Union Budget 2020:

Building our house of aspirations

VINOD KOTHARI CONSULTANTS

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Budgeting for the challenging time

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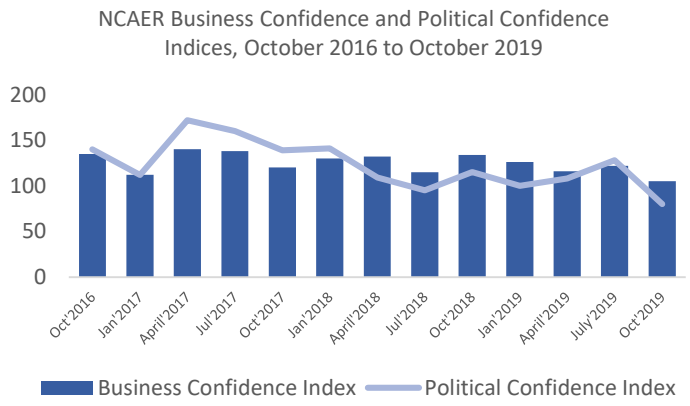
There could be little doubt that the Finance Minister was tasked with one of the most formidable challenges – budgeting at the time when the country is passing through one of the toughest sets of economic conditions in almost like past 10 year It is not as if the country has not seen such difficulties in the past – however, the pain becomes all the more because, barely two years ago, India was the cynosure of all eyes and was hailed as the "fastest growing economy" in the world.

Lately, however, almost all indications point to a stagnating economy. So much so that IMF has been forced to revise downwards its estimates of global growth primarily due to the state of the Indian economy.

One of the most alarming reports was the NSO survey of household consumer expenditure that showed the monthly household expense was ₹ 1,446 in 2017-18, down by 3.7% from the last results for the year 2011-12. It was contended that this decline has been seen for the first time in last 40 years, However, the Government decided to shelve this report, on account of data quality issues[1].

There are, however, plenty of other indications. Let us take some:



Source: NCAER Business Expectation Surveys

(a) **Business Confidence**: The NCAER survey[2] of business sentiments across 4 equally weighted survey points: (i) the overall economic conditions will be better in the next six months; (ii) the financial position of firms will improve in the next six months; (iii) the present investment climate is positive; and (iv) the present capacity utilisation is close to or above optimal. The survey results available for Q2 of 2019-20 showed a decline of 15.3% on q-o-q basis, and 22.5% decline on y-o-y basis. What adds to the concern is that partnership firms and small businesses showed a decline of 21.5% in just over a quarter, which indicates that the scenario as seen by smaller businesses is indeed very gloomy.

(b) **Consumer Confidence**: The results of the consumer confidence survey carried by the RBI are no different. The last survey report, available in 5th Dec., 2019[3], showed the steepest negative

[1] https://pib.gov.in/Pressreleaseshare.aspx?PRID=1591792
[2] http://www.ncaer.org/uploads/photo-gallery/files/1573483959BES%20Press%20Release%20Round%20110%20ver%207.pdf
[3] https://m.rbi.org.in/Scripts/PublicationsView.aspx?id=19352#CH1

perception of consumers, seen for the first time since 2013. The biggest contributor of the negative sentiment is employment, which has never seen the kind of negativity seen in November 2019.

(c) **Unemployment:** CMIE's estimates of unemployment rate[4] in Dec. 2019 was 7.6%, which compares with about 4.8% in Dec., 2017, and about 7% in Dec., 2018.

(d) **GDP growth rate:** IMF has cut down India's forecasted GDP growth rate to 4.8% for FY 2019-20, citing generally slack economic conditions, slowdown in government spending, and the state of the non-banking financial companies.

(e) **Performance of Corporate India:** RBI's data about performance of listed, non-government, non-financial companies, available up to Q2 of 2019-20, shows the PAT of non-financial listed companies in the private sector fell by 54.3%, on y-o-y basis. This is despite the fact that most corporates had captured the effect of the tax rate reduction in the second quarter.

(f) **NPA situation in banks**: What would have been needed badly is the creation of liquidity with consumers, but bank lending has not been growing as expected. The gross NPA situation with banks has remained at about 9.3% in September, 2019. However, the RBI's report on Financial Stability December 2019[5] suggests that the rate may move up to 9.9% in Sept. 2020, mainly due to sluggish credit growth. The faltering NBFC sector, which is one of the largest borrowers of the banking sector, has added to the woes of the banks.

In the face of the slug economy, the inflation rate was high, at least till December 2019. Consumer price inflation was at 7.35% in December, 2019; however, one needs to note its decomposition, as 60% of the jump was accounted for by price of vegetables, wherein onions had a big role to play.

Tax collections have also not been very healthy, even though there are reports that the GST collections will offset the setback caused by lesser-than-expected direct tax collections. Corporate tax rates were already reduced by way of an interim measure.

In short, there are not much of choices in the hands of the Finance Minister.

[4] https://unemploymentinindia.cmie.com/
[5] https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=946

Is the *Kamao-Khao* growth model working for India?

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Tropica Finance Private Limited (named changed) is a client that we have known for almost 30 years – it is an NBFC that focuses on plant and machinery funding for SMEs. The company has been one of the most conservative entities that we have known: it was always a family-owned business, inherited by the daughter from her father. A year earlier, the Company diluted some of its equity to a PE investor. We noted a sudden change in the Company's philosophy to business. From the conservatism in business over nearly 3 decades suddenly transformed into an aggressive policy, putting far more weight to short-term measures. Accounting policies changed into those focused on escalating profits into current year's P/L, even if from the future. It was not difficult to understand this sudden change in attitude: the PE investor would look at nothing except reported profits. If the reported profits did not justify the capital appreciation targets of the PE investor, the investor's own fair value estimates will be affected, thereby impacting their ability to invest in future tranches.

