- The maximum marginal rate increases by 6.864 percent i.e., from 35.88 percent to 42.744 percent where taxable income is above INR 50,000,000.
- These rates also apply to association of persons and body of individuals.



Individual Taxation

Benefit of tax-free withdrawal from NPS increased to 60 percent [section 10(12A)]

Currently, an assessee contributing to the NPS is allowed an exemption in respect of 40 percent of the total amount payable to him on closure of his or her account or on his or her opting out of the scheme. It is now proposed to increase the said threshold to 60 percent without payment of tax.

Contribution to NPS by CGT employees eligible for deduction under section 80C

CGT employees can now also invest in NPS and avail benefit of deduction up to INR 150,000 under section 80C subject to fulfillment of prescribed conditions.

Increase in deduction in respect of contribution to NPS by CGT for its employees to 14 percent [section 80CCD(2)]

Currently, contribution by CGT to NPS for its employees is eligible for deduction up to 10 percent of salary. This is now sought to be increased to 14 percent.

Tax relief for affordable housing [Section 80EEA]

Home buyers (not owning any other property at the time of sanction of loan) can claim deduction for interest on home loan up to INR 150,000 subject to fulfillment of prescribed conditions.

Tax deduction for interest paid for purchase of electric vehicle [Section 80EEB]

An assessee can claim deduction up to INR 150,000 for interest paid towards loan for purchase of an electric vehicle. The said loan could be availed from 1 April 2019 till 31 March 2023.



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New direct tax law

Background

- To simplify the Act, 'DTC 2010' was first introduced in August 2010 in the Parliament. However, the DTC Bill 2010 lapsed.
- Over the past few years, some of the proposals under the DTC such as GAAR, APA, POEM, etc., have been introduced in the Act.
- The Government of India constituted a task force in November 2017 to draft a new direct tax law that will replace the existing Act.

Terms of reference

Terms of reference of the task force are to draft an appropriate direct tax legislation keeping in view the following:

- Direct tax system prevalent in various countries
- International best practices
- Economic needs of the country
- Any other matter connected thereto

In June 2019, the terms of reference were broadened to include the following:

- Faceless and anonymous verification/scrutiny/assessment.
- Mechanism for system-based cross verification of the financial transactions.
- Reduction in litigation and expeditious disposal of appeals.
- Reduction of compliance burden by simplification of procedures.
- Sharing of information between GST, Customs, CBDT, and Financial Intelligence Unit (FIU).

The task force is expected to submit its report by 31 July 2019.

There is no announcement or update in relation to new direct tax law in the Finance Minister's speech.



Corporate tax

Corporate tax rates

Type of companies	Income up to INR 10 million		Above INR 10 million up to INR 100 million		Above INR 100 million	
	Surcharge	Effective tax rate	Surcharge	Effective tax rate	Surcharge	Effective tax rate
Domestic with total turnover (or gross receipts) not exceeding INR 4,000 million in the FY17-18	Nil (Nil)	26% (26%)	7% (7%)	27.82% (27.82%)	12% (12%)	29.12% (29.12%)
New domestic manufacturing*	Nil (Nil)	26% (26%)	7% (7%)	27.82% (27.82%)	12% (12%)	29.12% (29.12%)
Other domestic companies	Nil (Nil)	31.20% (31.20%)	7% (7%)	33.38% (33.38%)	12% (12%)	34.94% (34.94%)
Foreign companies	Nil (Nil)	41.60% (41.60%)	2% (2%)	42.43% (42.43%)	5% (5%)	43.68% (43.68%)

*Compliant with prescribed conditions under section 115BA

Notes:

1. Health and education cess of 4 percent has been considered for determining the tax rates above.
2. Figures in bracket represent the existing tax rates.



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Incentives to IFSC/IFSC units (1/2)

Increase in the quantum of deduction for IFSC units

- Currently, profit-linked deduction is available to units of an IFSC of (i) 100 percent of income for first five years, and (ii) 50 percent of income for the next five years.
- To incentivise operation of units in IFSC, it is proposed to increase the quantum of deduction for IFSC units under section 80LA to 100 percent of income for any 10 consecutive years out of 15 years, beginning from the year of obtaining the requisite permission for setting up the unit.

Restriction for no deduction under Chapter VI-A not to apply to IFSC units

- Currently, interest and other specified income of NRs and foreign companies is taxed on gross basis under section 115A, and no deduction is available in relation to such income under Chapter VI-A, which inter alia includes section 80LA, that gives tax deduction to an IFSC unit.
- It is proposed to provide that the conditions in sub-section (4) of section 115A will not apply to deduction allowed under section 80LA to a unit of an IFSC.

Exemption for interest payable to a NR

- It is proposed to provide an exemption under section 10 for interest payable to an NR by an IFSC unit in respect of monies borrowed by it on or after 1 September 2019.



Incentives to IFSC/IFSC units (2/2)

Exemption for transfer by category III AIF

- The benefit of exemption under section 47 for transfer of a capital asset on a recognised stock exchange located in IFSC is proposed to be extended to category III AIF, established or incorporated in India:
 - Which is located in IFSC,
 - Which is deriving income solely in convertible foreign exchange, and
 - Of which all the units are held by NRs.
- The type of capital asset covered under the exemption is proposed to be widened to include such other securities as may be notified by the CGT.

No DDT for dividends paid out of accumulated income

- Currently, no DDT is chargeable in respect of the total income of a company, being a unit of an IFSC, deriving income solely in convertible foreign exchange, on dividend declared, distributed, or paid out of its current income.
- It is proposed that the exemption from DDT will be extended to dividends declared, distributed, or paid out of accumulated income derived from operations in IFSC after 1 April 2017.
- This amendment is proposed to be applicable from 1 September 2019.

No tax on income distributed by specified mutual funds

- It is proposed that no additional tax will be payable on income distributed on or after 1 September 2019 by a mutual fund on its income derived from transactions made on a recognised stock exchange located in any IFSC, subject to the following conditions:
 - Mutual fund is located in an IFSC.
 - Mutual fund derives income solely in convertible foreign exchange.
 - All the units of the mutual fund are held by NRs.
- This amendment is proposed to be applicable from 1 September 2019.



Start-ups (1/2)

Issue of shares for consideration exceeding FMV

- Currently, the consideration received on issue of shares above the FMV by a venture capital undertaking is not taxable if it is received from a venture capital company or a venture capital fund (includes category I AIF). It is proposed to extend the benefit for issue of shares to a category II AIF.
- Currently, specified start-ups are not taxable on issue of shares on satisfaction of prescribed conditions. It is proposed that if such start-up fails to comply with the prescribed conditions, then any consideration received for issue of share that exceeds the face value will be deemed to be the income in the year in which such failure takes place.

Carry forward and set off of losses in case of change in shareholding

- Currently, for eligible start-ups the loss incurred in earlier years is allowed to be carried forward and set off against the income of the previous year if all the shareholders who held shares carrying voting power on the last day of the year(s) in which the loss was incurred continue to hold those shares on the last day of the year of set-off, and such loss has been incurred during the period of seven years beginning from the year in which such company is incorporated.
- It is proposed to provide that eligible start-ups will be allowed to carry forward and set off loss incurred in any year prior to the previous year on satisfaction of either the above provision, currently applicable to eligible start-ups or the conditions applicable to normal closely-held companies. For normal closely-held companies, where a change in shareholding has taken place during the previous year, no loss incurred in any year will be carried forward and set off, unless on the last day of the year of set-off the shares of the company carrying not less than 51 percent of the voting power were beneficially held by persons who beneficially held shares of the company carrying not less than 51 percent of the voting power on the last day of the year(s) in which the loss was incurred.



Start-ups (2/2)

Capital gain on transfer of residential property not to be charged in certain cases

- Capital gains arising from transfer of residential property, owned by an eligible assessee is not chargeable to tax if the net consideration is utilised for subscription to the equity shares of an eligible start-up and the start-up has utilised this amount for purchase of new asset within one year.
- Currently, the benefit of this section is only available for transfer of residential property up to 31 March 2019. It is proposed to extend the sunset date to 31 March 2021.
- The assessee is required to have more than 50 percent share capital or voting rights in the eligible start-up. It is proposed to relax the condition of minimum shareholding/voting rights to 25 percent.
- Currently, there is a restriction on transfer of assets acquired by the eligible start-up for five years from the date of acquisition. It is proposed to relax the condition restricting transfer of new assets, being computer or computer software to three years.

Finance Minister's speech [paras 69, 113, and 114]

- It is proposed to start a television programme exclusively for start-ups, which will be designed and executed by start-ups, as a platform for promoting start-ups, discussing issues affecting their growth, matchmaking with venture capitalist, and for funding and tax planning.
- To resolve the 'angel tax' issue, the start-ups and their investors who file requisite declarations and provide information in their return will not be subjected to any kind of scrutiny in respect of valuation of share premiums. The issue of establishing the identity of the investor and source of his funds will be resolved by putting in place an e-verification mechanism. In addition, special administrative arrangement will be made by CBDT for pending assessments and redressal of their grievances.



Tax holiday

Tax incentive for housing projects

- Currently, a deduction of 100 percent is available under section 80-IBA for profits derived from the business of developing and building housing projects, subject to conditions.
- The proposed modifications for projects approved on or after 1 September 2019 are as follows:
 - The stamp duty value of a residential unit in the housing project does not exceed INR 4.5 million.
 - The carpet area of the residential unit comprised in the housing project does not exceed:

Earlier	Proposed
30 square metres for projects located in Chennai, Delhi, Kolkata, or Mumbai	60 square metres for projects located in Bengaluru, Chennai, Delhi National Capital Region (limited to Delhi, Noida, Greater Noida, Ghaziabad, Gurugram, Faridabad), Hyderabad, Kolkata, and Mumbai (whole of Mumbai metropolitan region)
60 square metres for projects in other places	90 square metres for projects in other places

- Benefit of minimum plot of land of 1,000 square metres and requirement of utilisation of 90 percent of floor area extended to Bengaluru, NCR, Hyderabad, and Mumbai metropolitan region.

Finance Minister's speech (para 111)

- Announcement of providing investment linked income tax exemption for setting up of mega-manufacturing plants in sunrise and advanced technology areas such as semi-conductor fabrication, solar photo voltaic cells, lithium storage batteries, solar electric charging infrastructure, computer servers, laptops, etc.
- However, there is no amendment proposed in this regard in the Finance (no. 2) Bill, 2019.



NBFCs

Taxability of interest on certain NPA on receipt basis

- Currently, in the case of a public financial institution, scheduled bank, etc., interest on specified NPAs is taxable when it is actually received or when it is credited to the profit and loss account, whichever is earlier.
- It is proposed to extend the above benefit even to a deposit taking NBFC or a systematically important non-deposit taking NBFC.

Deduction for interest on loans from NBFC to be allowed on payment basis

- Under section 43B, a deduction is available for interest on loans or borrowings from scheduled banks, public financial institutions, etc., only in the year of actual payment.
- It is proposed to provide that interest on loans or borrowings from a deposit taking NBFC or a systematically important non-deposit taking NBFC will also be allowed only in the year of actual payment.
- Similar to other financial institutions, it is also proposed to provide that deduction will not be allowed on payment basis, if a deduction is already allowed for the said interest in the earlier years.
- Similar to other financial institutions, it is also proposed to provide that conversion of interest into loan or borrowing will not be deemed to have been actually paid.



Distressed companies

Carry forward of losses and computation of book profit

In the case of a company, and its subsidiary and the subsidiary of such subsidiary, where the NCLT, on an application moved by CGT under section 241 of the Companies Act, 2013, has suspended the Board of Directors of such company and appointed new directors nominated by the CGT, the provisions proposed are as follows:

- The restriction on carry forward of loss on change in shareholding will not apply if the change in shareholding of such company, and its subsidiary and the subsidiary of such subsidiary has taken place pursuant to resolution plan approved by the Tribunal.
- The aggregate amount of unabsorbed depreciation and brought forward loss will be allowed to be reduced while computing the book profit for MAT purposes.



Prescription of electronic mode of payments

There are various provisions in the Act that prohibit cash transactions and encourage payments or receipts only through proper banking channels. To encourage other electronic modes of payment, it is proposed to amend the below sections to include 'such other electronic mode as may be prescribed,' in addition to the already existing permissible modes for payment or receipt:

- Donation received by political party [section 13A]
- Expenditure of capital nature on specified business [section 35AD]
- Disallowance of any expenditure [section 40A]
- Expenditure for acquisition of an asset [section 43(1)]
- Full value of consideration for transfer of assets in certain cases [sections 43CA, 50C, and 56]
- Special provision for computing profits and gains of business on presumptive basis [section 44AD]
- Deduction in respect of employment of new employees [section 80JJAA]



Corporate tax

Amounts not deductible on default in TDS

- Currently, where an assessee fails to deduct TDS in the case of a resident payee but is not deemed to be an assessee in default for TDS purposes, then it is deemed that the assessee has deducted and paid the TDS on such sum on the date of furnishing of return of income by the payee.
- It is proposed to extend this benefit to non-resident payee as well.
- Consequential amendments have been proposed in section 201.



Losses in cases of category I and category II AIF

Section 115UB of the Act, inter alia, provides for pass through of income earned by category I and category II AIF, except for business income, which is taxed at AIF level. Pass through of losses are currently not available to unit holders.

