

India Interim Budget Statement 2019



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The Finance Bill as introduced in the Parliament may undergo changes before its enactment.

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Foreword

The Finance Minister presented the Interim Budget today pending the general elections in India in May 2019. It was one of the longest interim budget speech highlighting the achievements of the present government and hinting the start of its election campaign. Everyone was bracing for a populist, profligate budget driven by 'election panic', however the ruling government balanced populism and fiscal prudence with measured incentives for both middle class and farmers.

The Finance Minister pegged that the Indian economy grew at 7.2% in 2018-19 as compared to 6.7% in 2017-18. The fiscal deficit was 3.4% in the Budget 2019 although had been budgeted at 3.3% of GDP in Budget 2018, but the Finance Minister promised to bring the deficit down to 3 per cent in the next two financial years. The Finance Minister attributed the slippage in order to provide income support to farmers by way of launch of a historic programme namely "Pradhan Mantri Kisan Samman Nidhi (PM-KISAN)". The programme targets vulnerable landholding farmers having cultivable land upto 2 hectares to be provided direct income support of Rs. 6,000 per year thereby benefitting around 12 crore small and marginal farmer families. The scheme, to be funded entirely by the Central Government, will involve an annual outgo of Rs 75,000 crore.

Making a strong re-election pitch, the government also announced the biggest income tax sops for middle class, including complete exemption for income up to Rs 5 lakh and increase in the standard deduction. The Finance Minister also highlighted its Government's positive reforms in the last 5 years of its tenure such as: Introduction of Insolvency and Bankruptcy Code ('IBC') which has brought about recovery of a sum of Rs. 3 lakh crores from defaulters; Introduction of the Real Estate (Regulation and Development) Act, 2016 to bring transparency in real estate sector and the Fugitive Economic Offender Act, 2018 to help confiscate and dispose off the assets of economic offenders who escape the jurisdiction of the laws in India.

In summary, the Budget 2019 is an interim budget, run up to the General Elections in May 2019 and therefore does not suggest any major amendments but only provides for incentives to woo voters as an prelude to the elections.

February 1, 2019

Team MGB

Direct Taxes

Budget Proposals

DIRECT TAXES

INCOME TAX

Rates of Income Tax

- Individuals (includes HUF, AOP, BOI)

| Taxable Income (Rs) | Tax Rates (%) [*] |
|-------------------------|----------------------------|
| 0 – 2,50,000 # | Nil |
| 2,50,001 – 5,00,000 ^ | 5.20 |
| 5,00,001 – 10,00,000 | 20.80 |
| 10,00,001 – 50,00,000 | 31.20 |
| 50,00,001 – 1,00,00,000 | 34.32 ** |
| > 1,00,00,001 | 35.88 *** |

** includes Health and Education Cess of 4%*

Rs. 3,00,000 for Senior Citizens (60years+) and Rs. 5,00,000 for very Senior Citizens (80years+). Please note that there is no separate basic exemption limit for women

^ Rebate of tax payable or Rs.12,500, whichever is less, for individuals whose total income does not exceed Rs. 5,00,000/-

*** Includes Surcharge of 10% *** Includes Surcharge of 15%*

- Partnership Firms (including LLP)

| Taxable Income (Rs) | Tax Rates (%) [*] |
|---------------------|----------------------------|
| <10,000,000 | 31.20 |
| > 10,000,001 | 34.944** |

** includes Health and Education Cess of 4%*

*** includes Surcharge of 12%*

▪ **Domestic Company**

| Taxable Income (Rs) | Tax Rates (%) * | |
|---------------------------|--|---|
| | Turnover in FY 2017-18 does not exceed Rs 250 Crores | Turnover in FY 2017-18 is more than Rs 250 Crores |
| <1,00,00,000 | 26.00 | 31.20 |
| 1,00,00,001 >10,00,00,000 | 27.82 ** | 33.384 ** |
| > 10,00,00,001 | 29.12 *** | 34.944 *** |

* includes Health and Education Cess of 4%

** includes Surcharge of 7%

*** includes Surcharge of 12%

▪ **Foreign Company**

| Taxable income (Rs) | Tax Rates (%) * |
|---------------------------|-----------------|
| <1,00,00,000 | 41.60 |
| 1,00,00,001 >10,00,00,000 | 42.432 ** |
| > 10,00,00,001 | 43.680 *** |