When all evaluation of performance zeroes down on the bottom-line, the compulsions for the government may be quite similar to that for a PAT-driven corporate management – today's gain for tomorrow's pain. For most corporate CXOs, the PAT is the solitary number that the eyes of the analysts in the investors' meets, or their institutional investors, or even their own board members, are looking at. This creates the inevitable short-termism in policies, which sometimes people blame as being driven by managerial bonuses, but the fact is that analysts look at nothing but PAT.

The government seems to be working under similar compulsions, as everyone is focusing on the GDP numbe₹ The inherent danger in the GDP-focused policies is that the growth numbers may be influenced by a surge in consumption spending, which is almost like feeling happy having spent more on one's dinner.

To understand this phenomenon at a very elementary level, let us look at the major components of national income or GDP. The components are provided in the box to the left.

The growth is said to be consumption-driven, if the rise in Y is largely accounted for by C, that is, private consumption. The growth is said to be investment-driven, if increase in I is mainly responsible for the rise in GDP. And likewise, the growth is said to be export-driven, if increase in

GDP or National Income is explained by the following formula:

$Y = C + I + G + (X-M)$

Where,

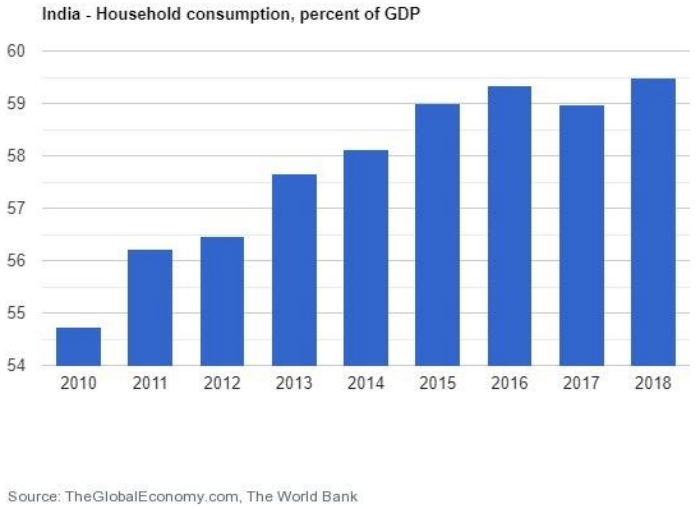
- *Y is national income*
- *C is personal consumption*
- *I is investment, or gross private domestic investment*
- *G is government spending on goods and services*
- *X is exports*
- *M is imports*

exports have driven the same. In this simplistic analysis, we are, of course, ignoring the inter-linkages between these facto₹

India, having won laurels as "the fastest growing economy of the world", has been labelled as one of the "*negative surprises to economic activity" and responsible for* the downward revision of global growth numbers by the IMF in January, 2020[6].

Underlying this data, however, is the consumption-led growth that has resulted impressive GDP growth numbers in the past. The numbers below show this clearly: since 2010, the share of domestic consumption as a part of the GDP has grown from 54.72% to 59.48% in 2018.

We are, thus, relying on a *Kamao-khao* theory of growth, where the economy is seen as growing if consumers are spending more. Hence, we are stressing on consumer credit and NBFC lending to create liquidity with the consumers, so that the consumers spending more.



Consumption-led growth may, at the very best, be a short-term measure. It may resolve short-term issues of business and consumer confidence. Consumption-driven may also be inflationary. On the other hand, the investment-focused growth leads to long-term good. This is why the last year's economic survey [2018-19] highlighted investments to be the key focus of economic policy, after making a comparison of the growth in gross capital formation (GCF) versus GDP growth rates, in several countries. The Survey concluded: "The overwhelming evidence across the globe, especially from China and East Asia in recent times, is that high growth rates have only been sustained by a growth model driven by a virtuous cycle of savings, investment and exports catalysed and supported by a favourable demographic phase."[7]

During the pre-Budget wisdom sessions, many people have cited the responses that the US govt took in the post-GFC years of 2008 and 2009. These were essentially so-called Keynesian solutions – increase spending, so that more wealth passes to consumers, with which they can spend more. Such policies are often described as "counter-cyclical" or expansionary policies.

In life, we do not have the choice between long-term and short-term measures: we have to balance both. Therefore, the government faces the

[6] https://www.imf.org/en/Publications/WEO/Issues/2020/01/20/weo-update-january2020
[7] https://www.indiabudget.gov.in/economicsurvey/doc/vol1chapter/echap01_vol1.pdf

challenging task of restoring short-term confidence, and some of the measures may, therefore, be consumption-focused. Anything the Government does to promote NBFC funding will eventually lead to propping up consumption demand, as it is known fact that most of the NBFC funding is currently going to personal credit. These liquidity support measures may be required to give some doses of confidence to the economy which faces a dire confidence-deficit. The RBI's Consumer Confidence Survey, released on Dec 5, 2019, shows a negative perception of 21.6% in Nov 2019, as compared to a negative perception of 12% in Nov., 2018.

While *kamao-khao* measures may be the fire-fighting way, eventually, we have to lean on *bachao-badhao* methods.

The Key to the economy: Reforming the banking sector

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The significance of the banking sector to the economy does not need any stressing. Banks are the suppliers of capital; banks are the mainstay of a systemic stability. Banks are repositories of the nation's financial resources.

India is among the world's largest banking systems. India's retail credit market is the fourth largest in the emerging countries. It increased to US$ 281 billion on December 2017 from US$ 181 billion on December 2014.