It is proposed to amend the section to provide:

- Business loss of the investment fund, if any, will be allowed to be carried forward and will be set-off by it in accordance with the provisions of Chapter VI and it will not be passed onto the unit holder.
- Loss other than business loss will be deemed to be the loss of the unit holder and allowed to be carried forward for the allowable period in his hand. However, if such loss has arisen in respect of a unit that has not been held by the unit holder for at least 12 months, then such loss will be ignored for the purposes of pass through to the unit holder.
- Loss other than business loss accumulated at the AIF level, as on 31 March 2019, will be deemed to be the loss of the unit holder who held the unit on that date, and will be allowed to be carried forward for the remaining period calculated from the year in which the loss had occurred for the first time.
- Consequently, the loss passed through to the unit holders will not be available to the investment fund.



Non-resident taxation

Deemed accrual of gift made to a person outside India

At present, gift in the form of money or specified property is taxed in the hands of donee, except for certain exemptions provided in proviso to section 56(2)(x) of the Act. Gifts made by residents to persons outside India were claimed to be non-taxable on the basis that the income does not accrue or arise in India.

To bring the transaction of gifts made by residents to person outside India under the ambit of tax, it is proposed that income arising from any sum of money paid, or any specified property in India transferred, on or after 5 July 2019 by a person resident in India to a person outside India shall be deemed to accrue or arise in India.

The existing provision for exempting gifts as provided in proviso to section 56(2)(x) will continue to apply. The benefits available under the relevant article of applicable Indian DTAA shall also continue to apply for such gifts.



Non-resident taxation

Relaxation in conditions of special taxation regime for offshore funds

At present, section 9A of the Act provides that in case of an eligible investment fund, the fund management activity carried out through an eligible fund manager located in India and acting on behalf of such fund shall by itself not constitute business connection in India of the said fund. Further, an eligible investment fund shall not be said to be a resident of India merely because the eligible fund manager carrying out fund management activities on the fund's behalf is located in India.

The benefit under section 9A is available subject to certain conditions, which inter-alia, are related to residence of fund, corpus, size, investor broad basing, investment diversification, and payment of remuneration to fund manager at an arm's length.

Based on the representations received for relaxing certain conditions and to give an impetus to fund management activities in India, it is proposed to relax certain conditions in the implementation of the fund managers' regime. Accordingly, it is proposed to amend section 9A(3) to provide that:

- The corpus of the fund shall not be less than INR 1000 million at the end of a period of six months from the end of the month of its establishment or incorporation or at the end of such previous year, whichever is later
- The remuneration paid to an eligible fund manager in respect of fund management activity carried out by him/her on the fund's behalf is not less than the amount calculated in such manner as may be prescribed

This amendment shall be with retrospective effect from assessment year 2019-20.



Non-resident taxation

Tax exemption on interest income of non-resident on rupee denominated bonds

At present, interest payable by an Indian company or a business trust to a non-resident, including a foreign company, in respect of monies borrowed by issuing rupee denominated bond (popularly known as Masala Bonds) issued outside India before 1 July 2020 is liable to concessional tax of 5 percent. Taxes are required to withheld on such interest income at 5 percent.

To contain current account deficit and augment foreign exchange flow, CBDT through a press release dated 17 September 2018 had announced that such interest payable to non-resident, including a foreign company, on rupee denominated bonds issued outside India during the period from 17 September 2018 to 31 March 2019 shall be exempt from tax.

The exemption announced through the aforesaid press release is proposed to be incorporated in the Act by the insertion of section 10(4C) to provide exemption to income payable by way of interest to a non-resident by an Indian company or a business trust in respect of monies borrowed from a source outside India by way of issue of rupee denominated bond, as referred to in section 194LC, during the period from 17 September 2018 to 31 March 2019.

The proposed amendment is applicable from assessment year 2019-20.



Secondary adjustment provisions rationalised

The secondary adjustment provision is proposed to be amended for its effective implementation. The amendment clarifies that the provisions will apply only from FY16-17 and only if the primary adjustment is INR 10 million or more.

Both retrospective and prospective amendments have been proposed in this provision.

The retrospective amendments proposed from assessment year 2018-19 are as follows:

- The provisions of secondary adjustment will apply only on those APAs that are signed on or after 1 April 2017. However, if any tax refund arises on giving effect to the proposed retrospective amendment, such refund will not be granted.
- Cash repatriation can be made either in full or in part.
- Cash repatriation can be made from any AE that is a non-resident in India.

The prospective amendments proposed from 1 September 2019 are as follows:

- Assesseees have been given an option to pay a one-time additional tax of 18 percent on the excess money or part thereof, in case cash is not repatriated in India within the prescribed time limit.
- No tax credit or tax deduction for such additional tax will be available to the taxpayer or any other person.
- Notional interest under the secondary adjustment will not apply from the date of payment of additional tax.



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Transfer Pricing

Assessment order giving effect to APA

In case of years covered under the APA, for which the assessment or reassessment has been completed by the due date of modified return, it is proposed to restrict the powers of the assessing officer to modify the assessment order only to give effect to the terms of the APA.

This amendment will be effective from 1 September 2019.

Due date of CbCR clarified for ARE

It has been proposed to clarify with retrospective effect from assessment year 2017-18 that in case of an ARE resident in India, the due date of filing CbCR by the ARE in India will be 12 months from the end of the accounting year of the ultimate parent entity, which is not a resident in India.

Master file to be filed by every constituent entity

- Transfer pricing documentation provisions have been proposed to be amended to provide that every constituent entity of an international group will be required to file a master file even when there is no international transaction undertaken by such constituent entity.
- The assessing officer or CIT(A) cannot obtain master file from the taxpayer.



Capital gains

Tax on income distributed to shareholders in case of listed companies

Introduction of tax on buyback of shares by listed Indian companies

- Under the existing provisions, proceeds from the buyback of shares by listed companies are taxable in the hands of shareholders as capital gains at applicable tax rates depending on period of holding. Whereas unlisted companies undertaking the buyback of shares are liable to pay additional income tax at 20 percent of the “distributed income”, according to the provisions of section 115QA of the Act.
- It is now proposed to extend applicability of section 115QA to the buyback of shares by a company listed on a recognised stock exchange as well. Accordingly, listed companies undertaking the buyback of shares will now have to pay 20 percent tax plus applicable surcharge and cess on “distributed income”.
- “Distributed income” has been defined to mean consideration paid by the company as reduced by the amount that was received by the company for issuing such shares, determined in the manner as prescribed under IT Rules.
- Consequentially, shareholders shall be exempt from tax on proceeds received pursuant to such a buyback.
- The above amendment is proposed to take effect from 5 July 2019.



Capital gains

Non-applicability of section 56(2)(x) and 50CA of the Act on certain transactions

- At present, income from receipt of certain shares for inadequate consideration is chargeable to tax under section 56(2)(x) of the Act. Similarly, section 50CA of the Act provides for computing capital gains from transfer of certain shares by deeming FMV as the full value of consideration. FMV for both these provisions is calculated according to the methodology prescribed in IT rules.
- Provisions of section 56(2)(x) of the Act are not applicable to certain specified transactions. However, no such exemption is available under section 50CA of the Act.
- It is now proposed to empower CBDT to prescribe a transaction undertaken by certain classes of persons to which the provisions of section 56(2)(x) and 50CA of the Act shall not be applicable. This amendment aims at avoiding genuine hardships in certain cases where consideration for transfer of shares is approved by certain authorities and persons transferring the shares may not have control over determination of consideration.



Capital gains

Rationalisation of the definition of 'demerger'

- At present, the definition of "demerger" under section 2(19AA) requires that the resulting company should record the property and liabilities of the transferred undertaking of the demerged company at the value as appearing in the books of the demerged company.
- However, in case of Ind AS compliant companies, such property and liabilities of the transferred undertaking are required to be recorded at a value different from the book value of the demerged company.
- To harmonise the income tax and accounting provisions, it is proposed that the condition of recording property and liabilities at book value by the resulting company shall not be applicable in a case where the property and liabilities of the undertakings received by it are recorded at a value different from that appearing in the books of account of the demerged company immediately before the demerger in compliance with the Indian Accounting Standards.



Capital gains

Concessional STCG tax rate applicable to equity-oriented fund of funds set up for disinvestment of CPSE

- At present, a concessional LTCG tax rate is applicable under section 112A of the Act, on the transfer of units of equity-oriented fund of funds set up for the disinvestment of CPSE.
- To further incentivise such fund of funds, the applicability of concessional 15 percent tax rate on STCG under section 111A of the Act is proposed to be extended to investors on the transfer of units of such fund of funds.



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Procedural and miscellaneous

TDS on non-exempt portion of life insurance pay-out on a net basis

At present, under section 194DA of the Act, a person is obliged to deduct tax at source at 1 percent, if it pays any sum to a resident under a life insurance policy, which is not exempt under section 10(10D) of the Act.

To remove difficulties for an assessee who has to pay tax on net income (i.e., after deducting the amount of insurance premium paid by him/her from the total sum received) and for administrative ease, it is proposed to provide that the levy of tax deduction at source shall be on the net income included in the sum payable by way of redemption of a life insurance policy at the increased rate of 5 percent.

This amendment shall come into effect from 1 September 2019.



Procedural and miscellaneous

TDS at the time of purchase of immovable property

Under the provisions of Section 194-IA of the Act, the transferee is required to deduct tax at source at 1 percent on the amount of consideration paid for the transfer of immovable property other than agricultural land.

The term 'consideration for immovable property' is currently not defined. To clarify, it is proposed to amend the explanation to the said section and provide that the term 'consideration for immovable property' shall include all charges of the nature of club membership fee, car parking fee, electricity or water facility fee, maintenance fee, advance fee, or other charges of similar nature, which are incidental to the transfer of immovable property.

This amendment shall come into effect from 1 September 2019.



Procedural and miscellaneous

TDS on payment by individual or HUF to contractors and professionals

At present, an individual or HUF is not liable for deduction of tax at source on the sum credited or paid to the contractor or towards fees for professional services, where such a payment is for personal use. Further, if the individual or HUF carrying on business or profession and is not subject to audit, there is no obligation to deduct tax at source on payment of professional fees to a resident, even if the payment is for the purpose of business or profession.

To fix the loophole resulting in possible tax evasion on account of sums received for contractual work and professional fees, it is now proposed to insert a new section 194M to provide for levy of TDS of 5 percent on the sum, or the aggregate of sums, paid or credited in a year on account of contractual work or professional fees by the aforesaid individual or a HUF, where such sum or aggregate of such sums, exceeds INR 5 million in a year. Further, it is proposed that such individuals or HUFs shall be able to deposit the tax deducted using their PAN and shall not be required to obtain TAN.

It is also proposed to amend section 197(1) to provide that the sums on which tax is required to be deducted at source under section 194M shall also be eligible for a certificate for deduction at a lower rate.

This amendment shall come into effect from 1 September 2019.



Procedural and miscellaneous

TDS on cash withdrawal

To discourage cash transactions and move towards a cashless economy, it is proposed to insert a new section 194N to provide for deduction of tax at source by the following entities:

- Banking company
- Co-operative society engaged in carrying out the business of banking
- Post office,

These entities are responsible for paying any sum, or aggregate of sums, in cash, in excess of INR 10 million in the previous year, to any person (i.e., the recipient) from an account maintained by the recipient with such entities shall, at the time of payment of such amount, deduct an amount equal to 2 percent of sum exceeding INR 10 million, as income tax.

It is further proposed that the above-mentioned provisions shall not apply to any payment made to:

- Government
- Any banking company or co-operative society engaged in carrying out the business of banking or post office
- Business correspondent of a banking company or co-operative society engaged in carrying out the business of banking in line with RBI guidelines
- Any white label automated teller machine operator of a banking company or co-operative society engaged in carrying out the business of banking, in line with RBI authorisation
- Other persons or class of persons, to be notified by the Central Government in consultation with RBI

This amendment shall come into effect from 1 September 2019.



Procedural and miscellaneous

Online filing of application seeking determination of tax to be deducted at source on payment to non-residents

According to section 195(2) of the Act, if a person who is responsible for paying any sum to a non-resident that is chargeable to tax under the Act (other than salary) considers that the whole of such sum would not be income chargeable in case of the recipient, he/she can make an application to the AO to determine the appropriate proportion of such a sum chargeable to tax.

However, the process to obtain a certificate/order from the AO for lower/nil withholding tax is currently manual. To use technology to streamline the process, reduce the application processing time, and monitor such payments by the tax administration, it is proposed to prescribe the form and manner of making such an application and the manner of determining the appropriate proportion of such a sum chargeable to tax by the AO.

Similar amendment is also proposed to be made applicable to a specified class of persons or cases under section 195(7).

These amendments shall come into effect from 1 November 2019.



Procedural and miscellaneous

Consequences of failure to deduct or pay

At present, any person, including the principal officer of a company, who fails to deduct the whole or any part of the tax in line with the provisions of the Act on the sum paid to a resident or credited to the account of a resident shall not be deemed to be an assessee in default in respect of such tax if such resident:

- has furnished a return of his/her income under section 139;
- has taken into account such sum to compute income in such return of income;
- has paid the tax due on the income declared by him/her in such return of income;
- and the person furnishes a certificate to this effect from an accountant in the prescribed form.

It is now proposed to extend the benefit of the above-mentioned provisions to a deductor, even in respect of failure to deduct tax on payment to non-resident.

Consequent to this amendment, it is also proposed to provide for levy of interest until the date of filing of return by such non-resident payee (as is the case at present with resident payee).

At present, an order under section 201 for deeming a person as an assessee in default for failure to deduct the whole or any part of the tax from a person resident in India is required to be passed within seven years from the end of the financial year in which payment is made or credit is given.



Procedural and miscellaneous

It is now proposed to amend the time limit for passing an order under section 201(1) for any person to be deemed to be an assessee in default to:

- Seven years from the end of the financial year in which payment is made or credit is given
- Two years from the end of the financial year in which a correction statement is delivered whichever is later

The amendments will take effect from 1 September 2019.



