



Budget 2020



Key points pertaining to Direct & indirect Taxation and what lies for SME Business

OVERVIEW

The budget presented by the Finance minister on 1st February looks to be in continuity to the government policies and focus on fiscal consolidation. On the taxation front it seeks to simplify the tax structure, ensure ease of compliance together with reducing litigations with the launch of Vivad se vishwas scheme. Large outlay to agricultural and infrastructure sectors alludes focus in these sectors which could help reviving rural economy and continue thrust on building infrastructure especially power and transport. The budget aims to encourage exports by launching a new scheme-NIRVIK and substitute imports (encourage domestic production) as evident by increase in duties on import of certain goods. MSME's were incentivized by enhanced ease of doing business with the raising of threshold limit for audit to Rs.5 cr from Rs 1 cr besides credit flow by allowing NBFC's participation in invoice discounting , launching scheme for giving subordinate debt for MSMEs and extending the debt restructuring window for MSMEs by one more year to March 2021.

The Key highlights are as under:

DIRECT TAX PROPOSALS

- 'Vivad se Vishwas' scheme for direct taxpayers whose appeals are pending at various forum (Complete waiver of interest and penalty if Scheme availed by March 31, 2020). Scheme to benefit about 4.83 lacs cases at various forums. Scheme to be valid till 30th June 2020.
- Govt extends additional Rs 1.5 lakh tax benefit on interest paid on affordable housing loans to March 2021.
- Co-op societies also eligible for the recently reduced rate of 22% plus surcharge, as against current 30%. (Section 115BAD effective from AY 2021-22)

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- Benefit of lower rate of 15% for new manufacturing company is also made available to new power generation companies.
- Deferment of tax payment by employees on ESOPs from eligible startups by 5 years or sale of shares, whichever is earlier. TDS complications for the Employer.
- Dividend Distribution Tax Scrapped, dividend to be taxed in the hands of shareholder

New Optional simplified personal income tax regime

- New Income Tax Regime for Individual Tax Payers.
 - No Income Tax for Income under 5 Lacs

Slab	New	Current
5 Lac to 7.5 Lac	10%	20%
7.5 – 10Lac	15%	20%
10 -12.5 Lacs	20%	30%
12.5 -15 Lacs	25%	30%
Above 15	30% Continues	

- In case one opts for the new regime – then one will have to let go of the exemptions
- **These reduced rates are applicable only for those who forego reliefs, exemptions like 80C, 80D, 80E, LTA, HRA, Standard Deduction, Interest on Self Occupied House Property.**
- Tax Audit limit revised to Rs. 5 Crores only for Businesses, if the cash receipts and Cash Payments are less than 5% of total receipts/Payments. Professions are not covered. There is no change in section 44AD.
- Tax Audit due date one month before the ITR filing date. ITR filing date for tax audit cases would be 31st October.
- Around 70 Exemptions/Deductions removed in the new simplified regime.

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- In case of sale of Property at less than the circle rate, the variance limit increased to 10% from existing 5% under section 50C & 56.
- Tax Charter to be introduced.
- To introduce faceless appeals in line with Faceless assessments.
- Exemption process to charitable trust to be electronic and unique number to be issued to all. The exemption shall be valid only for a period of 5 years. Provisional registration to be valid for 3 years. Even existing Trusts need to apply for de-novo registration after April 2020.
- Trust to file the PAN Wise details of Donations, which will be auto filled in the returns of Donors.
- Propose to extend the period of concessional withholding rate of 5% under section 194LC & 194LD for interest payment to non-residents in respect of moneys borrowed and bonds issued up to 30th June, 2023. The concessional rate is extended to Municipal Bonds.
- Govt to launch system for instant allotment of PAN on basis of Aadhaar.
- Govt proposes 100% tax concession to sovereign wealth funds on investment in infra projects.
- Section 194K introduced to provide the TDS on income from units of mutual funds @10% if the income exceeds Rs. 5000.
- Section 194-O introduced to provide that the e-commerce operator to deduct TDS @1% from gross amount of such sale or services of e-commerce participant.
- TCS@5% for remittance under LRS more than 7 Lacs (If no PAN, then 10%)
- TCS on package Tour @5%.
- Those having turnover of more than Rs. 10 Crores to collect TCS @0.10 for every party who buys more than Rs. 50 Lacs in a year. (1%, if PAN not available).
- TDS on fees for Technical Services @2% u/s 194J
- Clarification to include contractual manufacturing in section 194C.
- Conditions for Residential status modified to replace 182 days with 120 days. The condition of 730 days presence in India is removed from the definition of not ordinary resident.

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- Citizens of India who are not taxed in any other country would be treated as resident in India and their global income would be taxed.
- In case of Capital Asset acquired before 1st April 2001 and the Assessee is taking FMV as on 1st April 2001, the FMV cannot be higher than circle rate.
- With DDT scrapping, govt lets go of Rs 25,000 crore revenue and for new tax rate on individuals and concessional rate on electricity companies, the revenue forgone would be Rs. 40,000 Crores.
- FM reassures taxpayers about commitment to eliminate tax harassment.
- No change in Long Term Capital Gains on Equity Shares/Mutual Funds.
- Tax concession for sovereign wealth fund of foreign governments and other foreign investments for investment in Infrastructure Sector.
- Eligible startups can claim exemption u/s 80IAC upto turnover of 100 crores (increased from Rs. 25 Crores).
- Section 271AAD introduced providing for penalty for false entries equal to the amount of entry.

INDIRECT TAX PROPOSALS

- New Simplified GST Returns from 1st April 2020.
- Authorised Officer is empowered to allow the cancellation of registration taken voluntary. (Section 29(1)(c))
- Authorised Officer (Commissioner) is empowered to cancel the revocation order even after 30 days. (Section 30)
- The scope of penal provision for fake invoicing (section 132) is expanded to include the person who causes to commit and retain the benefit arising out of, certain offences. The section will also include the person who fraudulently avails input tax credit without any invoice or bill.
- Section 140 of CGST Act, amended to provide for the claiming of transitional credit.