* includes Health and Education Cess of 4%

** includes Surcharge of 2%

*** includes Surcharge of 5%

▪ **Other Corporate Tax Rates**

| Tax | Tax Rates (%) * |
|---------------------------|-----------------|
| Dividend Distribution Tax | 17.472 \$ |
| Minimum Alternative Tax | |
| <1,00,00,000 | 19.24 |
| 1,00,00,001 >10,00,00,000 | 20.587 ** |
| > 10,00,00,001 | 21.549 *** |

* includes Health and Education Cess of 4%

\$ In case of DDT, the effective rate would be 20.555%, after grossing up

** includes Surcharge of 7%

*** includes Surcharge of 12%

Salaries

Standard deduction from salary income:

- Under the existing provisions, an individual was allowed a standard deduction upto Rs.40,000/- or the amount of salary received, whichever is less. The exemptions in respect of transport allowance and reimbursement of medical expenses were withdrawn.
- It is proposed to increase the standard deduction limit upto Rs.50,000/-.
- The increase in standard deduction by Rs. 10,000/- would mean a saving of Rs. 2,080/- for those with income from Rs. 5 lakhs to Rs. 10 lakhs, a saving of Rs. 3,120/- for those with income from Rs. 10 lakhs to Rs. 50 lakhs and Rs. 3,432/- for those with income above Rs. 50 lakhs. Those with incomes above Rs. 1 crores will save only Rs. 3,588/-. These figures are after considering cess and surcharge.

[Section 16 w.e.f. AY 2020-21]

Rebate of income-tax in case of certain individuals.

- Under the existing provisions, individual taxpayers having total taxable income not exceeding more than Rs.3,50,000/- shall be entitled to rebate of income tax of Rs.2,500/-
- It is proposed to raise the threshold for individual taxpayers having taxable total income from Rs 3,50,000/- to Rs 5,00,000/- and rebate of income tax from Rs.2,500/- to Rs.12,500/-.
- This will lead to a saving of upto Rs. 13,000/- (tax + cess) for all those individuals in this category

[Section 87A w.e.f. AY 2020-21]

The effect of the above amendments for an individual, aged less than 60 years, earning say a salary of Rs. 9,85,000/- would not have to pay any tax as

illustrated hereunder as opposed to paying a tax and cess of Rs. 15,080 prior to the Budget 2019:

| Particulars | Existing | Post Budget |
|--|-------------------|--------------------|
| Income from Salary | | |
| Gross Salary | 9,85,000 | 9,85,000 |
| Less: Standard deduction | (40,000) | (50,000) |
| Net Salary | 9,45,000 | 9,35,000 |
| | | |
| Interest from House Property | | |
| Interest on Housing Loan | (2,00,000) | (2,00,000) |
| | | |
| Gross Taxable Income (A) | 7,45,000 | 7,35,000 |
| | | |
| <u>Deductions under Chapter VIA</u> | | |
| Deduction u/s 80C | (1,50,000) | (1,50,000) |
| Deduction u/s 80CCD (1B) | (50,000) | (50,000) |
| Deduction u/s 80D | (25,000) | (25,000) |
| Deduction u/s 80TTA | (10,000) | (10,000) |
| Total Deductions (B) | (2,35,000) | (2,35,000) |
| | | |
| Net Taxable Income (C) = (A) – (B) | 5,10,000 | 5,00,000 |
| | | |
| Income Tax as per slab rate | 14,500 | 12,500 |
| Less: Rebate U/s 87A | - | 12,500 |
| Total tax payable after rebate | 14,500 | - |
| | | |
| Surcharge @10%/15% | - | - |
| Total tax payable after surcharge | 14,500 | - |
| Education Cess @4% | 580 | - |
| | | |
| Total tax, Surcharge and Education cess | 15,080 | |
| | | |
| Total Saving | | (15,080) |

Therefore, the individual earning a salary of Rs. 9,85,000 can get a benefit of tax in the form of saving of Rs. 15,080/-.