Procedural and miscellaneous

Electronic filing of statement on which tax has not been deducted under section 194A(3)

At present, payments of interest to a resident where tax has not been deducted under section 194A(3) is required to be reported in a statement to be filed on a floppy, disk, magnetic tape, CD-ROM, or any other computer-readable media.

To enable online filing of such statements, it is now proposed that the above-mentioned statements need to be filed online in the prescribed form and in the prescribed manner. It has been further proposed that such statement may also be corrected for rectification of any mistake or to add, delete, or update the information furnished.

The above-mentioned provision shall come into effect from 1 September 2019.



Procedural and miscellaneous

Widening the scope of SFT

- Section 285BA of the Act, inter alia, provide for furnishing of SFT by a person specified therein. At present, the threshold limit specified for the aggregate value of transactions to be reported during a financial year is INR 50,000.
- The scope of furnishing SFT has been proposed to be widened to include certain persons (as may be prescribed), other than those who are currently required to furnish the same. Further, the current minimum threshold limit of INR 50,000 has been proposed to be removed to ensure pre-filing of information relating to even small amount of transactions, in the return of income.
- It is proposed to amend the provisions of the said sub-section to provide that if the defect in the statement is not rectified, it will be treated that such a person had furnished inaccurate information in the statement. Under the present law, such a statement is treated as invalid and it would be deemed that the person has failed to furnish the statement.

Penalty provisions

- Section 271FAA imposes a penalty of INR 50,000 on filing inaccurate details in the statement, by prescribed reporting financial institution.
- It is proposed to amend the penalty provisions to extend it to all persons responsible for filing the said statement under Section 285BA.

The above-mentioned amendments will take effect from 1 September 2019.



Procedural and miscellaneous

Mandatory furnishing of return of income by certain persons

Persons claiming rollover benefit of exemption from capital gains tax

- At present, a person claiming exemption from capital gains tax on investment in specified assets such as house and bonds, is not required to furnish a return of income, if after claim of such exemptions, his/her total income is not more than the maximum amount not chargeable to tax.
- To mandate the furnishing of return, it is proposed to amend the sixth proviso to section 139 to provide that a person claiming such exemption shall necessarily be required to furnish a return, if before claim of the exemption, his/her total income is more than the maximum amount not chargeable to tax.

Persons entering into high-value transactions

- There is currently no requirement for persons (other than a company or firm) to file return of income if the total income does not exceed maximum amount chargeable to tax.
- To ensure that persons who enter into certain high-value transactions furnish the return of income, it is proposed to insert seventh proviso to section 139(1) to provide that a person shall be mandatorily required to file his/her return of income, if during the previous year, he undertake any of the following transaction:
 - Has deposited an amount (in aggregate) exceeding INR 10 million in one or more current accounts maintained with a banking company or a co-operative bank
 - Has incurred expenditure exceeding INR 0.2 million (in aggregate) for self or another person on foreign travel
 - Has incurred expenditure exceeding INR 0.1 million (in aggregate) towards consumption of electricity
 - Fulfils other conditions, as may be prescribed



Procedural and miscellaneous

Widening and deepening of the tax base

PAN for certain transactions

Certain persons entering into high-value transactions, such as purchase of foreign currency or huge withdrawal from the banks, do not possess a PAN.

To keep an audit trail of such transactions, it is proposed that every person who intends to enter into certain prescribed transactions and has not been allotted a PAN, shall also apply for allotment of a PAN.

Quoting of PAN or Aadhaar number

It is proposed to insert new sub-section (6A) and (6B) to section 139A to ensure quoting of PAN or Aadhaar number for entering into prescribed transactions and authentication thereof in the prescribed manner. Duty is also proposed to be cast on the person receiving any document relating to such transactions.

The proposed amendment will be applicable from 1 September 2019.



Procedural and miscellaneous

Inter-changeability of PAN and Aadhaar and mandatory quoting in prescribed transactions

- Section 139A requires every specified person therein to apply for/quote PAN in specified transactions. Failure to comply with the provisions will attract a penalty of INR 10,000 under Section 272B.
- To ensure ease of compliance, it is proposed to amend to provide for inter-changeability of PAN with the Aadhaar number.
- To ensure proper quoting and authentication of PAN or Aadhaar number under section 139A, penalty provision under section 272B is proposed to be amended to apply on failure to furnish PAN or Aadhar number.
- The penalty is applicable on failure to furnish PAN or Aadhaar number and also if the person receiving the prescribed documents fails to ensure that PAN or Aadhar has been duly quoted or authenticated.
- Further, the penalty of INR 10,000 under this section has been expanded for each such default in quoting PAN or Aadhar number.
- The aforesaid amendment will take effect from 1 September 2019.



Procedural and miscellaneous

Prescription of electronic mode of payments/receipts

- Sections 269SS, 269ST and 269T, in respect of specified payments/receipts, currently provide that these receipts/payments should be made only in the form of an account payee cheque or an account payee bank draft or the electronic clearing system through a bank account
- To promote other electronic modes of payment, the above-mentioned provisions have been proposed to be amended to include other electronic modes of payment as may be prescribed, in addition to the already existing permissible modes of payment/receipt.

The above-mentioned amendments will take effect from 1 September 2019.

Insertion of new section 269SU and penalty for non-compliance

- To promote the digital economy, and curb generation and circulation of black money, a new section is proposed to be inserted to provide that every person, carrying on business whose total sales, turnover, or gross receipts, in business exceeds INR 500 million during the immediately preceding previous year, shall provide a facility for accepting payment through prescribed electronic modes, in addition to the facility for other electronic modes of payment, if any presently being provided.
- Section 271DB has been introduced to provide for a penalty of INR 5,000 for every day during which the failure to provide the facility for electronic modes of payment prescribed under section 269SU continues.
- However, no such penalty shall be imposed if the person proves that there were good and sufficient reasons for the failure.

The above amendment will take effect from 1 November 2019.



Procedural and miscellaneous

Rationalisation of penalty provisions for non-filing of tax return

- The provisions of section 276CC currently provides for prosecution in case of willful failure to furnish return of income in due time. Immunity from prosecution is granted inter alia where the tax payable, as reduced by the advance tax and tax deducted at source does not exceed INR 3,000 in respect of persons (other than companies). The present provisions do not provide for reduction of self assessment tax paid or tax collected at source while determining the tax payable.
- To clarify the legislative intent, it is proposed to amend the said section to include the self-assessment tax, if any, paid before the expiry of the assessment year, and tax collected at source for the purpose of determining tax liability.
- Further, to rationalise the existing threshold limit of tax payable, it is further proposed to amend the said section to increase the threshold of tax payable from INR 3,000 to INR 10,000.



Procedural and miscellaneous

Rationalisation of penalty provisions relating to under-reported income

- Section 270A provides for various situations for levy of penalty for under-reporting and misreporting of income. However, it does not contain the mechanism for determining under-reporting of income and quantum of penalty to be levied when a person has under-reported income and furnished the return of income for the first time in response to a notice under section 148 of the Act.
- To provide for manner of computing the quantum of penalty in the above-mentioned case, it is proposed to suitably amend the provisions of section 270A.
- This amendment is proposed with a retrospective effect from assessment year 2017-18.



Procedural and miscellaneous

Rationalisation of provision relating to recovery of tax in pursuance of agreements with foreign countries

The existing provisions of section 228A provide for assistance in tax recovery as a part of treaty obligations in pursuance of an agreement between the Central Government of India and the Government of any foreign country from a person with any property in India by a TRO having jurisdiction over such property, on receipt of a certificate of recovery of tax from such foreign country under a corresponding law.

To provide tax recovery assistance per treaty obligations with the other country, the scope of section 228A has been proposed to be amended to provide for tax recovery even where:

- Details of property of the persons are not available but the said person is a resident in India
- Details of property of an assessee in default or assessee deemed to be in default are not available but the said assessee is a resident in a foreign country

The TRO proceeding to recover the amount specified in the certificate is proposed to include any TRO who has jurisdiction over the resident as well.

The above amendments will take effect from 1 September 2019.



Procedural and miscellaneous

Enhancing time limitation for sale of attached property under rule 68B of the second schedule of the Act

- At present, the sale of immovable property attached towards the recovery of tax, penalty, etc., shall not be made after the expiry of three years from the end of financial year in which the order in consequence of which any tax, penalty, etc. becomes final.
- To protect the interest of revenue, it is proposed to amend the aforesaid provision to extend the period of limitation from three years to seven years. The said period can be further extended by three years by the Board, for reasons to be recorded in writing.
- The above-mentioned amendment will take effect from 1 September 2019.



Procedural and miscellaneous

Registration and cancellation of registration of the trust or institution

Section 12AA of the Act prescribes for manner of granting registration in case of a trust or institution for the purpose of availing exemption in respect of its income under section 11 of the Act, subject to specified conditions. It also provides for cancellation of the said registration. The existing provisions of section 12AA does not require the Principal CIT or CIT to satisfy himself about the compliance of trust or institution to requirements of any other law.

To ensure that the trust or institution do not deviate from their objects, it is proposed to amend section 12AA of the Act, to provide that:

- At the time of granting the registration, the Principal CIT or CIT shall also satisfy himself about the compliance of the trust or institution to requirements of any other law, which is material for the purpose of achieving its objects.
- Where a trust or institution has been granted a registration and subsequently it is noticed that the trust or institution has not complied with, requirements of any other law that was material for the purpose of achieving its objects, and the order, direction, or decree, by whatever name called, holding that such non-compliance has occurred, has either not been disputed or has attained finality, the Principal CIT or CIT may, by order in writing, cancel the registration of such trust or institution after affording a reasonable opportunity of being heard

The proposed amendment shall be effective from 1 September 2019.



Procedural and miscellaneous

Pre-filling of income tax returns (Budget Speech- Para 123)

- With a view to reduce the time taken to file income tax returns and ensure accuracy in reporting of income and taxes, pre-filled income tax returns, containing details of salary income, capital gains from sale of securities, bank interest, dividends, etc., and tax deductions will be made available to tax payers.
- Information regarding income in return form would be collected from concerned sources, such as banks, stock exchanges, mutual funds, EPFO, and state registration departments.

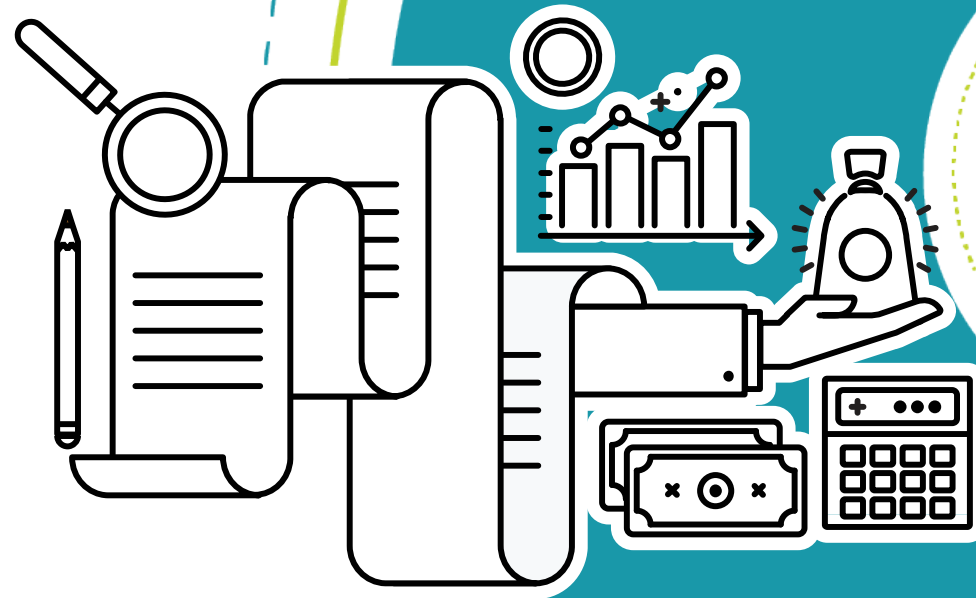
Faceless e-assessment (Budget Speech- Para 124)

- The present system of scrutiny assessment involves a high level of personal interaction between tax payer and the Income Tax Department, leading to certain undesirable practices by tax officials. To eliminate these instances, a scheme of faceless e-assessments involving no human interface is proposed to be launched, in a phased manner.
- To start with, e-assessments shall be carried out in cases requiring verification of certain specified transactions or discrepancies. These cases shall be allocated to assessment units in a random manner and notices shall be issued electronically by a central cell, without disclosing the name, designation, or location of the assessing officer. The central cell will be the single point of contact between the tax payer and the department.



Indirect Taxes

- Customs duty
- Central excise
- Service tax
- Amnesty scheme
- Goods and services tax



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Customs duty

Legislative changes

Trade Facilitation Measure

- As a trade facilitation measure, the departure/export manifest can be furnished by a person notified by Central Government, in addition to person-in-charge of the conveyance.

Verification of Identity and Compliance

- New chapter titled "Verification of Identity and Compliance" has been introduced in the Customs Act for safeguarding revenue's interest. In terms of these provisions Customs officer has been empowered to -
 - carry out verification of a person for ascertaining compliance with provisions of Customs Act through Aadhaar number or other viable means.
 - In case of failure, suspend clearance of goods, sanction of refund/drawback, exemption from duty, licence/registration issued under Customs Act, or any other benefit arising out of such import/export, subject to conditions.