- Section 122 amended to provide for penalty to Any person who retains the benefit of a transaction covered under clauses (i), (ii), (vii) or clause (ix) of sub-section (1) and at whose instance such transaction is conducted, shall be liable to a penalty of an amount equivalent to the tax evaded or input tax credit availed of or passed on.”.
- Period for issue of Removal of Difficulty Order is extended to five years from existing three years from the commencement of Act. Hence the Removal of Difficulty Order can be issued upto 30th June 2022.
- Retrospective Amendment in clause 4. of Schedule II of CGST Act: Transfer of business assets the condition for consideration is removed.
- Retrospective exemption to Fishmeal and CGST @ 6% on certain parts of agriculture machinery.

However no refund shall be provided for all taxes already collected.

Refund process has been simplified and has been made fully automated with no human interface.

- Electronic invoice is another innovation wherein critical information shall be captured electronically in a centralized system. It will be implemented in a phased manner starting from this month itself on optional basis. It will facilitate compliance and return filing. Bill discounting facility to MSME to be linked with electronic invoices posted on GST Portal.
- Aadhaar based verification of taxpayers is being introduced. This will help in weeding out dummy or non-existent units.
- Dynamic QR-code is proposed for consumer invoices. GST parameters will be captured when payment for purchases is made through the QR-code.
- 60 lakhs new taxpayers added via GST introduction
- A system of cash reward is envisaged to incentivise customers to seek invoice. Deep data analytics and AI tools are being used for crackdown on GST input tax credit, refund, and other frauds and to identify all those who are trying to game the system.
- Invoice and input tax credit matching is being done wherein returns having mismatch more than 10 percent or above a threshold are identified and pursued. Significant policy level changes have also been made. GST rate structure is also being deliberated so as to address issues like inverted duty structure.

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- 5% Health cess on import of medical equipment (equipment which are primarily manufactured in India), proceeds to be used for setting up hospitals.
- Tobacco, cigarettes will now get costlier
- Custom Duty is increased on many products.
- The provisions for checking dumping of goods and imports of subsidized goods are also being strengthened for ensuring a level playing field for domestic industry.
- Exemptions from customs duty have been given in public interest from time to time. However, a number of these have outlived their utility or have become outdated. On review, certain such exemptions are being withdrawn. Remaining custom duty exemptions shall be comprehensively reviewed by September, 2020 for taking a view on their relevance.

BENEFITS TO MSME & EXPORTERS

A SWOT analysis is a useful tool for evaluating the business by zooming in on its strengths, weaknesses, opportunities available, and potential threats. Consider the following:

- Govt to launch a scheme for giving subordinate debt for MSMEs
- Amendments to be made to enable NBFCs to extend invoice financing to MSMEs.
- Respite to MSMEs from the need to get their accounts audited as now MSMEs having turnover up to Rs 5 crore will not require auditing of their accounts.
- An app-based invoice financing loans product will be launched to obviate the problem of delayed payments and cash flow mismatches for MSMEs
- National Logistics Policy will be revealed soon, creating a single-window e-logistics market and making MSMEs more competitive.
- NIRVIK: The scheme will offer higher insurance cover, reduced premium for small exporters and simplified procedure for claim settlements.
- Single investment clearance window soon to promote entrepreneurship.
- Government to boost the manufacturing of mobile and electronics.

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- National Textile Mission proposed with a Rs 1,480 cr allocation
- Extend the debt restructuring window for MSMEs by one more year to March 2021

INFRASTRUCTURE

- India to get 100 more airports, more Tejas-type trains, Kisan Rail for farmers
- FM proposes to extend gas grid by 11,000 km
- Rs 100 crore allotted to prepare for hosting G20 presidency in 2022
- Govt to set up national recruitment agency for recruitment of non-gazetted posts
- Rs 2,500 crore to boost tourism
- Rs 4,400 crores to fix pollution in big cities
- 5 archaeological sites to be developed with on-site museums
- Bharat Net: Rs 6000 crore boost for internet connectivity
- Over 6 lakh Anganwadi workers have been equipped with smartphones to upload the nutrition status of 10 crore households
- Govt proposes discoms replace conventional meters with smart pre-paid meters
- A new infra road map to lend a cutting edge to flagship National Internship Programme (NIP scheme)
- An allocation of Rs 8,000 crore for National Mission on Quantum Computing and Technology
- Delhi-Mumbai Expressway to be ready in 3 years
- Rs 20,000 crore for the renewable energy sector
- Policy soon to enable private sector to build data center parks
- PM Kusum Scheme for Solar Pumps for farmers.
- Five new smart cities to be developed.

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- Govt propose National Police University and National Forensic University
- FM announces Rs 99,300 crore outlay for education sector in 2020-21 and Rs 3,000 crore for skill development
- Govt to expand Mission Indradhanush, add hospitals to Ayushman Bharat
- FM proposes to build a seamless national cold storage chain

OTHERS

- Nominal GDP growth for FY21 revised to 10%.
- FY21 divestment target pegged at Rs 2.1 lakh crore.
- FY 20 fiscal deficit revised to 3.8% FY 21 target 3.50%
- Insurance cover increased to Rs 5 lakh per depositor
- Govt mulls changes in PFRDA Act; to separate it from NPS Trust for govt staff.
- Govt to amend Banking Regulation Act to strengthen co-op banks
- Certain specified categories of government securities will be open fully for NRIs.
- Universal pension coverage to have auto-enrolment
- Divestment of part stake in LIC and IDBI