Lately, the banking system has been under considerable stress. NPA levels has always been talked about; however, for last 3-4 years, the major issue virtually crippling decision-making in banks has been the dreaded 3 Cs - the CBI, CVO, and CAG. Between deciding and remaining indecisive, a banker will choose the latter, as there are risks in deciding.

The major issues facing the banking sector are these:

- The number of banks, and consequently, the disparity between a few larger banks, and several smaller banks, including the granular banks such as cooperative banks, small finance banks, etc.
- Capital adequacy, and threats to systemic stability caused by failure of banks, including investors' losses.
- Growing NPAs of the banking system and the loss of tax payers' money by way of write-off of banks' debts.
- Lack of professional management, fear of decision-making, and instances of government intervention in the operations and management of banks.

Size of Indian banking system:

As of September 2019, Indian banking system consisted of 46 foreign banks, 53 regional rural banks, 1,542 urban cooperative banks and 94,384 rural cooperative banks.

The biggest component of the banking sector is, obviously, with the PSBs. PSBs account for almost 70% of the banking activity of the country.

In order to strengthen some of the smaller and weaker banks, and to have consolidation of the banking entities with the PSUs, the Finance Minister announced in August 2019 the consolidation of 6 PSBs into 4 existing PSBs. Thus, the number of public banks now stands reduced to 12. This is considerably reduced from the 27 banks that existed in 2017.

The Economic Survey 2019-20 has noted that we have just recently completed 50 years of bank nationalization in the country. The gains and losses of bank nationalization may need to be evaluated.

Capital adequacy and the threats to systemic stability:

The government has carried out a major recapitalization of the PSBs during financial year 2019-20. A sum of Rs 70000 crores was infused, as per the Budget proposals of Budget 2019.

Pursuant to recapitalization, the capital adequacy ratio (CAR) of scheduled commercial banks, including PSBs, stood at 15.1% in September, 2019.

Budget 2020 proposes that there will be no further capital infusion by the Government into PSBs, and banks have to rely on market sources.

It is notable that banks access capital markets more commonly by offering Additional Tier 1 bonds, and sometimes, Tier 2 bonds as well. However, it is not common to see equity offers by PSBs.

NPAs and losses of tax payers' money

One of the major problems of the banking sector in the recent past has been the NPA issue.

The RBI's Financial Stability Report of Dec 2019 reports that the GNPA ratio of the SCBs stood at 9.3% in September, 2019, which is the same as it was in March 2019. However, the Report also adds that "*Macro-stress tests for credit risk show that under the baseline scenario, SCBs' GNPA ratio may increase from 9.3 per cent in September 2019 to 9.9 per cent by September 2020. This is primarily due to change in macroeconomic scenario, marginal*

*increase in slippages and the denominator effect of declining credit growth."*8

More stark and scary numbers were, however, revealed by the Economic Survey, 2020. "In 2019, every rupee of taxpayer money invested in PSBs, on average, lost 23 paise. In contrast, every rupee of investor money invested in "New Private Banks" (NPBs)—banks licensed after India's 1991 liberalization—on average gained 9.6 paise. As PSBs and NPBs operate in the same domestic market, there is a case for enhancing the efficiency of PSBs."

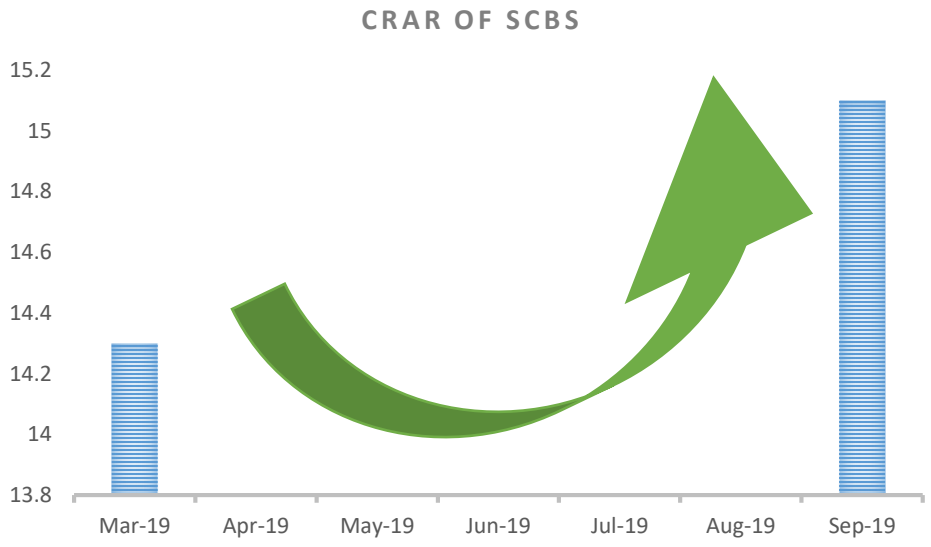
The enactment of the Insolvency and Bankruptcy Code with its tight timelines has made a lot of impact on the performance of the borrowers. The borrowers now know clearly that they cannot default, and still continue to have legitimate rights to run a business.

Professionalism and regaining the confidence of the bank managers

One of the acute challenges the banking sector faces is the lack of decision-making. PSBs also face intervention of the government in senior appointments and management.

One of the important steps in this regard is the introduction of a system of internal disciplinary boards of banks. There is an Advisory Board of Banking Frauds9 . Also in Jan., 2020, the Finance Minister has assured bankers that bankers will not be subjected to persecution or harassment for bonafide commercial decisions taken by them10. There are proposals in the Budget, 2020 for more professionalization of bank management (see discussion below).