Penalties under Customs Act

- Customs officer has been empowered to arrest a person who has committed an offence under Customs Act in India or outside India. Further, following offences have now been made cognizable as well as non-bailable:
 - fraudulently availing or attempting to avail drawback or exemption of duty exceeding INR 5 million
 - fraudulently obtaining and utilizing instrument (licenses, scrips etc.) issued under Customs Act or FTDR Act involving duty exceeding INR 5 millionAlso, these offences are made punishable for a term which may extend to seven years and with fine.
- Customs officer for the purposes of safeguarding the interest of revenue or to prevent smuggling, has been empowered to provisionally attach any bank account for a period of six months (extendible further by six months) with prior approval of Principal Commissioner of Customs or Commissioner of Customs.



Customs duty

Legislative changes

Penalties under Customs Act (contd.)

- New section has been inserted to levy a penalty up to the value of instrument (licenses, scrips etc.) on a person who has obtained such instrument by fraud, collusion, wilful misstatement or suppression of facts and such instrument has been utilised by such person or any other person for discharging duty.
- Penalty increased from INR 0.1 million to 0.4 million in relation to offences for which no penalty has been provided elsewhere in the Customs Act.
- Penalty for contravention of any provision of a rule or regulation has been increased from 0.05 million to 0.2 million.

Power to introduce regulation for amendment of documents

- Central Government has empowered CBIC to make regulations specifying time, form, manner, restrictions and conditions for amendment of any import document under section 149 of the Customs Act.

Extension of Countervailing duty

- Central Government has been empowered to extend levy of “countervailing duty imposed on subsidized articles” on such other articles in case it is of the opinion that there has been circumvention of such duty by importing such other articles by altering the description or name or composition or by importing in unassembled form or by changing the country of origin or country of export etc.

Appellate Mechanism for safeguard duty

- Appellate mechanism has been provided to prefer an appeal before CESTAT against the order of the Director General (Safeguard) in relation to matters connected with levy of safeguard duty.



Customs duty

Changes in Customs Tariff Act

- Peak rate of BCD maintained at 10 percent
- Central Government has proposed to amend First Schedule to the Customs Tariff Act, 1975 (“CTA”) to create specific tariff lines for specific goods, presently classified under residual entry (“others”) and to rectify them for alignment with HSN. The alignment has been proposed across all chapters of the First Schedule to the CTA.
(This change will come into effect from a notified date.)
- Custom duty rates have been amended with the objectives of achieving higher domestic value addition through Make in India and reducing import dependence.

Key rate amendments have been captured in the subsequent slides.



Customs duty

BCD has been increased on the following goods

Description of goods	Up to 5 July 2019	From 6 July 2019
Construction materials such as ceramic roofing tiles, wall tiles, base metal fitting, windows, etc.	10%	15%
Precious metals such as silver, gold, platinum, etc.	10%	12.5%
Automobile parts such as air filter, oil or petrol filter	7.5%	10%
Automobile parts such as glass mirrors, locks, windscreen wipers, horns, chassis fitted with engine and bodies, etc.	10%	15%
Automobile parts such as visual or sound signaling equipment	7.5%	15%
Catalytic convertor for automobiles	5%	10%
Completely Built Unit (CBU) of vehicles falling under heading 8702, 8704	25%	30%
Petroleum crude	Nil	INR 1 per tonne
Stainless steel in ingots or other primary forms; semi-finished products of stainless steel	5%	7.5%
Other alloy steel in ingots or other primary forms; semi-finished products of other alloy steel	5%	7.5%



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Customs duty

BCD has been increased on the following goods

Description of goods	Up to 5 July 2019	From 6 July 2019
Indoor or outdoor unit of split-system air conditioner	10%	20%
Digital Video Recorder (DVR) and Network Video Recorder (NVR), CCTV, IP camera	15%	20%
Charger/power adapter for CCTV camera/IP camera/DVR/NVR	Nil	15%
Loud speaker and optical fibre cables	10%	15%
Cashew kernel broken	Rs 60/ Kg or 45%, whichever is higher	70%
Cashew kernel whole, cashew nuts shelled, others	Rs 75/ Kg or 45%, whichever is higher	70%



Customs duty

BCD has been increased on the following goods

Description of goods	Up to 5 July 2019	From 6 July 2019
Specified capital goods used for manufacturing of specified items, namely- <ul style="list-style-type: none"> • Cathode ray tubes, colour display tubes and parts thereof • CD/CD-R/DVD/DVD-R • Deflection components, CRT monitors/CTVs • Plasma display panel • Ferrites 	Nil	Applicable rate
Newsprint, uncoated paper used for printing of newspapers and lightweight coated paper used for printing of magazines	Nil	10%
Printed books (including covers for printed books) and printed manuals, in bound form or in loose-leaf form with binder, executed on paper or any other material including transparencies	Nil	5%



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Customs duty

BCD has been reduced on the following goods

Description of goods	Up to 5 July 2019	From 6 July 2019
<p>Specified capital goods used for manufacturing the following items:</p> <ul style="list-style-type: none"> • Charger/adapter/battery of cellular mobile phone • Display module • Set top box • Compact camera module • Camera/LCD module of mobile handsets • Telecom equipment falling under heading 8517 • Wound component <p>Specified capital goods added in existing exemption list for manufacturing the following items:</p> <ul style="list-style-type: none"> • Populated PCBA • Lithium ion cell for use in the manufacture of battery of mobile handsets • Speaker and receiver of mobile handsets • Data cables and optical fibre cables 	Applicable rate	Nil [subject to Customs (Import of Goods at Concessional Rate of Duty) Rules, 2017]
Raw material, parts or accessories for manufacturing artificial kidneys, disposable sterilised dialyser and micro-barrier of artificial kidneys	Applicable rate	Nil



Customs duty

BCD has been reduced on the following goods

Description of goods	Up to 5 July 2019	From 6 July 2019
Raw materials used in manufacturing preform of silica: <ul style="list-style-type: none"> • Refrigerated helium liquid • Silicon tetra chloride and germanium tetra chloride • Silica rods • Silica tube 	Applicable rate	Nil
Wool fibre, wool tops	5%	2.5%
All goods under CTH 2612 10 00 and 2844 20 00 for generation of nuclear power	2.5%/7.5%	Nil
Following parts of electric vehicles: <ul style="list-style-type: none"> • E-drive assembly • On board charger • E-compressor • Charging gun 	Applicable rate	Nil
Providing option to pay BCD at transaction value on the disposal of goods, imported without payment of customs duty for petroleum operations/coal bed Methane operations where such disposal is made in unserviceable and mutilated condition	Applicable rate on depreciated value	7.5% on transaction value



Customs duty

BCD has been reduced on the following goods

Description of goods	Up to 5 July 2019	From 6 July 2019 up to 30 June 2024
<p>Specified defence equipment and their parts imported by the Ministry of Defence or the Armed Forces such as:</p>		
Steam turbines and other vapour turbines with output between 5 and 15 MW for naval craft	Applicable rate	Nil
Turbojets, turbo-propellers, and other gas turbines for multi-role or utility helicopters		
<p>Helicopters of an unladen weight exceeding 2,000 kg of the following types:</p> <ul style="list-style-type: none"> • Military Helicopters with co-axial intermeshing or tandem rotors (KA 31, Kamov Ka 226, Chinook) • Military Helicopters with empty weight more than 3,500 kg (Multi role and utility helicopters, Apache AH 64E) 		
<p>Aeroplanes and other aircraft of an unladen weight exceeding 2,000 kg, but not exceeding 15,000 Kg required under the following categories:</p> <ul style="list-style-type: none"> • RPA for military use- Operating altitude more than 35,000 feet (HALE-High Altitude Long Endurance); • Fighter aircraft (MMRCA, MRFA) 		



Customs duty

BCD has been reduced on the following goods

Description of goods	Up to 5 July 2019	From 6 July 2019
Naphtha	5%	4%
Ethylene Dichloride	2%	Nil
Methyloxirane	7.5%	5%



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Customs duty

Infrastructure and road cess as additional duty of customs has been increased on the following goods

Description of goods	Up to 5 July 2019	From 6 July 2019
Petrol and high speed diesel oil	INR 8 per litre	INR 9 per litre



Customs duty

Export duty has been reduced on following goods

Description of goods	Up to 5 July 2019	From 6 July 2019
EI tanned leather	15%	Nil
Hides, skins and leathers, tanned and untanned	60%	40%



Central excise

Levy of basic excise duty* to sustain the levy of NCCD

- Basic excise duty has been introduced on petroleum crude and various tobacco products to sustain the levy of NCCD.
- This amendment has been brought to overcome the difficulty in levying NCCD after Supreme Court held that NCCD cannot be levied when excise duty was exempt [**Bajaj Auto Limited** 2019(366)ELT577(SC)].
- Crude petroleum oil produced in special oil fields under production sharing contracts or in the exploration blocks offered under the NELP through international competitive bidding would continue to be exempted.

* Duty changes captured in subsequent slide



Central excise

Change in rate – Basic excise duty on petroleum crude and tobacco products

- Basic excise duty of INR 1 per tonne levied on petroleum crude
- Following changes made to basic excise duty rates applicable to various tobacco and tobacco-related products covered under Chapter heading 24 of the Central Excise Tariff:

Description of product	Up to 5 July 2019	Effective from 6 July 2019
<ul style="list-style-type: none">• Filter cigarettes not exceeding 75 mm in length• Other than filter cigarettes not exceeding 70 mm in length• Cigarettes of tobacco substitutes	Nil	INR 5 per thousand
Tobacco products falling under HSN 2403 99 other than cut tobacco	Nil	0.5 percent
Smoking mixtures for pipes and cigarettes	Nil	1 percent

- Following products continue to remain exempt:
 - Unmanufactured tobacco and tobacco refuse falling under HSN 2401 and
 - Cigars, cheroots, and cigarillos containing tobacco falling under HSN 240210



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Central excise

Change in excise duty structure for petrol and diesel

Increase in R&I cess by INR 1 per litre

- Scheduled rate has been increased from INR 8 per litre to INR 10 per litre for petrol and diesel. However, the effective rate has been increased to INR 9 per litre.

Increase in SAED by INR 1 per litre

- Petrol: Scheduled rate increased from INR 7 to INR 10 per litre; however effective rate is increased to INR 8 per litre
- Diesel: Scheduled rate has been increased from INR 1 to INR 4 per litre; however effective rate is increased to INR 2 per litre

HSN-2710	Duty rates applicable up to 5 July 2019 (per litre)				Duty rates applicable from 6 July 2019 (per litre)			
	BED	R&I cess	SAED	Total	BED	R&I cess	SAED	Total
Petrol (unbranded)	2.98	8	7	17.98	2.98	9	8	19.98
Petrol (branded)	4.16	8	7	19.16	4.16	9	8	21.16
Diesel (unbranded)	4.83	8	1	13.83	4.83	9	2	15.83
Diesel (branded)	7.19	8	1	16.19	7.19	9	2	18.19



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Introduction

The Government has taken cogent steps to minimise disputes pertaining to the erstwhile indirect tax regime. Along with specified retrospective exemptions, an amnesty scheme has been introduced with the objective to close the pending litigations.

Retrospective service tax exemption

Exemption from service tax for the following services:

- Service by way of grant of liquor license during the period 1 April 2016 to 30 June 2017
- Services provided by IIMs for specified educational programs during the period 1 July 2003 to 31 March 2016
- Upfront amount (premium/ salami/ development charges etc.) payable in respect of long term lease of 30 years or more wherein plots are provided by Government undertakings to developers, subject to specified conditions. This exemption is applicable for the period 1 October 2013 to 30 June 2017

Retrospective service tax exemption

- Service tax already collected against the aforesaid services will be refunded
- Application to claim refund needs to be filed within a period of six months from the date of enactment of law
- Applicability of unjust enrichment and other applicable provisions may need to be analysed for refund



Amnesty scheme

Sabka Vishwas (Legacy Dispute Resolution) Scheme, 2019

Amnesty scheme for central taxes/ duties/ levies proposed for resolution and settlement of legacy disputes. Scheme will be applicable from a date to be notified. Key highlights of the scheme are as follows:

Applicability:

- Applicable for central excise duty, service tax and cesses
- Scheme available for dues pending under:
 - Appeal not settled up to 30 June 2019
 - Show cause notice received up to 30 June 2019
 - Quantified demand under any pending audit/investigation/enquiry up to 30 June 2019
 - Amount that has been voluntarily disclosed by assessee
 - Tax arrears against the assessee
- Does not cover;
 - Matter finally heard in appeal or show cause notice
 - Persons convicted under the concerned indirect tax laws
 - Matters relating to refund
 - Unquantified demands in audit/investigation proceedings
 - Central Excise matters relating to tobacco and petroleum products



Amnesty scheme

Relief available

Particulars	Relief available
Show cause notice/ appeal pending as on 30 June 2019, and dues linked to investigation/enquiry/audit: <ul style="list-style-type: none">• Tax dues > INR 5 million• Tax dues <= INR 5 million	50% 70%
Tax amounts in arrears or tax payable declared by assessee in returns: <ul style="list-style-type: none">• Tax dues > INR 5 million• Tax dues <= INR 5 million	40% 60%
Show cause notice issued only with respect to late fee/ penalty, and tax amount is paid or NIL	Entire amount of late fee/ penalty
Voluntary disclosure of tax dues by assessee	No tax relief



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Amnesty scheme

Other key reliefs

- Complete waiver of interest and penalty
- Protection from criminal prosecution and reopening of such matters
- Pre-deposit already paid would be adjusted in payment of demand. However excess pre-deposit not refundable

The amounts paid under this scheme:

- Have to be paid in cash
- Cannot be availed as input tax credit by the assessee
- Would be non-refundable



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Goods and services tax

Introduction

- With numerous challenges faced by industries in the initial phases of GST, Government through the GST Council has constantly been working to simplify and streamline the legal framework.
- With the aim of technology-based simplification of GST-related processes, the Finance Minister stressed on certain key aspects. These include–
 - Simplified single monthly returns
 - Free accounting software for return preparation for small businesses
 - Fully automated GST refund module
 - Introduction of electronic invoicing system

Relief to taxpayers

- Facility to be provided to registered person to transfer an amount from one head (major or minor) to another in the electronic cash ledger.
- In case of delayed filing of return, interest to be paid only on the tax liability (net of ITC) paid through electronic cash ledger, except in those cases where returns are filed subsequent to issuance of show cause notice.
- Composition taxpayers to furnish annual return along with quarterly payment of taxes.