Income from House Property

Income-tax on notional rent from self-occupied properties

- Under the existing provisions, an assessee owning 2 or more self-occupied could claim exemption from tax on any one self-occupied properties but had to pay income-tax on notional rent calculated under the Act on other self-occupied properties
- It is proposed that an assessee can now claim exemption to the extent of two self-occupied properties
- However, ceiling limit of deduction of Rs. 2 lakhs allowable for interest payable on borrowed capital under the head Income from House Property for such self-occupied properties shall continue to apply as aggregate deduction for both the self-occupied houses.

Income-tax on properties lying vacant as stock in trade

- Under the existing provision, the notional rent in respect of unsold inventory shall not be charged to tax upto one year from the end of the financial year in which the certificate of completion is obtained from the competent authority.
- It is proposed to extend exemption from income-tax on notional rent to two years from the end of the financial year in which the certificate of completion is obtained from competent authority

[Section 23, 24w.e.f. AY 2020-21]

Capital Gains

- Under existing regime of Section 54, an assessee could claim exemption of the amount of capital gain arising on transfer of long term capital asset being building or land appurtenant thereto or being a residential house to the extent

of cost of purchase or construction of one residential house in India bears to the total sale consideration.

- It is proposed that where the amount of the capital gain does not exceed Rs. 2 Crores, the assessee may at his option, purchase or construct two residential houses in India.
- However, where the assessee has exercised the above option, he shall not be subsequently entitled to exercise the option for the same or any other assessment year. In simple terms this benefit can be availed once in a life time.

[Section 54 w.e.f. AY 2020-21]

Deductions/Exemptions

Deductions in respect of profits and gains from housing projects approved on or before 31 March 2020

- Under the existing provisions, 100% of profits and gains derived from business of developing and building housing projects is allowed as deduction in respect of projects which are approved by competent authority on or before 31 March, 2019.
- In order to augment the supply of affordable houses, it is proposed to extend the time limit from 31 March, 2019 to 31 March, 2020 for obtaining approval of the housing project from competent authority for availing deduction.

[Section 80-IBA w.e.f. AY 2020-21]

Tax deduction at source

Interest other than "Interest on securities"

- It is proposed to raise the threshold for deduction of tax at source on interest earned on bank/post deposits from Rs 10,000/- to Rs 40,000/-.

[Section 194A w.e.f. AY 2020-21]

Rent

- It is proposed to raise the threshold for deduction of tax at source on rent from Rs 1,80,000/- to Rs 2,40,000/-.

[Section 194-I w.e.f. AY 2020-21]

Indirect Taxes

Budget Proposals

INDIRECT TAXES

- In the finance bill, no proposals are made to amend Customs or Central GST / Integrated GST Act.
- However, provisions of GST Amendment Act, 2018 has been brought in to effect w.e.f. 1-Feb-2019. Resultantly, many changes became effective from the said date.

GST AMENDMENT ACT, 2018

- Concept of business verticals has been omitted. Now, it is allowed for a person to take multiple registrations within the same state or union territory for different place of businesses without identifying any separate business verticals.
- The threshold limit of registration (which was Rs. 10 lakhs earlier) in the special category states of Assam, Arunachal Pradesh, Himachal Pradesh, Meghalaya, Sikkim and Uttarakhand has been enhanced to Rs. 20 lakhs now.

It has also been proposed by the GST Council that said limit of Rs. 20 lakhs in all the states to be further enhanced to Rs. 40 lakhs.

- Sec. 9 (4) i.e. Reverse Charge mechanism on supplies received from unregistered persons has been substituted. Now, reverse charge mechanism will be applicable only on class of registered persons to be specified by Government only when they will receive supplies of certain specified category of goods or services from an unregistered person.
- For those opting for Composition scheme (i.e. for small scale assesses), the Government may by way of Notification increase the limit of aggregate turnover to 1.50 Crores Earlier, it was applicable till turnover of Rs. 1 Crore only.
- Earlier the option to opt for Composition scheme was applicable for persons who are suppliers of goods only (except for Catering & restaurants service). Now, even those persons supplying services can opt under composition levy provided the value of services does not exceed 10% of turnover in preceding financial year or Rs.5 lakhs, whichever is higher.

