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## India Releases: 2020-21 Union Budget

### Glimpses of Budget 2020

Dear All,

Hon'ble Finance Minister, Government of India, while presenting the Union Budget 2020 today stated that her proposals are structured around the themes of '**Aspirational India**', '**Economic Development**', and a '**Caring Society**'. As we start decoding the fine print of her tax proposals please find hereinbelow key tax highlights of the Finance Bill, 2020.

#### **PROPOSALS REGARDING CHANGES IN DIRECT TAXES**

- ***Corporate Tax***

- Dividend Distribution Tax of 15% payable by companies will not be payable for dividends declared after 31st March 2020
- Reduced tax rate of 15% provided earlier for new manufacturing companies will now also be available to companies engaged in electricity generation
- Companies availing the reduced tax rate of 15% will also be eligible for deduction in respect of any profits from processing of biodegradable waste
- Start-ups having turnover of up to INR 1000 million will now be eligible for 100% tax concessions in any three of ten years since commencement of business
- Relief available to real estate companies engaged in construction of 'affordable housing' will be extended to projects approved up to 31.03.2021
- Special tax regime applicable to listed Infrastructure Investment Trusts (InvITs) and Real Estate Investment Trusts (REITs) is proposed to be made available to unlisted Infrastructure Investment Trusts also
- Income of Sovereign Wealth Funds fulfilling certain conditions from interest dividends and capital gains from investments in Infrastructure facilities in India will be exempt

- ***International Tax Issues***

- Definition of 'Resident' is being modified to treat Indian citizens who are not liable to tax in any other country by reason of domicile or residence or any other such criteria, as resident in India for tax purposes
- Definition of 'significant economic presence' introduced last year for determining 'business connection' of a non-resident in India is proposed to be modified
- An amendment is proposed to empower Government to enter into tax treaties with other countries to implement the Multilateral Convention signed by India

under the BEPS program of OECD and G-20 countries. This will enable modification of existing treaties to plug opportunities of double non taxation, treaty shopping etc.

- Tax Board is proposed to be empowered to lay down Rules relating to profit attribution in respect of cases covered by Safe Harbour Rules and Advance Pricing Agreements
- A new provision is being introduced in respect of e-commerce transactions. Under this 'e-commerce operators' will be required to deduct tax at source @1% of gross amount of sales and services facilitated or provided by them through their digital or electronic platform. This will however not apply to receipts from hosting advertisements and certain other services
- Concessional rate of Withholding tax of 5% on interest payable to non-residents on long term borrowings for infrastructure bonds and to FIIs, QFIs on Government securities, is being extended to borrowings made up to 1<sup>st</sup> July 2023
- Non-residents not having a Permanent Establishment (PE) in India who are in receipt of income from interest or dividend or Royalty or Fee for Technical services and in whose cases the due tax has been deducted at source, will not be required to file their returns of income in India

- **Income Tax**

- A special optional tax regime is being introduced for Individuals and HUFs under which they will be taxed at slab rates which are lower than the normal slab rates but will have to forego various deductions and exemptions otherwise available to them
- Cooperative Societies are also being given an option to be assessed at lower tax rate applicable to companies without availing special exemptions
- Individuals earning ESOPs from Start-up companies will now be eligible to pay tax on the value of ESOPs at any time up to 48 months after the relevant year, or on leaving the employment, or on sale of the shares whichever is earlier
- Contribution by employers towards Pension fund, etc. in excess of Rs. 7.50 lakh will now be taxable as salary in the case of the employee
- Dividend income will now be taxable in the hands of shareholders at applicable slab rates
- Special deduction for interest up to Rs. 1.50 lakh on loans taken to acquire affordable housing is being extended to loans taken up to 31.03.2021
- Non-corporate businesses with turnover up to Rs 50 million will not be required to have their accounts audited
- Rate of TDS on provision of technical services (other than professional services) applicable under section 194J is being reduced from 10% to 2%
- Tax Collected at Source (TCS) regime is being extended to Overseas remittances and sale of overseas tour package
- For computing capital gains on sale of immovable property difference of up to 10% between the sale price and stamp duty value of the property will be ignored

