

RESOURCE PAPER - 23



INDO-JAPAN CHAMBER OF COMMERCE & INDUSTRY

Interim Budget 2019-20
Looking Beyond Corporates

by
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PREFACE

The IJCCI bimonthly Resource Paper focuses on various current / important topics concerning education, culture and economics of Japan and India. This time we attempt to highlight the Interim Budget 2019 of the Republic of India.

India, the 7th largest country by area, over 1.3 billion population - the second most populous country and a fast growing economic power; the Union Government presents the budget on the first day of February so that it could be materialized before the commencement of new financial year in April. This year the General Elections are going to be conducted in April-May and the interim budget presented by Shri Narendra Modi Government assumes significance, the last budget before facing the 17th Lok Sabha elections. Several revolutionary initiatives were taken by the BJP government during the five year tenure, the party is now getting geared up to face the elections. A candid picture of the interim budget is being presented for our counterparts in India and Japan.

The Resource material comes from Mr. Sridhar and Ms. Ankita. Mr. Sridhar is a qualified Company Secretary and Lawyer with over 20 years post qualification experience in tax and regulatory matters. He is a tax partner in Grant Thornton LLP where he is responsible for the tax practice of Chennai and Kochi offices. He is also responsible for the Transaction Tax practice of the firm for South India. Ms. Ankita is a Chartered Accountant with about 2 years experience. She is a senior consultant with Walker Chandiook & Co. LLP and specialises in income tax and corporate reorganisations. We hope the readers would find the resource paper informative.

February 2019

Suguna Ramamoorthy
Secretary General

Interim Budget 2019-20 Looking Beyond Corporates

Ahead of Polls, Union Finance Minister Mr. Piyush Goyal presented the much awaited interim union budget. Interim Budget is a transitory measure, which occurs in the run-up to every general election, by the ruling government and the task of framing the full Budget is left to the incoming government. In the last year of its tenure, the government usually presents an interim budget where it seeks a vote from the Parliament for incurring expenditure in the new fiscal year and to draw money from the Consolidated Fund of India till the Lok Sabha elections are over. However, the incoming government has full freedom to change the estimates completely when the final Budget is presented. Interim budgets in India, offer a platform to the outgoing administration an opportunity to pacify voters ahead of the elections. In the past, incumbents have adopted populist policies in a prudent pace as their motto. Interim Budget 2019-20 is no different. Aspiring to become a ten trillion-dollar economy in the forthcoming decade, the interim budget laid out the ten most

importunate dimensions forming the pillar for the government's vision for a modern, technology driven, high growth, equitable and transparent India 2030.

Aiming towards an India where poverty, malnutrition, littering and illiteracy would be a matter of the past, the first dimension of the vision is to build physical as well as social infrastructure for a ten Trillion Dollar economy and to provide ease of living by providing next generation infrastructure of roads, railways, seaports, airports, urban transport, gas and electric transmission and inland waterways. The second is to create a "Digital India" that reached every sector of the economy and every citizen of the country facilitating creation of millions of jobs in this digital ecosystem.

A Clean and Green India which will lead the world in the transport revolution through electric vehicles and energy storage devices, bringing down import dependence and ensuring energy security for the citizens of the country was the third dimension. Taking the "make in India" approach for expanding rural industrialisation using modern digital technologies to generate massive employment is the Fourth Dimension. Clean Rivers, with safe drinking water to all Indians, sustaining and nourishing life and efficient use of water in irrigation using micro-irrigation techniques was touted as the Fifth Dimension in the Budget speech.

Efforts towards Oceans and coastlines is the sixth dimension and the seventh dimension is to make India a launch-pad of the world by placing an Indian astronaut in space by 2022. The eighth dimension is to achieve self-sufficiency in food and improving

agricultural productivity with emphasis on organic food and the ninth dimension is a healthy India aiming at healthy society with an environment of health assurance and the support of necessary health infrastructure. Transforming India into a “Minimum Government Maximum Governance” nation was stated as the tenth dimension.

Allocating significant outlay on the agricultural sector, the budget also focussed on infrastructure allocating INR 19,000 crore for Pradhan Mantri Gram Sadak Yojana (PMGSY), INR 64,587 crore capital support for railways and INR 58,166 crore for North-eastern areas. Proposal to introduce container cargo movement to the northeast by improving the navigation capacity of the Brahmaputra river was made in the Budget 2019 speech.

For securing the borders and to maintain preparedness of the highest order, the Country's highest ever Defence Budget was announced which will be crossing INR 3,00,000 crore for the first time in 2019-20. Acknowledging the major concern of India's import dependence on crude oil and natural gas the budget speech highlighted a number of measures to moderate the increasing demand through usage of bio fuel and alternate technologies and recognised the need for urgent action to be taken to increase hydrocarbon production to reduce imports. A high level Inter-Ministerial Committee, constituted by the Government, has made several specific recommendations, including transforming the system of bidding for exploration, changing from revenue sharing to exploration programme for

Category II and III basins. The Government is in the process of implementing these recommendations.