[8] https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=952
[9] http://cvc.gov.in/sites/default/files/ABBF.pdf
[10] https://pib.gov.in/PressReleasePage.aspx?PRID=1600786



Capital to Risk-weighted Asset Ratio (CRAR)
Source: Economic Survey 2019-20

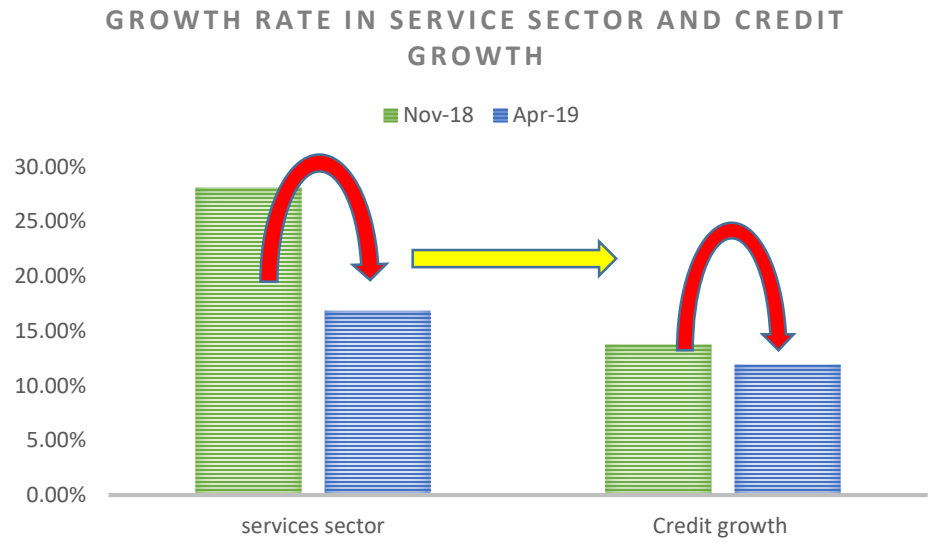
Credit growth

The average NFC growth in 2018-19 improved to 12.30 per cent vis-à-vis 8.4 per cent in 2017-18. Bank credit to large industry and service assignments were the main drivers of overall NFC growth in 2018-19. However, the pace of credit growth has moderated in last few months. Credit growth has come down from 13.8 per cent in November 2018 to 11.9 per cent in April 2019. The main contributor to this moderation has been the services sector which has decelerated from 28.1 per cent to 16.8 per cent between November 2018 and April 2019. The growth in bank credit to large industries has improved in recent months.

Industry-wise deployment of Bank Credit by Major Sectors

Sectors	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Apr-19	Nov-19
Non Food Credit				8.60	9.10	8.40	8.40	12.30		7.20
Industry	20.70%	15.10%	12.80%	5.60%	2.70%	-1.90%	0.70%	6.90%	6.90%	2.40%
Micro & Small	12.60%	20.20%	22.50%	9.10%	-2.30%	-0.50%	0.90%	0.70%	1.00%	-10.00%
Medium	7.10%	-0.10%	-0.50%	0.40%	-7.80%	-8.70%	-1.10%	-1.10%	3.50%	-2.40%
Large	23.30%	15.60%	12.30%	5.30%	4.20%	-1.70%	0.80%	0.80%	8.10%	3.00%
Textiles	9.90%	15.10%	10.20%	-0.10%	1.90%	-4.60%	6.90%	6.90%	-2.80%	-6.10%
Infrastructure	20.80%	15.80%	14.60%	10.50%	4.40%	-6.10%	-1.70%	-1.70%	19.90%	7.00%

Source: RBI



Decline in growth rate of service sector resulted in the decline in the Credit Growth Rate
Source: Economic Survey 2019-20

Budget 2020 Outcome:

Finance Minister Nilima Sitharaman describes the Financial Sector as one of the hands holding the bouquet consisting of Aspirational India, Economic Development and Caring India. In order to achieve the USD 5 trillion economy, a robust financial architecture is proposed. Earlier, the government had approved consolidation of 10 banks into four. In the last few years, Government of India has infused about ₹3,50,000 crore by way of capital into Public Sector Banks for regulatory and growth purposes. The government will not be infusing any further capital and the banks will now have to rely on the capital markets for their funding.

Governance reforms to be carried out in these banks, so that they become more competitive.

Government has brought out schemes for merger and amalgamation of public sector banks as a part of the consolidation of the financial sector. In order to ensure that the amalgamated entities are able to take the benefit of unabsorbed losses and depreciation of the amalgamating entities, necessary amendments to the provisions of the Income-tax Act have been proposed.

The budget has proposed that a robust mechanism is in place to monitor the health of all Scheduled Commercial Banks and to ensure that the depositors' money is safe. Further, the Deposit Insurance and Credit Guarantee Corporation (DICGC) has been permitted to increase Deposit

Insurance Coverage for a depositor, which is now `one lakh to `five lakh per depositor.

To strengthen the Cooperative Banks, amendments to the Banking Regulation Act are proposed for increasing professionalism, enabling access to capital and improving governance and oversight for sound banking through the RBI.

There is a need for greater private capital and thus, it is proposed to sell the balance holding of Government of India IDBI Bank to private, retail and institutional investors through the stock exchange.

The government will take appropriate measures to fulfill the need for taking further steps to bring in transparency and greater professionalism in Public Sector Banks. The details of this are expected separately.

Kamzor kadi: India's non-banking finance companies

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Speaking of the importance of the financial sector, the Finance Minister, in her Budget Speech [para 90] says: "A clean, reliable and robust financial sector is critical to the economy. In our efforts to achieve the USD 5 trillion economy, the financial architecture should keep evolving and move from strength to strength." The NBFC sector is admittedly at the very core of India's financial sector.