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Goods and services tax

Anti-Profiteering

- National Anti-profiteering Authority empowered to impose penalty equivalent to 10 percent of the profiteered amount
- No penalty will be levied, if the profiteered amount is deposited within 30 days of order by the Authority.

Relief to Medium and Small Enterprises

- Alternative composition scheme for supplier of services or mixed suppliers (not eligible for the earlier composition scheme) having an annual turnover in preceding financial year up to INR 5 million is being proposed, subject to fulfilment of conditions.
- Threshold limit of registration for supplier exclusively dealing in goods to be enhanced from INR 2 million to INR 4 million, if recommended by States or the GST Council.

National Appellate Authority for Advance Ruling

- Relief for taxpayers as forum for resolution of conflicting advance rulings set-up
- Authority to hear appeals against conflicting advance rulings pronounced on the same question by the Appellate Authorities of two or more States or Union territories in case of distinct persons.
- Definition of “adjudicating authority” amended to exclude from its purview “the National Appellate Authority for Advance Ruling”.
- Provisions introduced for constitution, qualification, appointment, tenure, conditions of services and other procedures of the National Appellate Authority for Advance Ruling.



Goods and services tax

Powers to extend due dates for periodic filings

- New provisions to be inserted to empower the Commissioner or Joint Secretary to extend the due date for furnishing Annual return (FORM GSTR-9/9A) and reconciliation statement (FORM GSTR-9C).
- Commissioner or Joint Secretary to be empowered to extend the due date for furnishing of monthly and annual statement by an e-commerce operator collecting tax at source.

Other compliances

- Mandatory authentication of Aadhaar for every registered person except specified states or class of tax payers
- Central Government on recommendation of the GST council to prescribe specified suppliers who have to mandatorily provide an option of electronic payment to their recipients.

Retrospective exemption to Uranium Ore Concentrate

- Supply of “Uranium Ore Concentrate” from 1 July 2017 to 14 November 2017 exempted from GST
- No refund will be available for the tax already deposited by the taxpayer during the period



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RBI (Prudential Framework for Resolution of Stressed Assets) Directions 2019

- The Supreme Court, on 2 April 2019, in the case of Dharani Sugars and Chemical Ltd. v. Union of India & Ors. quashed an RBI circular dated 12 February 2018 on the resolution of stressed assets on the grounds of it being "*Ultra Vires*".
- Accordingly, on 7 June 2019, RBI issued RBI (Prudential Framework for Resolution of Stressed Assets) Directions 2019 ("Directions/Revised Framework"). Key highlights of the Revised Framework are mentioned below:
 - **Widened scope:** The definition of lenders now also includes small finance banks, deposit taking NBFCs, and systemically important non-deposit taking NBFCs.
 - **Restructuring:** Lenders are required to adopt a board approved policy for resolution of stressed assets. The timelines for resolution have quantitative and qualitative parameters, to determine financial difficulty.
 - **Review period:** If any borrower is reported to be in default, lenders (except NBFCs) shall undertake a review of the borrower's account within 30 days of such default, during which they shall formulate their strategies for resolution plan (RP).
- **Inter creditor agreement (ICA):** On implementation of RP, lenders (including ARCs) will sign an ICA to, *inter alia*, address the rights and duties of majority lenders, protection of rights of the dissenting lenders, and payment to dissenting lenders, etc.
- ICA states that any decision approved by the "specified majority" of lenders, i.e., lenders representing 75 percent by value of total outstanding credit facilities (fund and non-fund based) and 60 percent of lenders by number, shall be binding on all lenders.
- Disincentive to cases where the implementation of RP is delayed. At the same time, additional provisioning can now be reversed on the satisfactory implementation of RP.
- The revised framework provides for early recognition, reporting, and time-bound resolution of stressed assets. It is expected to foster improvements in credit culture.
- The revised framework is intended to provide a fair amount of flexibility to lenders to use their commercial and economic judgement to put in place a resolution strategy.



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Key SEBI changes/decisions

Infrastructure Investment Trusts (InvITs) and Real Estate Investment Trusts (REITs)

- REITs now allowed to raise fund by issuing debt securities
- Listed InvITs can make preferential issue of units to an institutional investor as defined in the InvIT Regulations
- Reduction in the minimum subscription requirement for an initial offer and follow-on public offer of units of REITs and a revision in trading lots for the purpose of trading of REITs' units
- Prescribed norms for private placement of unlisted InvITs' units and a reduction in the minimum subscription requirement

Exemption from SEBI Regulations with respect to resolution process under Insolvency and Bankruptcy Code (IBC), 2016

- The acquisition made pursuant to an RP approved under IBC would be exempt from obligation of making an open offer under SEBI (Substantial Acquisition of shares and Takeovers) Regulations 2011.
- Provisions of preferential issue of securities (except lock-in period) will not be applicable to any preferential issue made under RP approved under IBC.

SEBI (Listing Obligation and Disclosure Requirements) Regulations 2015

- Revised norms for re-classification of "promoter" as "public", subject to prescribed conditions

SEBI (Delisting of Equity Shares) Regulations 2009 (Delisting Regulations)

- With an aim to facilitate delisting process, if the offer price determined under the book building process is not acceptable to acquirers/promoters, they can make a counter offer to public shareholders.
- Delisting regulations will not be applicable where delisting equity shares is made pursuant to an RP approved under IBC.

SEBI's decisions taken in board meeting

In its board meeting held on 27 June 2019, SEBI announced key measures that include:

- Approval of a framework for issuance of differential voting rights for tech companies
- Stricter norms on creation/disclosure of "encumbrance" on shares of a listed company



Regulatory landscape

Significant beneficial ownership

- Section 90 of the Companies Act 2013 (2013 Act) deals with disclosure of significant beneficial owner (SBO). It requires disclosures to be made:
 - To the company by individuals who are considered as SBOs
 - By the company to the Registrar of Companies
- Companies (Significant Beneficial Owners) Rules 2018 [as amended by Companies (Significant Beneficial Owners) Amendment Rules, 2019] came into effect from 8 February 2019 and are aligned with FATF recommendations.
- SBO's underlying objective is to identify the ultimate individual/group of individuals who have control or ownership or significant influence of the company.
- SBO means **every individual** acting either alone or together, or through one or more persons or trust, possesses one or more of the following rights or entitlements in the company (reporting company), namely:
 - Holds indirectly or together with any direct holding at least:
 - 10 percent shares (includes GDR, CCPS, and CCDS) or 10 percent of voting rights in the shares of the reporting company
 - Has right to receive or participate in a financial year in at least 10 percent of:
 - Total distributable dividend
 - Any other distribution, either through indirect holding or together with direct holding
 - Has right to exercise or the actual exercising of "significant influence" or "control" in any manner other than through direct holdings alone
- An individual who does not hold any right or entitlement indirectly [as defined (except right to exercise or actual exercise of indirect significant influence or control)], is not considered as an SBO.



Regulatory landscape

Significant beneficial ownership

- Detailed tests have been laid down to provide for determination of SBO, e.g., body corporate, partnership firm, trust, and pooled investment vehicle.
- Exemptions have been provided for shares held in reporting companies by subsidiaries of the holding reporting company, the government, and investment vehicles regulated by SEBI, RBI, IRDAI, etc.
- On 2 July 2019, MCA deployed e-form BEN-2, which is required to be filed by the reporting company for the disclosure of SBO.



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Changes in FDI conditions in e-commerce

- To provide clarity and strengthen the regulatory framework governing FDI in e-commerce marketplace entities in India and bring a level playing field among online and offline traders, the Government of India has amended the consolidated FDI Policy Circular of 2017 (FDI Policy) in relation to FDI in e-commerce entities by Press Note No. 2 dated 26 December 2018 (PN-2 of 2018), with effect from 1 February 2019.
- In view of the above, RBI has also amended Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2017 (FDI Regulations) in relation to FDI in e-commerce entities with effect from 1 February 2019.

Key highlights of the amendments in FDI Policy according to PN-2 of 2018 and amended FDI Regulations are mentioned below:

- An e-commerce entity providing a marketplace will not exercise ownership or control over the inventory, i.e., goods purported to be sold. Such an ownership or control over the inventory will render the business into an inventory-based model.
- Inventory of a vendor will be deemed to be controlled by the e-commerce marketplace entity if more than 25 percent of purchases of such a vendor are from the marketplace entity or its group companies.
- An entity that has equity participation through e-commerce marketplace entity or its group companies, or has control on its inventory by e-commerce marketplace entity or its group companies, will not be permitted to sell its products on the platform run by such a marketplace entity.
- E-commerce entities providing marketplace cannot directly or indirectly influence the sale price of goods or services and shall maintain a level playing field. Services should be provided by the e-commerce marketplace entity or other entities in which the e-commerce marketplace entity has direct or indirect equity participation or common control, to vendors on the e-commerce platform at an arm's length and in a fair and non-discriminatory manner.
- Cash back provided by group companies of the marketplace entity to buyers shall be fair and non-discriminatory.
- The e-commerce marketplace entity cannot mandate any seller to sell any product exclusively on its platform only.



Regulatory landscape

Revised framework for ECB

- RBI had notified consolidated Foreign Exchange Management (Borrowing and Lending) Regulations, 2018 on 17 December 2018.
- In line with the above revised regulation, RBI had notified a revised framework for ECB and rupee denominated bonds on 16 January 2019 to further improve the ease of doing business.

Key highlights of the revised framework for ECB are mentioned below:

- The new ECB framework has earlier merged Tracks I and II ECB as "foreign currency denominated ECB" (FCY ECB), and the Track III and Rupee Denominated Bonds (RDBs) framework as "rupee denominated ECB" (INR ECB).
- The list of eligible borrowers has been expanded. All entities eligible to receive foreign direct investment can borrow under the ECB framework. Additionally, port trusts, units in SEZ, SIDBI, EXIM Bank, registered entities engaged in micro-finance activities viz., registered not-for-profit companies, registered societies/trusts/cooperatives, and non-government organisations can also borrow under the new ECB framework.

- The recognised lenders under ECB should be resident of FATF or IOSCO compliant country. Multilateral and regional financial institutions, individuals, and foreign branches/subsidiaries of Indian banks can also be lenders, subject to prescribed conditions.
- All in cost ceiling per annum is the benchmark rate plus 450 basis points spread.
- The minimum average maturity period (MAMP) has been kept at three years for all ECBs, irrespective of the amount of borrowing except for borrowers that are specifically permitted for a shorter period.
- All eligible borrowers can now raise ECBs up to USD 750 million or equivalent per financial year under the automatic route.
- Late submission fee was introduced for a delay in prescribed reporting under the ECB framework to obviate the need for compounding these contraventions.



Banning of Unregulated Deposit Schemes Ordinance, 2019

- Banning of Unregulated Deposit Schemes Ordinance, 2019 (UDS Ordinance) was promulgated with effect from 21 February 2019 to:
 - Tackle the menace of illicit deposit taking activities
 - Provide a comprehensive mechanism to ban unregulated deposit schemes
 - Protect the interests of depositors
- UDS Ordinance defines the following two types of deposit schemes:

Unregulated Deposit Scheme (UDS)

It is a scheme or an arrangement under which "deposits" are accepted or solicited by any "deposit taker" by way of business and which is not a "regulated deposit scheme", as specified under UDS Ordinance.

Regulated Deposit Scheme (RDS)

It is a permissible scheme or an arrangement under which "deposits" are accepted or solicited by any "deposit taker" and as specified in UDS Ordinance. Accordingly, any scheme/arrangement that falls within the ambit of "deposit" and is not RDS under the UDS Ordinance, is considered UDS and is banned.

Exemptions

Certain examples of receipts that are not considered "deposits" under the UDS Ordinance are:

- Amount received in the course of, or for the purpose of, business and bearing a genuine connection to such business
- Loan from a bank, public financial institutions, or any NBFC registered with RBI
- Amounts received from foreign governments, foreign body corporate, foreign citizen, etc., as permissible under FEMA
- Capital contributions by partners of any partnership firm or a limited liability partnership
- Loan from relatives by an individual
- Loan from the relatives of partners by a partnership firm

According to UDS Ordinance, UDS is banned and no person shall knowingly make any statement, promise or forecast that is false, deceptive, or misleading in material facts or deliberately conceal any material facts, to induce another person to invest in, or become a member or participant of any UDS.

Law enforcement agencies are given vast powers under the UDS Ordinance to investigate affairs of deposit takers.



Policy Updates

- Policy announcements
- Changes proposed in allied laws



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Securities law

- Investments made by FIIs/FPIs in debt securities issued by Infrastructure Debt Fund – Non-Bank Finance Companies (IDF-NBFCs) to be allowed to be transferred/sold to any domestic investor within the specified lock-in period.
- FPIs will be permitted to subscribe to listed debt securities issued by REITs and InvITs.
- Statutory limit for FPI investment in a company will be increased from 24 percent to sectoral foreign investment limit with an option given to the concerned corporate to specify a lower limit.
- Know Your Customer (KYC) norms for FPIs to be rationalised and streamlined.
- To merge the NRI Portfolio Investment Scheme route with the FPI route to encourage NRI participation in the equity market.