- An explanation for the meaning of exempt supply with respect to apportionment of credits & blocked credits is inserted. Now, exempt supplies shall not include any activities or transactions specified in Schedule III (i.e. Salaries, Funeral Services, Actionable Claims & other supplies). However, sale of land & sale of building (where entire consideration has been received after issuance of Completion Certificate and in re-sale cases), continue to be covered under exempt supplies.
- Sec. 17 (5) which contains list of ineligible ITC has been amended. The list now provides the following –
 - (a) ITC on motor vehicles for transportation of persons having approved seating capacity of 13 or less persons (including driver) shall not be allowed except when such vehicles are used for making further supply of motor vehicles, transportation of passengers and imparting training & driving on such motor vehicles. Due to this amendment, ITC on goods vehicle or on buses can be taken. Similarly, ITC can be taken of GST paid on hiring / renting of buses, goods vehicles etc.
 - (b) ITC on Vessels & aircraft is also restricted except when used for transport of passengers / goods or for training.
 - (c) ITC on Services of General insurance, servicing, repair and maintenance in relation to motor vehicles, aircraft or vessels mentioned above shall be ineligible.
- By inserting Sec. 49A, it has been provided that ITC of IGST will have to be utilized in full, first. Thereafter, ITC of CGST / SGST can be used for payment of output taxes.
- Hitherto, no maximum monetary limits have been prescribed for pre-deposit i.e. it has been provided that 10% & 20% of tax amount confirmed in an order will have to be pre-deposited before filing the first & second appeal respectively. Now, for filing the first appeal, pre-deposit is capped at Rs. 50 Crores and for second appeal, pre-deposit is capped at Rs. 100 Crores.
- Under IGST Act, place of supply provisions have been amended to provide that where goods have been imported into India temporarily either for repair or processes, after which the goods would be exported without being put to use in India, shall be treated as export of services (provided foreign exchange is

received). Earlier, in such cases, repair charges or job work charges on imported goods was chargeable to GST.

- Schedule III of the CGST Act 2017 regarding activities and transactions that are regarded neither as supply of goods or services has been amended to include following clauses -
 - (a) Supply of goods from a place in the non-taxable territory to another place in the non-taxable territory without such goods entering into India i.e. merchant trade transactions shall not be chargeable to GST.
 - (b) Supply of imported goods deposited in warehouse, to any person before clearance for home consumption, shall not be charged to GST.
 - (c) Supply of goods by the consignee to any other person, by endorsement of documents of title to the goods, after the goods have been dispatched from the port of origin located outside India but before clearance for home consumption i.e. high sea sales shall not be charged to GST.

CENTRAL / STATE GST RULES

- **In Rule 21A**, it is provided that when a registered person has applied for cancellation of registration, the registration shall remain temporarily suspended while the cancellation of registration is under process. During this temporary suspension, the registered person will not be allowed to issue any tax invoices during that period or file returns.
- **In Rule 41A**, it has been provided that transfer of credit on obtaining separate registration for multiple places of business within a State or Union territory can be made within 30 days from obtaining such registrations by filing Form ITC-02 electronically on the common portal. The transferee shall accept this unutilized ITC in Form ITC-02.
- Notification No. 7 / 2019 has extended the due date for furnishing returns in Form GSTR -7 (TDS) from 31 Jan 2019 to 28 Feb 2019.

Budget Announcements

Overview of the Economy

- India is the fastest growing major economy in the world from being the 11th largest economy in the world in 2013-14, to 6th largest in the world.
- The average rate of inflation during 2009-2014 was a backbreaking 10.1%, which was brought down to 2.19% in December 2018.
- The fiscal deficit has been brought down to 3.4% in 2018-19 as compared to 6% seven years ago. Further the current account deficit (CAD) is likely to be 2.5% of the GDP of current year against 5.6% six years ago.
- Foreign Direct Investment (FDI) increased to \$239 billion in last five years. Witnessing a rapid liberalization of the FDI policy.

Banking Reforms and Insolvency and Bankruptcy Code (IBC)

- Out of non-performing assets (NPAs) amounting of 5.4 lakh crore in 2014 of which 3 lakh crores has been recovered in favour of banks and creditors.
- To restore the health of public sector banks, recapitalization has been done with an investment of Rs. 2.6 lakh crore.

Steps against corruption

- The Real Estate (Regulation and Development) Act, 2016 (RERA) and Benami Transaction (Prohibition) Act, 1988 are introduced to bring transparency in the real estate sector.
- The Fugitive Economic Offenders Act, 2018 was introduced to confiscate and dispose off the assets of economic offenders who escape the jurisdiction of the laws in India.