India's non-banking finance companies have been the focal point of all discussions on the state of the economy. It is very commonly contended that the troubles in the shadow-banking sector have spread wide and deep, so as to cause deceleration of economic growth. In fact, when IMF lowered down the GDP estimates for India in January, 2020, there was explicit reference to the state of the NBFC sector.

Shadow banking: Is it a shady word?

Does the term shadow-banking mean/include NBFCs? Does the term have the shades of being unacceptable or a dirty word?

The expression shadow-banking was used by a PIMCO economist post the GFC, to refer to those non-banking financial intermediaries, that are engaged in credit intermediation, maturity or liquidity transformation, or other services akin to banking, but are not banks. These entities are not regulated as banks.

From the year 2018 onwards, the Financial Stability Board has moved to the expressions "non-banking financial intermediaries" in place of shadow-banking, as it is felt that this term better reflects the world of shadow-banks.

The Economic Survey 2019-20 also dedicates almost a complete chapter on the subject. However, it must be noted that the word "shadow banks" is not limited to NBFCs. It includes entities performing the economic functions mentioned above. Based on the 5 economic functions settled by the Financial Stability Board, NBFCs, debt mutual funds, securitisation vehicles, etc. will be regarded as shadow banks in India. For a comprehensive coverage on shadow banking in India, refer to http://vinodkothari.com/wp-content/uploads/2020/01/shadow-banking-in-India.pdf

NBFCs: A year in review

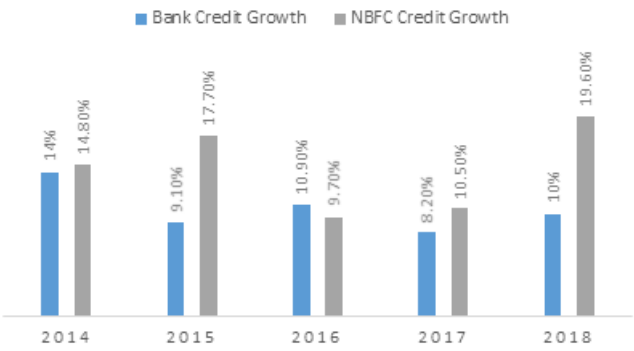
2019 was turbulent for the financial sector as a whole, however, it has been quite bad for the NBFCs. This factor is so well chronicled and understood that it may not need any great elaboration.

The spectre of NBFC collapses: Risk of contagion

The risk of contagion that the NBFC crisis poses is quite substantial. NBFCs are the single largest borrower from the banking sector, followed by HFCs. Additionally, a substantial part of the money raised by mutual funds is invested either in NBFC bonds or in securitised debt instruments issued by NBFCs[11]. In fact, FSR[12] has the following to say:

> *"NBFCs and HFCs are the largest and the second largest borrowers of funds from the financial system. A substantial part of this funding comes from banks. Therefore, failure of any NBFC or HFC will act as a solvency shock to its lende₹ The solvency losses caused by these shocks can further spread by contagion either due to direct linkages among the lenders or due to an information contagion."*

The RBI's report adds that if a major NBFC collapses, the solvency capital of the banking sector may be lost to the extent of 2.5%. In case of a top HFC collapsing, the loss may be as high as 4.6%. It may be so that the RBI has not captured the spiral impact of the losses that may be wide-spread through mutual funds or other similar vehicles.



Source: BCCL, 2020

The role played by NBFCs in the financial sector, particularly in financial inclusion, is phenomenal. NBFCs over the past several years have grown faster than bank credit (see Figure- 1 below). RBI data shows that, in FY 2017, NBFCs and housing finance companies cumulatively extended ₹ 2.59 lakh crore in credit to commercial enterprises, meeting 18% of their total credit needs. This marked a year-on-year increase of 28% in NBFC lending from FY 2016- a sharp contrast to the banking system, which has been grappling with a mountain of bad loans for quite some time now.[13]

Liquidity Strains and NBFC defaults

The biggest issue with the NBFCs has been the liquidity constraints. The fact that the Economic Survey highlights is anyway well-known- all NBFCs/HFCs have been running with serious asset-liability mismatches. So much so that there has been a reliance, to non-negligible extent, on short-term sources such as ICDs and commercial paper. It is only in November, 2019 that the RBI introduced a liquidity standard for larger of the systemically important NBFCs, to be effective from December, 2020.

[11] As for a study on the inter-connectivity between NBFCs and the rest of the financial sector, see an article by Vinod Kothari http://vinodkothari.com/2020/01/shadow-banking-in-india/

[12] https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=952

[13]https://yourstory.com/2018/03/businesses-individuals-nbfcs-funding

However, this is possibly a day too late, because, in the meantime, there has been significant contraction of funding by the banking sector.

It is not that regulators are sitting pretty. In fact, several measures taken by the RBI to improve the liquidity position in NBFCs (see Text Box 2). However, the market has seen the collapse of some of the large and AAA-rated entities in quick succession (see Table below). The default of IL & FS has created ripples all over the world. In case of the default of Dewan Housing Finance, the jury is still on whether it was related party transactions, or ALM, or a combination of factors that led to a default. However, in cases such as Altico Capital, which had marquee PE investors such as Clearwater Capital, Abu Dhabi Investment, etc., the default seems to be clearly a case of investments into real estate loans, which turned sticky. Thus, for the first time since the shake-out that happened after the CRB-scam, the financial world is seeing the collapse of NBFCs.