- To deepen the corporate tri-party repo market in corporate debt securities, the Government of India will work with RBI/SEBI regulators to enable stock exchanges to allow 'AA' rated bonds as collaterals.
- User friendliness of trading platforms for corporate bonds will be reviewed, including issues arising out of capping of International Securities Identification Number (ISIN).
- SEBI to consider increasing minimum public shareholding in listed companies from the current threshold of 25 percent to 35 percent.
- The Government to take necessary steps to meet public shareholding norms of 25 percent for all the listed PSUs (presently minimum 10 percent).
- Foreign shareholding limits to be raised to maximum permissible sector limits for all PSU companies, which are a part of Emerging Market Index.



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Securities law

- Social stock exchange to be set-up under the regulatory ambit of SEBI for listing social enterprises and voluntary organisations.
- Interoperability of RBI and SEBI depositories to be put in place for seamless transfer of treasury bills and government securities to encourage retail participation.

FDI

- The Government to examine suggestions of further opening up of FDI in aviation, media - animation, visual effects, gaming and comics (AVGC), and insurance sectors.
- 100 percent FDI to be permitted in insurance intermediaries.
- Local sourcing norms to be eased for FDI in single brand retail trading.

Banking and financial services

- To allow all NBFCs to directly participate on the TReDS platform, suitable amendment will be made to the Factoring Regulation Act, 2011.
- Regulatory authority over the housing finance sector to be shifted from National Housing Bank (NHB) to RBI.
- To allow NBFCs to raise funds in public issues, the requirement of creating Debenture Redemption Reserve (DRR) will be done away with.
- To facilitate on-shoring of international insurance transactions and enable branch openings by foreign reinsurers in the International Financial Services Centre (IFSC), Net Owned Fund (NOF) requirement to be reduced from INR 50 billion to INR 10 billion.



Policy announcements

Others

- Model Tenancy Law to be finalised.
- Proposal to issue Aadhaar Card to NRIs with Indian passports after their arrival in India without waiting for 180 days.
- Regulatory systems of higher education to be reformed comprehensively.
- Proposal to draft legislation for setting up Higher Education Commission of India.
- To streamline multiple labour laws into a set of four labour codes.



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Changes proposed in allied laws

Changes in allied laws will be effective from a date to be notified in the official gazette or from the respective dates specified in the Finance Bill 2019.

RBI Act

- NOF required to carry on the business of NBFC may be increased to prescribed amount of up to INR 1 billion by RBI.
 - Within the above limit, different amounts of NOF may be specified for different categories of NBFCs.
- RBI is empowered to pass an order in public interest or in the interest of financial stability to:
 - Remove directors of NBFCs (other than the Government-owned NBFCs).
 - Supersede board of directors of NBFCs (other than the Government-owned NBFCs) for a period up to five years.
 - Remove/debar the auditor from any RBI-regulated entity for a maximum period of three years if the auditor fails to comply with any direction/order of RBI.
- Frame schemes for amalgamation or reconstruction or splitting of NBFC or setting up of 'Bridge institutions.'^{*}
- A director removed by the RBI order is not entitled to directly or indirectly be concerned with management of any NBFC for a period not exceeding five years, as specified in the order.
- RBI can direct NBFCs to annex to its financial statements or furnish separately, statements and information relating to the business/affairs of any of the group company or cause an inspection/audit of any group company of NBFCs.
- Monetary penalties enhanced substantially.

^{*}'Bridge institutions' means temporary institutional arrangement to preserve the continuity of the NBFC activities that are critical to the functioning of the financial system.



Changes proposed in allied laws

SCRA

- Scope of penalty for failure to furnish information, return, etc., extended to non-furnishing of such information, return, etc., to SEBI.

PSU banks

- The Government may appoint up to five whole-time directors (presently up to four).
- The Government may, after consultation with RBI, post a whole-time director of a PSU bank to any other PSU bank.

Insurance laws

- NOF requirement for foreign company engaged in re-insurance business through a branch established in an IFSC, is reduced from INR 50 billion to INR 10 billion.
- The Government may amalgamate/restructure/consolidate existing four Government-owned general insurance companies in future and reduce the number of such insurance companies below four.

SEBI Act

- Monetary penalty introduced for alteration, destruction, concealment, falsification, damage, unauthorised access, etc., of records (including electronic records) to be submitted under SEBI Act, Rules and Regulations made there under.

NHB Act

- Power to regulate Housing Financial Institutions (HFI) vested in RBI in place of NHB.
- Existing HFIs that have obtained certificate of registration from NHB will not be required to obtain a fresh registration with RBI.
- NOF requirement for registration of a company as HFI enhanced to minimum of INR 100 million or such higher amount as RBI may notify.



Changes proposed in allied laws

Prevention of Money Laundering Act, 2002

- As an enhanced due diligence measure, every 'reporting entity' prior to the commencement of 'specified transaction' will authenticate the identity of the client undertaking transactions and nature of transactions, and such information will be maintained for a period of five years.

Prohibition of Benami Property Transactions Act, 1988

- Various timelines specified under the said Act for attachment of property or releasing the attachment have been extended (effective from 1 September 2019).

Payment and Settlement Systems Act, 2007

- Banks or system providers will not impose any charge upon anyone, either directly or indirectly, for using the electronic modes of payment prescribed under the Income-tax Act, 1961 (effective from 1 November 2019).

Black Money (undisclosed foreign income and assets) and Imposition of tax Act, 2015

The existing provisions of section 2(2) of the Act, inter alia, provides that the 'assessee' means a person who is a resident in India within the meaning of section 6 of the Income-tax Act.

It is proposed to amend section 2(2) of the Act, retrospectively from 1 July 2015, to provide that the 'assessee' will mean:

- A person being a resident in India within the meaning of section 6 of the Income-tax Act, in the previous year, or,
- A person being a non-resident or not ordinarily resident in India within the meaning of section 6(6) of the Income-tax Act, in the previous year, who was resident in India either in the previous year to which the income referred to in section 4 of the Act relates to or in the previous year in which the undisclosed asset located outside India is acquired.
- It is also proposed to insert a proviso to provide that the previous year of acquisition of the asset will be determined without giving effect to the provisions of section 72(c) of the Act.



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- Financial Services
- Technology, Media, and Telecommunications



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Automotive Sector

Increased focus on road infrastructure to help the demand for commercial vehicles, construction equipment, and subsequently component suppliers. New additional special duty on Petrol and Diesel likely to impact demand for next two quarters.

- **Auto Components**
 - Positive for EV component manufacturers.
 - Likely decision by GST council to reduce tax rate on EVs from 12 percent to 5 percent.
 - Customs duty on certain parts of EVs reduced which is likely to boost indigenisation of EV parts.
- **Increased Infrastructure Spending**
 - Increased allocation of INR 100 trillion for infrastructure in next five years.
 - Pradhan Mantri Gram Sadak Yojana Phase 3 envisages upgrade of 1.25 lakh km of road length at an estimated cost of INR 803 billion which will help bridge Rural-Urban divide and improve connectivity between tier 2 and tier 3 cities.
- **Corporate tax** on companies with turnover of up to INR 400 crore slashed to 25 percent from current 30 percent. This is likely to boost MSME companies in auto sector as nearly 75 to 80 percent of the component suppliers come under this category.

- **Initiatives to boost local manufacturing / Make in India**
 - Investment-linked tax benefit under Income Tax act. This will help global companies to set up mega manufacturing plants in sunrise and advanced technology areas such as semiconductor fabrication, solar electric charging infrastructure, lithium storage batteries.
- **Skill Development and Youth Empowerment**
 - Focus on imparting new-age skills in areas like artificial intelligence, Internet of Things, 3-D printing, virtual reality and robotics to equip youth to take up high-paying jobs and develop skill-sets needed abroad.
 - This will enable 10 million youths to take up industry relevant skill training through Pradhan Mantri Kaushal Vikas Yojana and create a large pool of skilled manpower.
- **Boost for Electric Vehicles**
 - Proposed reduction of GST on EVs from 12 percent to 5 percent and additional income tax deduction of INR 1.5 lakh on interest paid on bank loans to boost consumer demand for EVs (especially two, three, and four wheelers).



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Fast Moving Consumer Goods (FMCG)

- Micro, Small and Medium Enterprises (MSMEs) will now be provided with loans up to INR 10 million within 59 minutes through a dedicated online portal.
- Payment platform to be created for MSMEs to enable filing of bills and payment thereon.
- For Single Brand Retail sector with foreign direct investment, it is proposed to ease the local sourcing norms
- Under Interest Subvention Scheme for MSMEs for FY19-20, INR 3,500 million allocated for 2 percent interest subvention for all GST registered MSMEs on fresh or incremental loans.
- Several initiatives proposed to improve the connectivity and logistics through Pradhan Mantri Gram Sadak Yojana, industrial corridors, dedicated freight corridors, Bhartamala and Sagarmala projects, Jal Marg Vikas, and UDAN Schemes which would in turn reduce the cost of transportation and increase the competitiveness of domestically produced goods.
- Every person carrying on business with total turnover exceeding INR 500 million during the preceding financial year will provide facility for accepting payment through the prescribed electronic modes. Failure to adhere will attract penalty

GST rate cuts on items	Erstwhile GST Rate	Proposed GST Rate
Soaps, shampoos, hair oil, toothpastes, perfumes and cosmetics, articles of Sanitary ware, Consumer electronic items goods (including refrigerators, washing machines, vacuum cleaners, juicers, mixers, Televisions, etc.), Food items (including chocolates, waffles, wafers coated with chocolate, custard powder, etc.)	28 percent	18 percent
Drinking water packed in 20 liters bottles, Confectionary, Condensed milk, Pasta, Mayonnaise, Curry paste	18 percent	12 percent
Food items such as chikki, chutney powder, tamarind kernel powder	18 percent	5 percent



Consumer

GST rate cuts on items	Erstwhile GST Rate	Proposed GST Rate
Walnuts, tamarind dried, roasted gram, mangoes sliced dried, khakra, roti, idli, dosa batter, namkeens (other than branded). Dhoopbatti, dhoop and other similar items Ayurvedic, Homeopathy medicines (other than branded) Desiccated coconut	12 percent	5 percent

GST is exempted on khandsari sugar, brooms and brushes, consisting of twigs or other vegetable materials, bound together, with or without handles, de-oiled rice bran, sanitary napkin

Agriculture

- Boost to 'Scheme of Fund for Upgradation and Regeneration of Traditional Industries' (SFURTI) to facilitate cluster-based development with focus on Bamboo, Honey, and Khadi clusters. This will enable these industries to become more productive, profitable, and capable for generating sustained employment opportunities.
- Scheme for 'Promotion of Innovation, Rural Industry and Entrepreneurship' (ASPIRE) consolidated for setting up of Livelihood Business Incubators (LBIs) and Technology Business Incubators (TBIs). The Scheme contemplates to set up 80 Livelihood Business Incubators (LBIs) and 20 Technology Business Incubators (TBIs) in FY19-20 to develop 75,000 skilled entrepreneurs in agro-rural industry sectors.
- Central government will collaborate and work with state governments to allow farmers to benefit from e-NAM.
- Ease of doing business and ease of living will be applied to farmers as well.



Consumer

- Enhanced focus on zero budget farming and replicating the innovative model which are already practiced in few states where farmers are already being trained.
- Substantial investment is proposed in agricultural infrastructure and support to private entrepreneurs in driving value addition to farmers' produce from the field.
- Plan to form 10,000 new Farmer Producer organisations to ensure economies of scale for farmers over the next five years.
- Department of fisheries will establish a robust fisheries management framework as part of the Pradhan Mantri Matsya Sampada Yojana (PMMSY) to address critical gaps in the value chain, including infrastructure, modernisation,, productivity, quality control, etc.

GST rate cuts on items	Erstwhile GST Rate	Proposed GST Rate
Specified parts of specified agricultural, horticultural, forestry, harvesting or threshing machinery, nozzles for drip irrigation or sprinklers, Drip irrigation system including laterals, sprinklers, mechanical sprayer	18 percent	12 percent



Retail

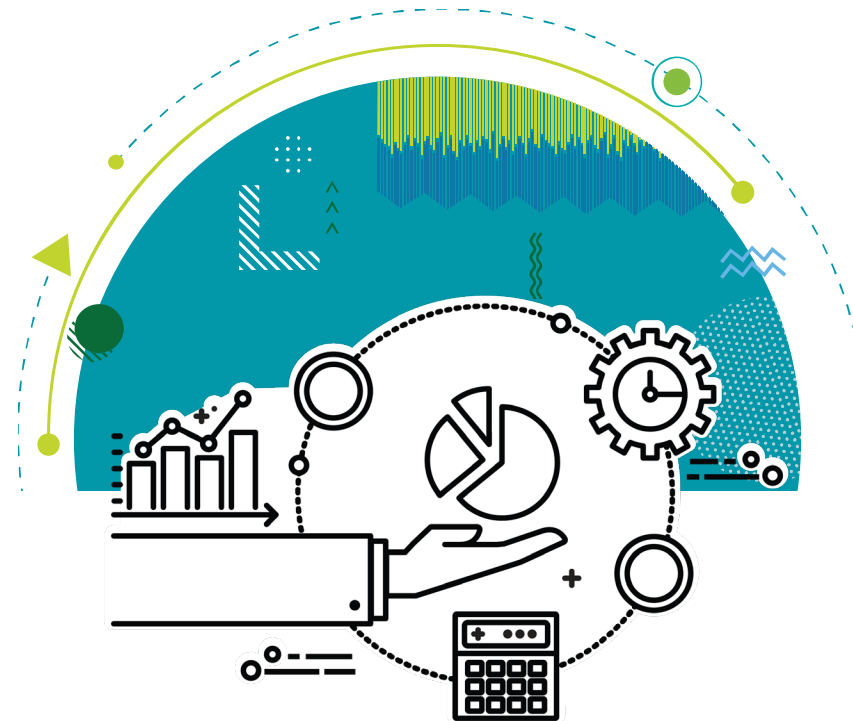
- India stands at third position globally just after china and US in terms of purchasing power parity, and with steady GDP growth rate makes it a hot spot for FDI.
- India is Asia's third largest retail market and the world's fourth largest after the US, China, and Japan.
- Food and grocery accounts for the majority share of the retail market in India followed by apparel and footwear, consumer durables, and IT segments
- Face of Indian retail has witnessed a change due to factors like India's growing internet penetration, rapid increase in number of online shoppers and significant use of smartphones, m-wallets, digital payment methods, UPI link payment.

