ACQUISORY

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BUDGET

– 2020

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Infrastructure Prioritized

- 100 new airports in UDAAN scheme
- 2,500 km strategic highways to be constructed
- 150 trains under PPP
- 1.03 lac crore infra pipeline

Affordable Housing incentivized

- Tax holiday extension for developers by 1 year
- Scheme of availing Deduction on loan interests extended for loans taken till March 31, 2021 for affordable housing

Encourage Investments

- Huge Tax exemptions to Sovereign Funds
- DDT Abolished
- Additional funds to be available with corporates
- Could lead to more FPI flows

Encourage Start – ups & MSMEs

- Tax on ESOPs deferred
- Invoice financing from NBFCs
- Threshold for mandatory audit increased to ₹100 crore turnover

New Personal Taxes Regime

- New Tax regime
- Rates divided into smaller slabs
- New rates if payers forego exemptions and deductions
- Benefit and quantification is to be clarified yet

Encourage Export Promotion

- Introduction of NIRVIK for higher disbursal
- NIRVIK to provide higher insurance coverage at lower premium

Digital Economy Push

- Government e-Market to boost MSMEs sales
- Faceless appeals in IT dept
- Prefilling of data in income tax returns

Ambitious Disinvestment Targeted

Government to sell its stake in:

- LIC through IPO
- Sets ₹2.1 lac crores target for FY 20-21

The Finance Minister tabled the ***Union Budget*** on Feb 01, 2020. Considering the need to boost consumption and flagging growth, expectations on the FM were high this time. The Government however, had little maneuverability due to tight fiscal conditions. Given the constraints, the government made an attempt to cater to the needs of all sections of society and at the same time provide fiscal stimulus to key social sectors in the budget. The intended effect is too early to evaluate fully. A summary of the key observations are presented below:

A. Infrastructure Sector to be key

- ✓ In a major boost to its Udaan scheme, 100 more airports to facilitate connectivity to remote locations.
- ✓ The government announced a National Infrastructure Pipeline project of ₹103 lakhs crores and will release a National Logistic Policy soon, besides accelerating strategic highway construction of around 2,500 kms.
- ✓ 4 large station development projects and 150 trains under PPP announced
- ✓ ₹22,000 crore have been allocated for equity to fund certain specified infrastructure finance companies (IIFCL and a subsidiary of NIIF, who can leverage it and provide much needed long-term finance to Infrastructure sector).

B. Affordable Housing Push – exemption schemes extended

In an effort to boost affordable housing sector and provision for "housing for all",

- ✓ The scheme for additional deduction of up to ₹1.5 lakh for interest paid on loans taken for affordable housing has been extended till 31.03.2021.
- ✓ Tax holiday period on profits earned by developers is also proposed to be extended to 31.03.2021.

C. Start – Ups and MSMEs to be encouraged

- ✓ In a step to facilitate "ease – of – doing – business" and reduce the compliance burden of the MSMEs, the turnover threshold for compulsory audit has been increased from ₹1 crore to ₹5 crores. This revision in limit is applicable to only those entities which carry out less than 5% of their business transactions in cash.
- ✓ NBFCs to extend Invoice financing to MSMEs.
- ✓ Start-ups issue ESOPs to its employees as a retention tactic, but ESOPs are taxable perquisites at the time of exercise. In order to provide impetus to the start-up segment, taxation on ESOPs have been proposed to be deferred for 5 years or till the time of employee's exit, whichever is earlier.
- ✓ Start-ups with turnover of up to ₹100 crore to enjoy 100% deduction on IT for 3 consecutive years out of 10 years.

D. Export Credit simplified – boost to exporters

- ✓ NIRVIK has been launched to promote higher credit disbursal. It is expected to provide higher insurance cover at lower premiums to small exporters.
- ✓ NIRVIK will also facilitate simplification of claim settlement through digital network.
- ✓ To aid refund process and avoid complication in process for small exporters, proposal has been set out to digitally refund duties and taxes which are not being exempted under any other existing mechanism such as electricity duties and VAT.

E. Abolishment of Dividend Distribution Tax (DDT) – Mixed market sentiments

- ✓ Dividend income is now taxable in the hands of the shareholder. This move aims at removing the double taxation effect (both corporate taxes and DDT on corporates).
- ✓ This is expected to be positive for Corporates. At the same time, the shareholders will have to pay tax at their end. While this may encourage companies to pay more dividends or increase investments, individual investors may have to shell out more tax and that could have a mixed impact on the market sentiments.
- ✓ Since FPIs could not avail of credit of DDT in their home jurisdictions, abolishing DDT may encourage more FPI inflows, strengthening the share market.

F. Huge Tax exemptions to Sovereign Wealth Funds to encourage investments

100% tax exemption to interest, dividend and capital gains income of Foreign Sovereign Wealth Funds in respect of investment made in infrastructure and other notified sectors before 31st March 2024 and with a minimum lock-in period of 3 years.

G. Digital economy Push

- ✓ GeM is emerging as a single-window portal for procurement of goods, services and works, which offers great opportunity to MSMEs to reach out to the masses.
- ✓ Returns to be pre-filled for charitable institutions with donee details to avoid complexity and clerical errors while filling up manual data at the time of filing ITR.
- ✓ Faceless appeals mechanism has been introduced by the IT Department on the lines of faceless assessment to ensure greater transparency and accountability.