Text Box 2: Measures for resolving liquidity crisis with NBFCs

Measures for increasing banks' credit to NBFCs

- RBI vide notification dated August 13, 2019 increased the limit on banks' lending to NBFCs (other than MFIs) for on- lending to the Housing sector to be classified as eligible priority sector lending. The limit was increased to ₹ 20 lakh per borrower as against ₹ 10 lakh per borrower.
- FALLCR (i.e. securities that can be reckoned, both for SLR and LCR) of 0.5 per cent exclusively for lending to NBFCs was introduced in October 2018. This enabled banks to sell off excess SLR securities and at the same time enhanced banks' credit to NBFCs.
- A notification dated November 02, 2019, allowed banks to provide Partial Credit Enhancement to bonds issued by the NBFC-ND-Sis and HFCs registered with National Housing Bank.
- A press release dated August 13, 2019 introduced Partial Credit Guarantee scheme offered by the Government of India for purchase of high- rated pooled assets of NBFCs/HFCs by Public Sector Banks, wherein the government promised to extend first loss guarantee for purchase of pooled assets by Public Sector Banks (PSBs). Subsequently, in order to enhance the ambit of the scheme, the rating requirement was reduced from AA to BBB.
- Through a notification dated September 12, 2019, the limit on banks' exposure to a single NBFC was revised from 15% to 20% of tier-1 capital of the banks.
- Change in norms for risk weighting of banks' exposure to NBFCs, treating the same at par with Basel III norms for corporate exposures. (Circular dated February 22, 2019).

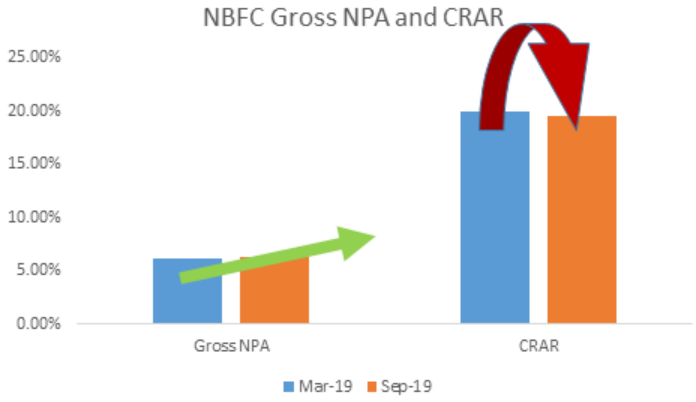
Measures to enhance liquidity

A circular issued on November 29, 2019 provided for conditional relaxation of Minimum Holding Period for securitisation of loans.

Rating downgrades of securities of ILFS and DHFL			
Company	Date	Earlier credit rating	Revised credit rating
IL&FS Financial Services Limited	08-Sept-18	A1+	A4
IL&FS Financial Services Limited	17-Sep-18	A4	D
IL&FS Financial Services Limited	31-Oct-19	D	Moved to Non-Cooperative Category
IL&FS Securities Services Ltd	31-May-19	A2	A4
IL&FS Securities Services Ltd	05-Aug-19	A4	D
DHFL	11-May-19	A3+	A4+
DHFL	5-Jun-19	A4+	D

Source: ICRA

The Financial Resolution and Deposit Insurance Bill is possibly on the back-burner, but in the meantime, the Central Government has brought "financial services providers" (FSPs) within the fold of the Insolvency and Bankruptcy Code (IBC). Vide notification dated 18.11.2019[14], the Central Govt has permitted initiation of the insolvency resolution and liquidation proceedings against NBFCs having an asset size of ₹ 500 crores or more. It is under this power that the first case of NBFC insolvency in India, in the case of Dewan Housing, is being handled.



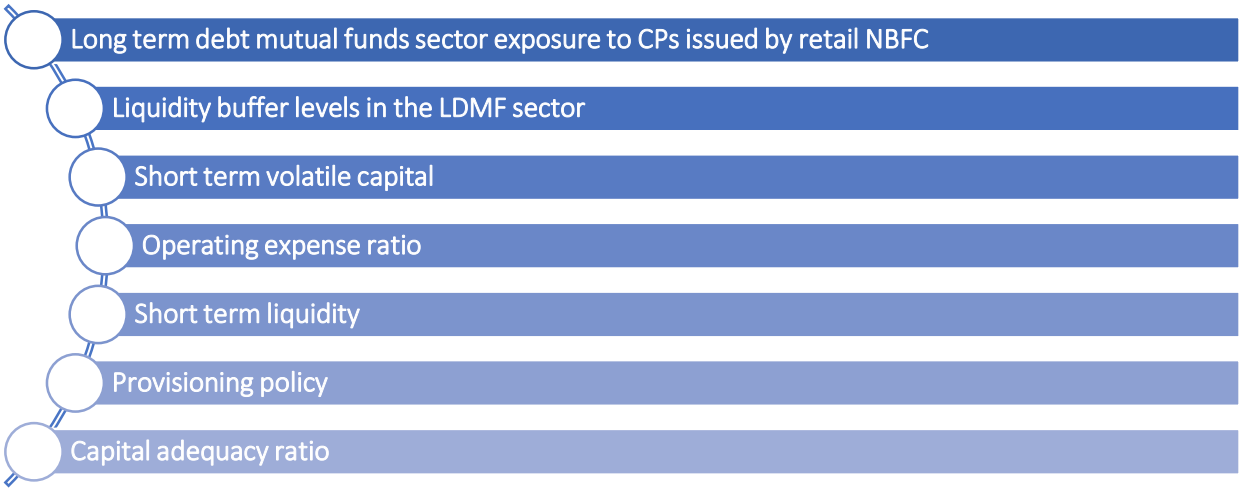
Source: Financial Stability Report, RBI

Health of NBFCs and HFCs

RBI has, in its Financial Stability Report (FSR), reported that the gross NPA ratio of the NBFC sector has increased from 6.1% as at end-March 2019 to 6.3% as at end-September 2019, and has projected a further increase in NPAs till September 2020. The FSR further states that as at end-September 2019, the CRAR of the NBFC sector stood at 19.5% (which is lower than 20% as at end-March 2019).