- **Other matters**

- Commodity Transaction Tax (CTT) is proposed to be imposed on trading of commodity derivatives products
- Tax Board will be authorised to develop a Charter of statutory rights of taxpayers
- Power of Tax Tribunal to grant stay of disputed tax demands is proposed to be circumscribed by requirement of payment of 20% of disputed tax for grant of stay of the balance amount
- Facilities of e-appeals for disposal of first appeals will be introduced
- Charities will be required to furnish statement of donors above a specified amount and deduction to donees will be subject to verification from such statements
- A scheme for reduction of litigation is proposed under which direct tax disputes pending before authorities up to Supreme Court will get abated on the taxpayer paying the disputed tax and the tax department foregoing the interest and penalty

## **PROPOSALS REGARDING CHANGES IN INDIRECT TAXES**

### ***Customs***

- ***Rate movement in Basic Customs Duty ('BCD')***

<b>Increase in BCD</b>	<b>Reduction in BCD</b>
<ul style="list-style-type: none"> <li>● Vibrator motor / Ringer for use in manufacture of cellular mobile phones increased from NIL to 10% w.e.f. 1 April 2020</li> <li>● Display assembly, touch panel / cover glass assemble for use in manufacture of cellular mobile phones increased from NIL to 10% w.e.f. 1 October 2020</li> <li>● Naptha imported for generation of electric energy by a generating company now subject to BCD @ 4%</li> <li>● Electric motor vehicles to attract higher BCD for Completely Knocked Down ('CKD'), Semi Knocked Down ('SKD') and Completely Built Unit ('CBUs') w.e.f. 1 April 2020</li> <li>● Toys from 20% to 60%</li> <li>● Furniture from 20% to 25%</li> <li>● Exemption withdrawn on import of copper goods used as raw materials for manufacturing of ITA goods, leading to levy of BCD</li> </ul>	<ul style="list-style-type: none"> <li>● Newsprints and uncoated paper used for printing newspapers and magazines reduced from 10% to 5%</li> <li>● Bunker fuel from 10 % to NIL</li> <li>● Calcined petroleum reduced from 10% to 7.5%</li> </ul>

- **Defence imports**
  - Specified military goods imported by Defence Public Sector Units or other Public Sector Units in addition to Ministry of Defence / Defence forces into India exempt from the whole of the customs duty
- **Social Welfare Surcharge ('SWS')**
  - SWS exemption on commercial vehicles including electrical vehicles if imported as CBUs w.e.f. 1 April 2020
- **Incentivising 'Make in India'**
  - Imposition of Health cess ('HC') w.e.f. 2 February 2020 on medical equipment imported under chapter heading 9018 to 9022
  - Exemption from HC on those goods which are exempt from BCD, imported under Free Trade Agreement ('FTA') and on inputs or parts used for manufacture of medical devices
  - HC to be computed on the same value on which customs duty is computed
- **Legislative changes**
  - Power to prohibit import / export of goods for controlling prevention of injury to economy now extended to all goods in addition to gold and silver
  - Detailed process introduced under FTA / Preferential Trade Agreement with new Rules of Origin. Trade benefits may be denied in case importer fails to furnish requisite information for verification
  - Facility of electronic duty credit ledger to be introduced in lieu of remission of duty / tax in lieu of exports. Duty credit could be utilised for offsetting customs duty payment
- **Anti-dumping duty ('ADD')**
  - ADD revoked on Purified Terephthalic Acid ('PTA') including certain variants imported from China, Iran, Indonesia, Korea, Malaysia, Taiwan and Thailand
  - ADD rules made more comprehensive and wider to strengthen domestic market and introduce anti - circumvention measures
  - Amendments made in safeguard provisions relating to protection against surge in quantity of imports

### **Excise duty**

- Excise duty on Tobacco products increased with an increase in National Calamity Contingent Duty ('NCCD')

### **GST**

- **GST compliances**
  - Introduction of new simplified returns w.e.f. 1 April 2020
  - E - invoicing proposed in a phased manner
- **Retrospective amendments**
  - Refund of compensation cess due to inverted duty structure on tobacco products is withdrawn for the period 1 July 2017- 30 September 2019
  - Provision for transition of input tax credit under existing law amended w.e.f. 1 July 2017

- **Other amendments**

- Penalty provisions reinforced for persons causing and benefitting fraudulent availment of input tax credit

Our perspective on the aforesaid and detailed analysis of the tax proposals will follow shortly.

For additional information or queries, please feel free to reach out to our tax partners:

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We trust that you will find our newsletter informative and useful.

Best regards,  
Corporate Relations Desk  
**Kochhar & Co.**

*DISCLAIMER: The material has been prepared for general information purpose only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to the appropriate advisor for any specific matter.*

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