Looping in the concerns of the Entertainment industry, the budget recognized Entertainment industry as a major employment generator. To promote entertainment industry - Single window clearance for ease of shooting films, available earlier only to foreigners, is now going to be made available to Indian filmmakers as well. Regulatory provisions will rely more on self-declaration. The Budget also mentioned the intent to introduce anti-camcording provisions in the Cinematograph Act to control the menace of piracy.

While there are no changes proposed that would influence the global investors in India or the multinational companies in India, the flavour of the now Parliament approved Budget tendered to the common man of the country fitting in several populist policies, key socio-economic policy announcements, boon of tax benefits, women empowerment and much more. Following are the other key amendments highlighted :

Relief to Farmers

Income support programme:

Budget 2019 emphasised predominantly on agricultural reforms. Farmers emerged as the winners of the Budget owing to the income support program under the Pradhan Mantri Kisan Samman Nidhi (PMKISAN) scheme, benefitting around 12 crore small and marginal farmers having cultivable land upto 2 hectares, through a guaranteed income of INR 6,000 per year.

However, rural labourers who toil on farms but don't actually own any land will not benefit from the government's historic programme for farmers.

Interest subvention:

Interest subvention to farmers engaged in animal husbandry and fishery-related activities, on availing loans through Kisan Credit Card and to farmers affected by natural calamities was announced.

The Interim Budget laid high focus on the agriculture sector allocating INR 60,000 crore outlay for Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA). Set up of a separate department of fisheries and launch of Rashtriya Kamdhenu Ayog, an institute for sustainable genetic up-gradation of the cow resources was proposed.

Also, Government e-Marketplace (GeM) is now being extended to all central public sector enterprises (CPSEs).

Key Proposals on Duties and Taxes

The Budget speech highlighted that the Income Tax Department now functions online. Returns, assessments, refunds and queries are all undertaken online. The Government has now approved a path breaking, technology intensive project to transform the Income-tax Department into a more assessee friendly one. All returns will be processed in twenty-four hours and refunds issued simultaneously. Within the next two years, almost all verification and assessment of returns selected for scrutiny will be done electronically through anonymised back office, manned by tax

experts and officials, without any personal interface between taxpayers and tax officers.

Increase in Rebate:

At the Individual taxpayers' front, although there has been no change in the slab tax rates, surcharge or cess, taxpayers in the lower income group have been presented with the benefit of higher rebate. The maximum amount of tax rebate under section 87A of the Income Tax Act has been proposed an upward movement to INR 12,500 from the prevailing INR 2,500. This proposed tax rebate shall be allowable to taxpayers having total income up to INR 5 lakh instead of the existing INR 3.5 lakh. Individual taxpayers having taxable annual income up to INR 5 lakhs will get full tax rebate and therefore will not be required to pay any income tax. As a result, even persons having gross income up to INR 6.50 lakhs may not be required to pay any income tax if they make investments in provident funds, specified savings, insurance and other such tax saving investments. In fact, with additional deductions such as interest on home loan up to INR 2 lakh, interest on education loans, National Pension Scheme contributions, medical insurance, medical expenditure on senior citizens and similar other deductions, persons having even higher income will not have to pay any tax.

Higher standard deduction limit:

In a move that offers to bring more tax benefits for the salaries

class, it is proposed to hike the standard deduction limit. The benefit of standard deduction from salary of INR 40,000, introduced in Budget 2018 in lieu of medical reimbursement and transport allowance, has now been proposed to an increased amount of INR 50,000.

Increased TDS threshold limits:

Offering some breathing room to landlords, Budget 2019 has increased the threshold for Tax Deducted at Source (TDS) on rent paid from INR 1,80,000 to INR 2,40,000. Benefitting small depositors, TDS threshold on interest earned on bank and post office deposits is being raised from INR 10,000 to INR 40,000. This, however, does not make the interest exempt from tax.

Capital Gain Benefits:

Benefiting those with two houses, tax on deemed rent from second vacant house has been abolished by Budget 2019, proposing to extend the benefit of self-occupied property to two houses, if it is not let out. Any long-term capital gain (LTCG), arising to an individual or a Hindu Undivided Family (HUF), from the sale of residential house property is exempted to the extent such capital gain is invested in another residential house property. Currently, the benefit of rollover of capital gains under section 54 of the Income Tax Act is available only for the investment made in one residential house in India. Budget 2019 proposed a once in a lifetime opportunity of availing this benefit of rollover of capital gains towards two houses, extending the

exemption for investment made by way of purchase or construction in two residential houses, provided the amount of capital gains does not exceed INR two crore.