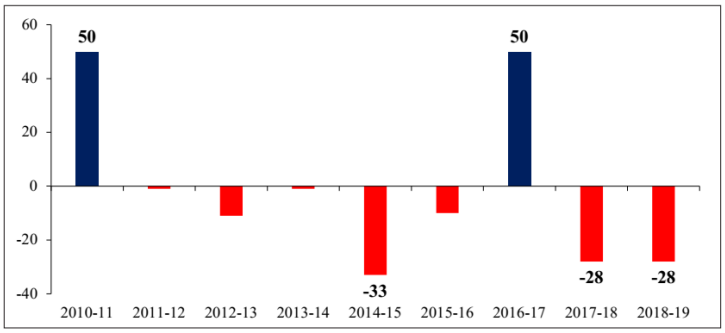
The Economic Survey[15] has encouraged the use of a metric called Health Score, for HFCs and NBFCs. The key metrics affecting Health Scores of Retail- NBFCs are listed down below:

[14] https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=48982
[15] https://www.indiabudget.gov.in/economicsurvey/doc/vol1chapter/echap08_vol1.pdf

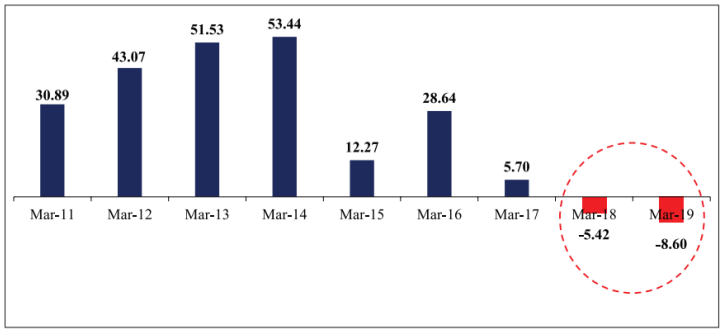


The Survey has indicated that the Health Score of the HFC sector exhibited a declining trend post 2013-14. By the end of FY 2019, the health of the overall sector had worsened considerably. While the Health Score of the Retail NBFC sector was consistently below par for the period 2014 till 2019, among the medium and small Retail-NBFCs, the medium size Retail-NBFCs had a lower Health Score for the entire period from March 2014 till March 2019. Considering that the Health Score of a stressed NBFC was consistently low throughout the period 2011- 19 with a sharp decrease in FY 2018, there were significant early warning signals.

Health score of NBFC sector



Health score of HFC sector



Source: Economic Survey, 2019-20

Comparison between GFC and NBFC crisis in India

The global financial crisis (GFC) refers to the period of extreme stress in global financial markets and banking systems between mid-2007 and early 2009. During the GFC, a downturn in the US housing market was a catalyst for a financial crisis that spread from the United States to the rest of the world through linkages in the global financial system. Many banks around

the world incurred large losses and relied on government support to avoid bankruptcy. Millions of people lost their jobs as the major advanced economies experienced their deepest recessions since the Great Depression in the 1930s. Recovery from the crisis was also much slower than past recessions that were not associated with a financial crisis. The Troubled Asset Relief Program (TARP) was then initiated by the U.S. Treasury to stabilize the country's financial system, restore economic growth, and mitigate foreclosures in the wake of the 2008 financial crisis.

TARP sought to achieve these targets by purchasing troubled companies' assets and stock. In other words, TARP was a programme to purchase toxic assets and equity from financial institutions to strengthen its financial sector. While TARP's original purpose was to increase the liquidity of the money markets and secondary mortgage markets by purchasing the mortgage-backed securities, and through that, reducing the potential losses of the institutions that owned them, later, its aim was modified slightly to allow the government to buy equity in banks and other financial institutions. TARP initially gave the Treasury purchasing power of $700 billion; the Dodd-Frank Wall Street Reform and Consumer Protection Act later reduced the $700 billion authorization to $475 billion.

In December 2013, the Treasury wrapped up TARP and the government concluded that TARP recovered funds totaling $441.7 billion from $426.4 billion invested. The government also claimed that TARP prevented the American auto industry from failing and saved more than 1 million jobs, helped stabilize banks, and restored credit availability for individuals and businesses.

Now in 2018, NBFC's in India faced a liquidity crunch. While the initiation of the crisis is linked to the failure of one of the most respected NBFCs in India, IL&FS, followed by struggles at DHFL, Reliance Capital, and the latest, Altico, it is quite evident that the NBFC was a reflection of the economic slowdown. Banks lost confidence on NBFCs, NBFCs were unable to repay their obligations and interest on borrowings for NBFCs spiked making it difficult for them to borrow. On June 4, 2019, the net asset value of debt funds, which held debt instruments issued by the stressed NBFCs, fell by 53% in one day when news about its default became public. The impact of these defaults was not limited to debt markets. There was a sharp decline in the equity prices of stressed NBFCs as equity market participants anticipated repayment troubles at these firms a few months in advance of actual defaults. To get a sense of the quantum of losses, debt mutual funds with exposure to stressed NBFCs lost approximately ₹ 4,000 crores after adjusting for recoveries in the aftermath of defaults.