- **Boost to Foreign Direct Investment**
announcement of rationalising the local sourcing norms in SBRT (Single Brand Retail Trade) can prove to be a game changer and is expected to solve a long standing problem faced by foreign investors.
- **Waiver of MDR charges on cashless payments**
Current move of waiving merchant discount rate (MDR) charges for big establishments having annual turnover of more than INR 500 million is a going to have positive impact and increase the cashless retail segment. This however may burden RBI and banks who have to absorb this additional cost
- **Smart moves**
Inclusion of retail payments using One Nation One Card for seamless mobility will lead to increase in the customer base for Industry.



- **MSME perspective**
While the majority of the retail sector being unorganised, MSME plays a crucial role in the economy. Some of the significant changes suggested are as follows:
 - Requirement of sourcing by the Government enterprises from SMEs increased up to 25 percent, of which, at least 3 percent to be sourced from women-led SMEs
 - 2 percent interest rebate for MSMEs registered under GST for loans up to INR 10 million. INR 3,500 million sanctioned for this scheme.
 - The move to compulsorily accept payments using other digital payment mode by business having turnover of more than INR 500 million, will lead to increased potential customer base, especially with people not having debit and credit cards.
 - Introduction of special pension scheme for retailer traders and small shopkeepers having annual turnover upto 15 million is likely to benefit 300 million businesses.
- **Retail start-ups**; majority of the Indian startups are either in retail or allied sector and current budget is in right direct to support them.

- Retail sector creates major employment for skilled and unskilled employment and with no new job incentives schemes being announced, it had left a deterrent effect on this sector.



Energy, Resources, and Industrials

Infrastructure

- Infrastructure investment of INR 100 trillion over the next five years
- Upgrade 0.125 million kms of road length over the next five years, with an estimated cost of INR 803 billion
- Creation of local infrastructure for rainwater harvesting, groundwater recharge, and household waste water management
- Set up of mega manufacturing plants in sunrise and advanced technology areas such as semi-conductor fabrication, solar photo voltaic cells, lithium storage batteries, solar electric charging infrastructure to boost economic growth
- Investment linked deductions proposed for mega manufacturing plants such as semi conductor fabrication, solar photo voltaic cells, lithium storage batteries, solar electric charging infrastructure
- Innovative instruments—joint development and concession for development of public infrastructure and affordable housing
- Road and infrastructure cess and special additional excise duty have been increased by INR 1 each (aggregate INR 2)

Oil and Gas

- Dispensation to standard gas power projects based on recommendations of the high level empowered committee
- Actual impact of price on petrol and diesel would vary from INR 2.30 to INR 2.90 depending on the State VAT / sales tax rate
- Nominal excise / customs duty of INR 1 per tonne introduced on petroleum crude to safeguard applicability of NCCD
- Option given to pay BCD at 7.5 percent of the transaction value on goods imported without payment of customs duty for petroleum or coal based methane operations, where disposal is made in unserviceable or mutilated condition
- Customs duty on Naphta and specified chemicals reduced in order to boost the indigenous manufacturing



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Energy, Resources, and Industrials

Electric vehicles

- Electric vehicles outlay of INR 100 billion for a period of three years to encourage faster adoption of electric vehicles by way of:
 - Offering upfront incentive on purchase of electric vehicles
 - Customs duty exemption on certain e-vehicle parts and,
 - Establishing the necessary charging infrastructure for electric vehicles
- Additional deduction of INR 0.15 million proposed for individual taxpayers with respect to interest on loans taken to purchase the electric vehicles
- GST council to consider lowering the GST rate on electric vehicles from 12 percent to 5 percent

Space products

- Commercialisation of various space products including production of launch vehicles, transfer to technologies and marketing of space products

Power and utilities

- One Nation, One Grid - Strengthening infrastructure connectivity by linking water grids, regional airports, power grids, industrial hubs, gas grids through various projects resulting in reduced transportation cost and increase in competitiveness
- To give strong impetus to Indian nuclear power production:
 - BCD on specified nuclear fuel fully exempted;
 - BCD on setting up of specified nuclear power projects fully exempted
- All goods for use in generation of nuclear power under tariff 2844 2000 to attract NIL rate of BCD instead of only specified products

Railways

- Use of Public-Private Partnership for faster development and completion of railway tracks, rolling stock manufacturing and delivery of passenger freight services



Energy, Resources, and Industrials

Chemicals

- Reduction in BCD from 2 percent to NIL for ethylene dichloride under tariff 2903 1500
- Reduction in BCD from 7.5 percent to 5 percent for Methyloxirane (Propylene Oxide) under tariff 2910 2000
- Conditional exemption from BCD for specified goods used in manufacture of soap and oleochemicals is now withdrawn
- All reagents to attract BCD at 10 percent instead of only diagnostic reagents
- All goods under tariff 3824 9990 to attract BCD at 7.5 percent
- Retrospective amendments made to rectify classification of stearic acid as per World Customs Organisation in specific notifications

Housing

- Affordable housing - great push by enhanced interest deduction for housing loan
- Additional deduction of INR 0.15 million to be allowed for interest on loan to purchase house property up to INR 4.5 million subject to conditions

Other proposals impacting ER&I industry

- Corporate tax rate for FY19-20 proposed to be reduced to 25 percent (plus surcharge and cess) for domestic companies with turnover not exceeding INR 4,000 millions in FY17-18, providing relief to most of the ER&I companies
- TDS at 2 percent will be applicable on cash withdrawals from bank in excess of INR 10 million in a financial year, impacting the ER&I industry, which is labour intensive
- A scheme of faceless electronic assessment involving no human interface to be launched this year. Scrutiny cases allocated on random basis without disclosing name / designation of assessing officer i.e., all communications via e-mail
- Levy of buyback tax to be applicable on listed companies at 20 percent plus surcharge and cess
- Set off and carry forward of losses in case of eligible start-ups will be available, where the shareholders of such start-up in the year of incurring of loss (during the first seven years of incorporation) continue to hold shares on the last day of the financial year in which the loss is set off
- "Sabka Vishwas Legacy Dispute Resolution Scheme, 2019" announced to settle past disputes of specified duties and taxes subsumed in GST



Budget 2019 proposes a slew of changes for the financial services industry, from a regulatory as well as tax perspective, across various sub-sectors of banking, capital markets, investment management, real estate, and insurance.

Banking and NBFC sector

Regulatory and policy proposals

- An additional bank recapitalization package for PSBs of INR 700 billion has been announced to create liquidity. There are also proposals for improving customer experience, governance, and regulate deposits of cash by persons other than the account holder.
- To encourage funding by PSBs to financially sound NBFCs, the Government proposes to provide a one time six months' partial credit guarantee to PSBs for first loss of up to 10 percent, to enable the purchase of high-rated pooled assets aggregating to INR 1 trillion.
- Separately, RBI is being empowered to exercise greater control and supervision over NBFCs and will take on regulatory oversight over HFCs from NHB.

- NBFCs raising debt from the public will be exempt from the requirement to create a Debenture Redemption Reserve, in line with the exemption for privately placed debt raised by NBFCs.
- Banking groups will keenly track the Government's intention of making India a hub for aircraft financing and leasing activities.

Tax proposals

- Banks, cooperative societies, and post offices will be required to deduct tax of 2 percent on cash withdrawals exceeding INR 10 million during a financial year. This is to discourage cash transactions.
- Banking groups may see increased interest from loan seekers due to income-tax incentives offered in relation to interest paid on loans taken for the purchase of affordable residential housing and electric vehicles.
- Similarly, incentives provided to NPS subscribers will provide an impetus to clients of banking groups to evaluate NPS investments.



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- NBFCs-D and NBFCs-ND-SI will now be able to offer to tax interest income on NPAs on a receipt basis, bringing the treatment of such interest at par with the treatment available to banks. Correspondingly, interest paid to the aforesaid NBFCs will be tax deductible in the hands of the borrower on a payment basis.
- The Government has proposed incentives for resolution of distressed companies such as (i) doing away with the condition of continuity of shareholding in such companies, for carry forward and set off of losses, especially where the BOD of such companies has been suspended by the NCLT and new directors have been appointed by the NCLT on recommendations of the Government; and (ii) allowing such companies to take a tax deduction for the brought forward losses and unabsorbed depreciation while computing their MAT liability.

IFSC and units in IFSC

Tax proposals

- Interest received by a non-resident on monies lent on or after 1 September 2019 to a unit located in the IFSC, will be tax exempt.
- The capital gains tax exemption available to non-residents in relation to transfers on recognised stock exchanges located in IFSCs has been broadened to include securities that the GOI will prescribe. The capital gains tax exemption has also been extended to Category III AIFs which are located in an IFSC and have only non-resident investors; this will ensure tax neutrality to such Category III AIFs which otherwise do not have a pass through status.
- To encourage mutual funds to set up in IFSCs, specified mutual funds will not be subject to the income distribution tax in relation to income derived on or after 1 April 2019 from transactions made on a recognised stock exchange located in any IFSC.
- Tax holiday benefits of 100 percent of income from approved activities, available to units in IFSC, will now run for 10 consecutive financial years (at the taxpayer's choice) in the block of 15 financial years starting from the year in which requisite approvals are obtained. This provision will come into effect from FY20-21.
- The DDT exemption available to units in the IFSC has been extended to dividends distributed from profits accumulated post 1 April 2019 from operations in an IFSC.



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Capital markets

Regulatory and policy proposals

FPI investments

- FPIs will be permitted to sell debt securities issued by IDF-NBFCs to domestic investors within the applicable lock-in period.
- FPIs will be permitted to subscribe to listed debt securities issued by REITs and InvITs.
- The Government proposes to rationalise and streamline the existing KYC norms for FPIs to make it more investor friendly without compromising the integrity of cross-border capital flows.
- The statutory limits for FPI investments in an Indian company is proposed to be raised from 24 percent to the sectoral foreign investment limit, unless the Indian company chooses to restrict it.
- The PIS route available for NRIs will be merged with the FPI route.

Debt markets

- The Government will focus on infrastructure debt financing and put in place an action plan to deepen the long term bonds market including corporate bond repos, credit default swaps, etc.

- For the broader bond markets, the GOI will work on deepening the corporate tri-party repo market by allowing stock exchanges to accept AA rated bonds as collaterals.
- Steps will be taken to encourage retail participation in treasury bills and Government securities by allowing for inter-operability of RBI depositories and SEBI depositories. The GOI also proposes to access external markets in external currencies as part of its gross borrowing program.

Equity markets

- The Government will urge SEBI to consider raising minimum public shareholding in listed companies to 35 percent.
- Liberalisation of FDI in aviation, media (animation, AVGC), insurance, insurance intermediaries, and single brand retail sectors.

Tax proposals

- Buyback distribution tax will now also apply to buybacks by listed companies.



- The exemption that had been provided for interest paid on Masala Bonds where the funds were drawn down between 17 September 2018 and 31 March 2019 is now proposed to be codified in the Income Tax Act
- In the context of options, STT is proposed to be applied only on the difference between the settlement price and the strike price.

Investment management

- The ask of Category III AIF to be a pass-through similar to Categories I and II AIFs was missed once again.
- However, unit holders of Categories I and II AIFs are permitted to utilise losses of AIF as under:
 - Business losses incurred by AIF shall not be passed through to the unit holders;
 - Losses other than business losses to be treated as under:
 - The period of holding of units is less than 12 months, such losses shall not be pass through to the unit holders;

- The period of holding of units is 12 months or more, such losses shall pass through to the unit holders proportionately;
 - The above shall be effective for the financial year ended 31 March 2019 onwards.
- Currently, Venture Capital Fund (inter-alia a part of Category I AIF), is excluded from the applicability of deeming taxation related to the issue of shares at a price higher than the FMV. It is proposed to extend the said exemption to Category II AIF. However, not extending the said exemption to entire Category I AIF seems to be a miss.
- Some further relaxations for the Indian fund managers managing offshore funds have been incorporated. However, the ask of relaxing the condition to make this provision practical has not been addressed.
- The non-residents holding units of Category III AIF set up in an IFSC shall be exempt from taxation on income arising from transfer of specified securities (to be notified).