H. Funds through disinvestment to bridge slippage in fiscal deficit target

- ✓ Fiscal Deficit target is now pegged at 3.8%, higher than 3.3% targeted in last budget.
- ✓ To achieve fiscal balance in FY 21, a very ambitious target of ₹2.1 lacs crores has been set by the government. This is expected to be achieved through partial disinvestment of LIC through stock exchanges.
- ✓ Government to sell its stake in IDBI to private investors.

I. Indirect Taxes – Simplified regime proposed

- **GST**
  - ✓ Simplified GST returns to be implemented w.e.f. 1st April 2020 bearing features like SMS based filing for NIL return.
  - ✓ Improved input tax credit flow to be implemented as pilot run.
  - ✓ GST parameters to be captured through dynamic QR code for consumer invoices.
  - ✓ Aadhar based verification introduced for taxpayers to phase out dummy or non – existent units.
  - ✓ GST Compensation Fund: balances which are due out of collection of years 2016 – 17 and 2017 – 18 to be transferred in two installments.

J. New Tax Regime Charter – Effect yet to be fully understood and quantified

- ✓ A new optional tax regime has been introduced which is to be incorporated in the statutes.
- ✓ Can be availed without claiming any existing exemptions and deductions.

Tax Slabs under Existing Regime		Tax Slabs under New Regime	
Income Slab	**Tax Rate**	**Income Slab**	**Tax Rate**
0 to 2.5 lakhs	Nil	0 to 2.5 lakhs	Nil
2.5 lakhs to 5 lakhs	5%	2.5 lakhs to 5 lakhs	5%
5 lakhs to 10 lakhs	20%	5 lakhs to 7.5 lakhs	10%
		7.5 lakhs to 10 lakhs	15%
Above 10 lakhs	30%	10 lakhs to 12.5 lakhs	20%
		12.5 lakhs to 15 lakhs	25%
		Above 15 lakhs	30%

- ✓ Several deductions and exemptions have been removed and others are being reviewed for further amendments and rationalization as per current trends.
- ✓ Reduced corporate tax rate of 15% which was announced for manufacturing companies incorporated on or after 1st October 2019 has been extended to new electricity generation companies as well.
- ✓ A concern is the massive ₹2.97 lacs crore shortfall in gross tax revenues in 2019 – 20E compared to last year's estimates. Plus the cuts in personal income tax is also expected to make a revenue loss of ₹65,000 crores to the exchequer. Any new tax regime needs to be cognizant of its possible negative impact on government collections.

K. Industry, Commerce and Investment

- ✓ Five new smart cities to be developed on the principles of upcoming economic corridors, revitalization of manufacturing activities and Technology and demands of aspirational classes.
- ✓ Electronics manufacturing industry stated as lucrative domestic sector stated to attract a large investment in electronic value chain.

L. Other Pointers:

- ✓ Fiscal deficit for FY 2020 – 21 is estimated at 3.5% of GDP.
- ✓ Hike in corporate bond limit from 9% to 15%.
- ✓ PAN to be allotted instantly through an online portal on the basis of Aadhar card to individuals.

ACQUISORY VIEW – TIGHT BALANCING ACT

The current economic health of our country is not encouraging. In our view, the government did not have much headroom to maneuver to present a "Please All" budget. Given its constraints and the need for continuing fiscal prudence, the government, we believe, has attempted to jumpstart the flagging economy.

- ✓ The Budget laid major emphasis on building and improving physical infrastructure. We expect that huge tax exemptions provided to Sovereign Wealth Funds coupled with the abolition of DDT will give benefits to the global yield-seeking infrastructure investors in India and will also help accelerate further investments in the sector. Any increase in investments in infrastructure is expected to improve employment generation, a persistent lack of which remains a key concern.
- ✓ Encouraging Start ups is a promising step as are measures to help boost MSMEs, a mainstay of our economy.
- ✓ As was anticipated by the markets and experts, the government introduced a new tax regime with reduced tax rates but with the qualification that adherents need to forego existing exemptions and deductions. Prima facie it appears that the new tax regime could have the potential to revive consumption growth to a certain extent, if it provides more disposable income to the taxpayer. A further analysis is required before one can surely say whether the new tax regime is as beneficial as it appears to be.
- ✓ The government seems to have set a very ambitious target of raising ₹2.1 lacs crores through disinvestment in FY 21. This is done to bridge the expected widened Fiscal Deficit of 3.8%, a deviation of 0.5% from earlier 3.3%. Higher fiscal deficit can lead RBI to suspend interest rate cuts. However, the government plans to stick to its fiscal consolidation trajectory and has lowered its fiscal deficit target for FY 21 to 3.5%. It is encouraging that the Government wants to continue its policy of fiscal prudence and tightening but which methods may be successful in helping the government achieve it goals is debatable. Faced with of economic slowdown, typical reaction of a government is to increase government spending and boost growth. However, as stated earlier, tackling economic slowdown, increasing growth rate while maintaining fiscal prudence do not go hand in hand.
- ✓ The FM has attempted a tight balancing act. Whether it stimulates economic revival and moves it to a higher growth path is awaited.

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