Cleanliness

- Achieved 98% rural sanitation coverage and as many as 5.45 lakh villages have been declared "Open Defecation Free."

Poor and backward classes

- Maintaining the existing reservation for SC/ST/Other Backward Classes, additional 10% reservation is ensured in educational institutions and Government services for poors, resulting in 25% extra seats.(approximately 2 lakhs)
- Under the Pradhan Mantri Gram Sadak Yojana, construction of rural roads has been tripled.
- Healthcare Programme named “Ayushman Bharat”, was introduced to provide medical treatment to nearly 50 crore people. Already close to 10 lakh patients have benefited through free treatment made available under the scheme which would have otherwise cost them Rs 3,000 crore.

Farmer's progress and Increase in Income

- Minimum support price (MSP) of all 22 crops declared at minimum 50% more than the cost.
- Programme namely “Pradhan Mantri Kisan Samman Nidhi (PM-KISAN)” is launched which will provide income support at the rate of Rs 6000 per year to the farmers having cultivable land up to to 2 hectares. The Programme would be made effective from 1st December 2018 and the first instalment for the period up to 31st March 2019 would be paid during this year itself. This programme will entail an annual expenditure of 75,000 crore.
- Benefit of 2% interest subvention has been provided to the farmers pursuing the activities of animal husbandry and fisheries, who avail loan through Kisan Credit Card.

Labour and Workers Dignity

- The New Pension Scheme (NPS) has been liberalized keeping the contribution of the employee at 10%, and increasing Government contribution by 4%, making it 14%.
- Ceiling limit of the bonus given to the laborers has been increased from Rs 3,500 pm to Rs 7,000 pm and the maximum ceiling of the pay has been increased from Rs 10,000 pm to Rs 21,000 pm.

- The ceiling of payment of gratuity has been enhanced from Rs 10 lakhs to Rs. 20 lakhs.
- The ceiling of ESI's eligibility cover has been increased from Rs 15,000 pm to Rs. 21,000 pm.
- Minimum pension for every laborer has been fixed at Rs. 1,000 per month.
- In the event of death of a laborer during service, the amount to be paid by EPFO has been enhanced from Rs. 2.5 lakh to Rs. 6 lakh.

Women's development to women led development

- Out of planned 8 crore free LPG connections under the Ujjwala Yojana, more than 6 crore connections have already been provided.

Empowering Youth to fulfil their potential

- Schemes named MUDRA, Start-up India and Stand-up India are introduced. Under MUDRA Yojana Rs. 15.56 crore loans have been disbursed amounting to Rs 7,23,000 crore.
- National Programme on 'Artificial Intelligence' has been envisaged in order to take the benefits of Artificial Intelligence and related technologies to the people

Infrastructure

- The Government is planning to introduce container cargo movement to the North East as well.
- The International Solar Alliance was set up which is the first treaty based international inter-governmental organization headquartered in India. India's installed solar generation capacity has grown over ten times in last five years.

Digital India

- More than 3 lakh Common Service Centers (CSCs) employing about 12 lakh people, are digitally delivering several services to the citizens.
- In the last five years, nearly 34 crore Jan Dhan bank accounts were opened. Aadhaar is now near universally implemented.

Entertainment

- Single window clearance for ease of shooting films, which was available only to foreigners, is now going to be made available to Indian filmmakers as well.
- The government will also introduce anti-camcording provisions in the Cinematograph Act to control the menace of piracy.

Simplification of Direct Tax System

- The government has approved a technology-intensive project wherein all returns will be processed in 24 hours and refunds issued simultaneously.

GST Reforms

- The GST returns are fully online and e-way bill system is in place.
- The GST rates have been continuously reduced providing relief of about Rs 80,000 crore annually to consumers.

Customs

- The Government has abolished duties on 36 capital goods.

Black Money

- The anti-black money measures taken by the government have brought undisclosed income of about Rs 1,30,000 crore to tax.
- Benami assets worth Rs 6,900 crore and foreign assets worth Rs 1,600 crore have been attached. As many as 3,38,000 shell companies have been detected and de-registered, and their directors disqualified.