Stamp Duty:In addition to the above tax proposal, the interim budget 2019-20 has steered in a paradigm change in how stamp duty is levied on transactions involving financial instruments such as equity shares and derivatives. Currently stamp duty rates on such financial transactions are determined by each state with as many as 20 different rates levied across the country. The Budget has now proposed that the Stamp duty would be levied at a single point through the stock exchange mechanism and thereafter it would be shared with the particular State based on the buyer's domicile. The government's proposal of levying stamp duty on one instrument relating to one transaction and new model for collection of stamp duty has been touted as a welcome move.

Small Businesses and Real Estate

Addressing the interests of the MSME sector (Micro, Small and Medium Enterprises), post challenges faced by the sector during demonetisation and GST advent, the Budget 2019 laid out key pillars to helping the small businesses. The requirement of sourcing from SMEs by Government enterprises is now increased by 25%. Of this, the material to the extent of at least 3% will be sourced from women-owned SMEs. GST registered SMEs will get 2% interest subvention on fresh or incremental loans of INR 1 Crore.

In a bid to promote Artificial Intelligence and related technologies in businesses across India, a National Programme on 'Artificial Intelligence' has been envisaged through a new centre to aid start-ups with advanced Artificial Intelligence. This would be catalysed by the establishment of the National Centre on Artificial Intelligence as a hub along with Centres of Excellence. Nine priority areas have been identified. Aiming towards a prompt empowerment of youth of the country to fulfil their potential, it has been planned to begin development on a National Artificial Intelligence portal soon.

The real estate industry grappling with many difficulties, has been a clear winner of the interim Budget. In addition to the benefit of roll over of capital gain, scrapping of notional rent for second vacant house and increase in TDS threshold limits, benefits have been accorded under the affordable housing scheme. Where the gross total income of an assessee includes any profits and gains derived from the business of developing and building housing projects, a deduction of an amount equal to hundred per cent of the profits and gains derived from such business was allowed under Section 80-IBA of the Income Tax Act. For making more homes available under affordable housing, this benefit under Section 80-IBA of the Income Tax Act is now being extended for one more year, i.e. to the housing projects approved till 31st March, 2020.

For giving motivation to the real estate sector, Budget 2019 also offered to extend the period of exemption from levy of tax

on notional rent, on unsold inventories, from one year to two years, from the end of the year in which the project is completed.

Unorganised Sector

Aiming towards wooing the social sector, a mega pension scheme, being touted as the world's largest pension scheme, namely 'Pradhan Mantri Shram - Yogi Maandhan' had been proposed in the Budget 2019 for the unorganised sector workers with monthly income upto INR 15,000. This pension yojana aims to provide tax relief for India's squeezed middle-class through an assured monthly pension of INR 3,000 from the age of 60 years on a monthly contribution of a small affordable amount during their working age. An unorganised sector worker joining pension yojana at the age of 29 years will have to contribute only INR 100 per month till the age of 60 years. A worker joining the pension yojana at 18 years, will have to contribute as little as INR 55 per month. The Government will deposit equal matching share in the pension account of the worker every month. Aiming to provide additional social security to the major participant of India's total workforce, it is expected that at least 10 crore labourers and workers in the unorganised sector will avail the benefit of 'Pradhan Mantri Shram - Yogi Maandhan' within next five years. The government has earmarked a sum of INR 500 crore for the benefit of this scheme and has promised additional funds as per necessity. The scheme shall be implemented from the current year.

Another major announcement was the setting-up of a committee, under NITI Aayog, to identify the De-notified, Nomadic and Semi-Nomadic communities (DNT/ NT/ SNT) that have not yet been formally classified as SC, ST or OBC. Meriting special attention to this community, setting up of a Welfare Development Board under the Ministry of Social Justice and Empowerment specifically for the purpose of implementing welfare and development programmes for De-notified, Nomadic and Semi-Nomadic communities has been specified in the Budget speech. The Board shall ensure that special strategies are designed and implemented to serve these hard-to-reach communities.

In conclusion, the Interim Union Budget for FY 19-20, focuses on the middle class, rural sector, millions of employees in the unorganized sector and on enhancing farmers' income, proposes on giving huge resources in the hands of these sectors thus driving increased consumption and all round growth. It discreetly implies a second tenure for the incumbent government, given the thrust on populist policies and reiterating the pro-growth agenda. It is likely that decisions / policies of previous governments would not get reversed in entirety. It's speculative to guess in the event that the incumbent party does not get majority or form the government whether the intent of this interim budget will be adopted fully or modified.





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