Real Estate

- The second phase of PMAY-G expects to deliver 19.5 million houses. There is an expectation to amend FDI and foreign debt policies to avail required funding for the sector.
- The following fiscal benefits are offered for housing projects which fulfill the prescribed conditions:
 - The developer can avail a tax exemption on the normal profits;
 - However, corresponding benefit is not provided under the MAT provision and hence, the actual benefit is limited to the difference between the normal taxation and MAT taxation;
 - There seems to be a disconnect in couple of conditions proposed under the budget:
 - The tax holiday applies to projects approved on or after 1 September 2019. The earlier approval period ended on 31 March 2019. There is no clarity on the tax holiday for the projects approved between 1 April 2019 and 31 August 2019
 - The residential unit value is prescribed at the stamp duty value not exceeding INR 4.5 million. There could be a situation where the market value may be higher than the stamp duty value – this can create an anomaly for the tax payer.
- On the other hand, even the end users stand to gain where they can avail tax benefit on interest payment up to INR 0.15 million on loan taken for residential house property subject to fulfilment of conditions.
- Buyers of house property shall be obliged to withhold tax @ 1 percent at the time of purchase of immovable property. The consideration shall be inclusive of miscellaneous payments like club membership fee, car parking fees, electricity and water facility fees, maintenance fees, etc., which are charged by the sellers.



Technology, Media, and Telecommunications

Technology

- Vision involves having digitisation reaching every end of the economy, with focus on making villages and cities better with the aid of technology
- In order to produce entrepreneurs in skilled agro rural sector, the Government has proposed to set up 80 livelihood business incubators and 20 technology business incubators which would in turn also provide impetus to the technology sector
- Focus on emerging new technologies in the form of Artificial Intelligence ('AI'), data science, big data and internet of things would revitalize technology companies
- Government to introduce 'Digital Saksharta Abhiyan' for digital literacy boost
- 'Bharat net' scheme to be introduced for targeting connectivity in all panchayats in the country
- Skill enablement for youth in the areas of big data, robotics and AI.

- Scheme to incentivise E-Vehicles ('EVs') to promote affordable and environmental friendly means of transport
- Government to bring in national travel card covering various modes of transport. This will require centralized system to integrate and manage the data which would facilitate seamless mobility across the nation
- Schemes for promotion of innovation and entrepreneurship to encourage start-ups. TV programme for promoting start-ups, discussing issues affecting their growth, matchmaking with venture capitalists and for funding and tax planning
- Government to move towards a cashless economy and promote digital economy, with businesses to mandatorily provide for payment through electronic modes

Media

- Government to consider relaxing norms for increasing FDI in media and animation sector



Technology, Media, and Telecommunications

Tax update

- Corporate tax rate of 25 percent for FY19-20 for all companies provided the turnover for FY17-18 does not exceed INR 4 billion
 - Anti abuse provisions will not be applicable in case of start-ups who have raised funds through Category II - Alternate Investment Funds. Further, the provisions of Income tax laws that restrict carry forward and set-off of losses in case of change in share holding will not apply to start-ups
 - To encourage investment in start-ups, the conditions to avail exemption from capital gains tax arising from sale of residential house property have been relaxed, in case such proceeds are invested in start-ups
 - Listed companies have been brought within the ambit of buyback tax
- Consequences of non-deduction of taxes on residents, in relation to payments to non-residents relaxed, where taxes have been paid by the non-resident, along with filing of return and obtaining prescribed certificate
 - To discourage cash transactions, withholding tax of 2 percent would be levied on cash withdrawal exceeding INR 10 million in aggregate made during a year from a bank account
 - Penalty on failure to provide facility for electronic modes of payments
 - Faceless tax assessments to be implemented to avoid human intervention, simplify and speed up tax administration and bring greater transparency
 - Tax reporting / filings to be made more user-friendly by converting the process to an online mode



Technology, Media, and Telecommunications

Tax update

- To ensure ease of compliance, it has been proposed to provide inter-changeability of PAN with Aadhaar number
 - For promoting sale of EVs, additional income tax deduction of INR 0.15 million on interest paid on loans for EVs. Further, GST rate reduced from 12 percent to 5 percent
 - As a 'Make in India' initiative to boost indigenous manufacturing, Basic Customs Duty ('BCD') rates increased on specified goods such as CCTV camera from 15 percent to 20 percent and on optical fibres and cables from 10 percent to 15 percent and BCD exemptions withdrawn on capital goods used for manufacture of specified electronic items such as sockets, connectors, switches and relays, water blocking tapes for manufacture of optical fibre cable
 - BCD exemption provided to capital goods required for manufacture of specified electronic items such as populated PCBA, lithium ion cell, set top box, etc., and machines used for manufacture of semi-conductors
- Alignment of HSN classification of specified capital goods to manufacture semiconductors included in ITA agreement with the present HSN transposition
 - To promote digital India, a specified list of suppliers are proposed to be mandated to provide prescribed modes of electronic payment to the recipients of supply. This amendment is directing towards enabling QR based payments to shops and merchants



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Glossary

≈ - Approximate

1Q/2Q - First Quarter/ Second Quarter

A

- AAR - Authority for Advance Rulings
- Act - The Income-tax Act, 1961
- ADR - American Depository Receipt
- AE - Associated Enterprises
- AGM - Annual General Meeting
- AIBP - Accelerated Irrigation Benefits Programme
- AIF - Alternative Investment Fund
- AML - Anti money laundering legislation
- AMT - Alternate Minimum Tax
- AO - Assessing Officer
- AOP - Association of Persons
- APA - Advance Pricing Agreements
- ARE - Alternate Reporting Entity
- AVGC - Animation, Visual effects, Gaming and Comic
- AY - Assessment Year

B

- BBT - Buy Back Tax
- BCD - Basic Customs Duty
- BEPS - Base Erosion and Profit Shifting
- BOD - Board of Directors
- BOE - Bill of Entry
- BOI - Body of Individuals

C

- CAAR - Customs Authority for Advance Ruling
- CAD - Current account deficit
- CAT - Common Admission Test
- CbC - Country-by-Country
- CbCR - Country-by-Country Report
- CBDT - Central Board of Direct Taxes
- CBIC - Central Board of Indirect Taxes & Customs
- CCD - Cumulative Convertible Debenture

- CCPS - Cumulative Convertible Preference Shares
- CCR, 2004 - CENVAT Credit Rules, 2004
- CENVAT - Central Value Added Tax
- CESTAT - Customs Excise Service Tax Appellate Tribunal
- CETA - Central Excise Tariff Act, 1985
- CGT - Central Government
- CIC - Core Investment Company
- CIT - Commissioner of Income Tax
- CIT(A) - Commissioner of Income Tax (Appeals)
- CKD - Completely Knocked Down
- CPSE - Central public sector enterprise
- CSR - Corporate Social Responsibility
- CTA - Covered Tax Agreements
- CTT - Commodity Transaction Tax
- CVD - Counter Vailing Duty



Economic Indicators



Direct Tax



Indirect Taxes



Regulatory Landscape



Policy Updates



Industry Impact



Glossary



Glossary

D

- DAPE - Dependent Agent Permanent Establishment
- DDT - Dividend Distribution Tax
- DGH - Director General of Hydrocarbon
- DIPP - Department of Industrial Policy and Promotion
- DRP - Dispute Resolution Panel
- DRR - Debenture Redemption Reserve
- DTA - Domestic Tariff Area
- DTAA - Double Taxation Avoidance Agreements
- DTC - Direct Tax Code

E

- EC - Health and Education Cess
- ECB - External Commercial Borrowings
- EOU - Export Oriented Units
- EPF - Employees' Provident Fund

- EPFO - Employees' Provident Fund Organisation
- EPFS - Employee Provident Fund Scheme, 1952
- ERI - Energy, Resources and Industrials

F

- FATF - Financial Action Task Force
- FCY ECB - Foreign Currency denominated ECB
- FDI - Foreign Direct Investment
- FDI Regulations 2000 - Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000
- FDI Regulations 2017 - Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2017
- FEMA - The Foreign Exchange Management Act, 1999
- FERA - Foreign Exchange Regulations Act
- FII - Foreign Institutional Investor
- FIPB - Foreign Investment Promotion Board
- FIU - Financial Intelligence Unit
- FMV - Fair Market Value
- FOREX - The Foreign Exchange Management Act, 1999
- FPI - Foreign Portfolio Investor
- FTC - Foreign Tax Credit
- FTCR - Foreign Tax Credit Rules
- FTDR - Foreign Trade (Development and Regulation) Act, 1992
- FTP - Foreign Trade Policy
- FTS - Fees for Technical Services
- FVCI - Foreign Venture Capital Investor
- FY - Financial Year



Glossary

G

- GAAR - General Anti-Avoidance Rules
- GDP - Gross Domestic Product
- GDR - Global Depository Receipt
- GIFT - Gujarat International Finance Tec City
- GOI - Government of India
- GST - Goods and Services Tax
- GSTN - Goods and Services Tax Network
- GTA - Goods Transport Agent
- GTI - Gross Total Income

H

- HC - High Court
- HFC - Housing Finance Company
- HFI - Housing Financial Institutions
- HUF - Hindu Undivided Family

I

- IBC - The Insolvency and Bankruptcy Code, 2016
- ICA - Inter Creditor Agreement
- ICDS - Income Computation and Disclosure Standards
- IDF – NBFCs - Infrastructure Debt Fund – Non-Bank Finance Companies
- IFC - Internal financial controls
- IFSC - International Financial Services Centre
- IGST - Integrated Goods and Services Tax
- Ind AS - Indian Accounting Standards
- INR - Indian Rupees
- INR ECB - Rupee Denominated ECB

- InvIT - Infrastructure Investment Trusts
- InvIT Regulations - SEBI (Infrastructure Investment Trusts) Regulations 2019
- IOSCO - International Organisation of Securities Commissions
- IRDAI - Insurance Regulatory and Development Authority of India
- ISIN - International Securities Identification Number
- IT Rules - Income-tax Rules, 1962
- ITAT - Income Tax Appellate Tribunal
- ITC - Input Tax Credit

K

- Kms - Kilometers
- KYC - Know Your Customer



Glossary

L

- LED - Light Emitting Diode
- LLP - Limited Liability Partnership
- LOB - Limitation of Benefit
- LTCG - Long Term Capital Gains

M

- MAP - Mutual Agreement Procedures
- MAT - Minimum Alternate Tax
- MCA - Ministry of Corporate Affairs
- MCAA - Multilateral Competent Authority Agreement
- MGNREGA - Mahatma Gandhi National Rural Employment Guarantee Act
- MLI - Multilateral Instrument

- MSME - Micro, Small and Medium Enterprise
- MSP - Minimum Support Price
- MT - Metric ton
- MTM - Marked to Market

N

- NABARD - National Bank For Agriculture & Rural Development
- NBFC - Non Banking Financial Company
- NBFC - D - Deposit taking non-banking financial company
- NBFC-ND-SI - Systemically important non-deposit taking non-banking financial company
- NCCD - National Calamity Contingent Duty
- NCLT - National Company Law Tribunal

- NCR - Delhi National Capital Region
- NELP - New Exploration Licensing Policy
- NHB - National Housing Bank
- NOC - No Objection Certificate
- NOF - Net Owned Fund
- NONG - non oil, non gold
- NPA - Non Performing Assets
- NPS - National Pension Scheme
- NR - Non-Resident
- NRE - Non-Resident External
- NRI - Non-Resident Indian
- NTRO - National Technical Research Organisation

O

- OCI - Overseas Citizen of India
- ODI - Outward Direct Investment
- OECD - Organization for Economic Cooperation and Development



Glossary

P

- PAN - Permanent Account Number
- PCBA - Printed circuit board assembly
- PE - Permanent Establishment
- PIS - Portfolio Investment Scheme
- PMAY-G - Pradhan Mantri Awas Yojana – Gramin
- PMLA - Prevention of Money Laundering Act, 2002
- POEM - Place of Effective Management
- PPT - Principal Purpose Test
- PSB - Public Sector Bank
- PSU - Public Sector Undertakings
- PY - Previous Year

Q

- QFI - Qualified Foreign Investor
- QIB - Qualified Institutional Buyers

R

- R&D - Research and Development
- R&I - Road & Infrastructure cess
- RBI - Reserve Bank of India
- RCS - Regional Connectivity Scheme
- RDBs - Rupee Denominated Bonds
- RDS - Regulated Deposit Scheme
- REER - Real effective exchange rate
- REIT - Real Estate Investment Trust

- REIT Regulations - SEBI (Real Estate Investment Trusts)
- RO - Reverse Osmosis
- ROC - Registrar of Companies
- RP - Resolution Plan
- RPT - Related Party Transaction

S

- SAD - Special additional duty
- SAED - Special Additional Excise duty
- SARFAESI - The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
- SAT - Securities Appellate Tribunal
- SBO - Significant beneficial owner



Glossary

S

- SBRT - Single Brand Retail Trading
- SC - Supreme Court
- SCM - Settlement Commission
- SCN - Show cause notice
- SCRA - The Securities Contracts (Regulation) Act, 1956
- SEBI - The Securities and Exchange Board of India
- SEP - Significant Economic Presence
- SEZ - Special Economic Zone
- SFT - Statement of Financial Transactions
- SHEC - Secondary and Higher education cess
- SLM - Straight Line Method
- SLP - Special Leave Petition
- SME - Small and Medium Enterprise
- SPV - Special Purpose Vehicle
- SR - Security Receipts

- STCG - Short-term Capital Gain
- STT - Securities Transaction Tax
- SWS - Social Welfare Surcharge

T

- TA - Tax Authorities
- TAN - Tax Deduction / Collection Account Number
- TCS - Tax Collected at Source
- TDS - Tax Deducted at Source
- TP - Transfer Pricing
- TPO - Transfer Pricing Officer
- TReDS - The Trade Receivable Discounting System
- TRO - Tax Recovery Officer

U

- UDS - Unregulated Deposit Scheme
- USD - United States Dollar

V

- VAT - Value Added Tax
- VCF - Venture Capital Fund
- VO - Valuation Officer

W

- WOS - Wholly Owned Subsidiary





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