The Economic Survey[16] has pointed out various issues that led to the NBFC crisis, such as ALM mismatch, rollover risk, and stipulates a novel scoring methodology to analyse the financial health of firms in the NBFC sector (Health Score). Highlighting the importance of capturing the early warning signs to anticipate liquidity crisis in an NBFC, the Survey suggested that the policy makers may revive the shadow banking channel of growth to efficiently allocate liquidity enhancements across firms (with different Health Scores) in the NBFC sector.

Expectations

The pre-Budget expectations were broadly as follows:

1. TARP-like proposals:

It was expected that the Budget will also introduce a plan similar to the TARP or Danaharta (as in Malaysia). Further, just like a fund has been set up in case of the housing sector for the so-called last-mile funding for stuck housing finance projects, the market expected that a fund would be set up for acquiring the defaulted loans of NBFCs.

2. Alternate sources of fund for NBFCs:

A press release[17] of CRISIL indicated that non-banks with strong parentage and those who are retail focused with strong credit profile and sound liquidity have managed to access funds and have reported growth, while others haven't. Further, wholesale-oriented standalone non-banks face relatively higher confidence deficit because of lingering concerns about asset quality.

Banks being sceptical about lending to NBFCs, the cost of funds for NBFCs have increased. The trifecta of constrained funding access with rising borrowing costs, re-calibration and de-risking of loan book and a slowing economy is set to beat down growth in assets under management (AUM) of non-banks to a decadal low of 6-8% this fiscal, compared with 15% last fiscal[18]. Thus, there exists a need to locate alternate sources of finance for NBFCs.

3. Priority Sector Lending (PSL) norms:
    a. In order to encourage lending to the education sector, bank loans to NBFCs for onward lending to the education sector might be recognised as PSL for banks.

[16] https://www.indiabudget.gov.in/economicsurvey/doc/vol1chapter/echap08_vol1.pdf
[17] https://www.crisil.com/en/home/newsroom/press-releases/2019/10/npas-in-wholesale-loan-book-of-non-banks-to-rise-as-moratoria-lapse.html
[18] https://www.crisil.com/en/home/newsroom/press-releases/2019/12/non-bank-growth-to-hit-a-decadal-low-of-6-8-percent-this-fiscal.html

b. In line with the norms for banks, gold loans extended to agrarian borrowers by NBFC might also be allowed to be classified under as a PSL.
c. The time limit on permissibility of loans from banks to NBFCs for on-lending to be eligible under PML criteria to be removed i.e. the permissibility to be made permanent. Further, the limit of 10% might also be increased.

4. Recovery related matters:

At present certain notified NBFCs were only allowed to take recourse under Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI), 2002, and only on the principal amount being more than ₹ 1 crore. However, NBFCs usually provide small size loans to a large number of borrowers, but even though their aggregate exposure, on which borrowers have defaulted, may be substantially high, they were not able to find recourse under SARFAESI. It was expected that to ensure quicker recovery of dues and maintenance of liquidity, NBFCs might be allowed to take recourse under SARFAESI in case the principal amount is ₹ 1 lakh or more.

5. Tax related:
   a. It was expected that some relaxation will be offered on thin capitalisation rules, and NBFC-D and NBFC-ND-SIs will be exempted from provisions of TDS on interest income.
   b. Reduction in GST rates on lease rentals.

Outcome of the Budget

The outcome of the Budget however, was far from the expectations. Only the following reforms have been proposed in the Budget:

a. Liquidity support: In the Budget Speech, the FM mentioned that post the Union budget 2019-20, to address the liquidity constraints of the NBFCs/HFCs, the government formulated PCG scheme for the NBFCs, now to further this support, a mechanism would be devised. It was also stipulated that the government will offer support by guaranteeing securities so floated.

   However, what sort of "support" and what kind of "securities" did the FM refer to, neither was elaborated in the speech nor in the Finance Bill.

b. Ease of recovery: Until now, only shortlisted NBFCs with asset size of ₹ 500 crores were allowed to enforce security interest under the SARFAESI and that too for loans with original principal of ₹ 1 crores. The FM has however, that NBFCs with asset size of ₹ 100 crores or

more will be eligible under SARFAESI Act. However, this will not authorise all the existing NBFCs with the prescribed asset size automatically to proceed against the borrowers under the SARFAESI Act. They will still have to wait for the Government to notify their names under the Act.

Further, the threshold for eligible loans for enforcement of security interests have also been reduced from ₹ 1 crore to ₹ 50 lakh. The original expectation, however, was to bring the threshold down to ₹ 1 lakh, at par with banks.

It is, however, important to argue whether NBFCs are actually utilising the SARFAESI route to recoveries? SARFAESI is an option, not an obligation. The contractual rights of recovery may still be used by the NBFCs. In any case, the option to use SARFAESI is only where there is a security interest. Using the SARFAESI option also predicates a substantial time to recovery, as (i) there is a 90 days' time for a debt to turn non-performing; (ii) there is a mandatory 60 days' notice before any repossession action; (iii) there is a mandatory 30 days' time before sale. SARFAESI proceedings are appealable before DRTs, and the existing infrastructure and delaying tactics at DRTs makes SARFAESI action highly inefficient. So, one wonders whether the lowering down of SARFAESI threshold and including more NBFCs into the fold of the law does a real good.

c. Allowing NBFCs to carry out factoring activities and participate in TReDS - This proposal seems to be a carry forward from last year's budget which was not implemented. This point has been covered in chapter on MSMEs of this Booklet.

While there was a huge hue and cry on the NBFC crisis, and the NBFC sector was certainly expecting a short-term measure, and medium-to-long term measure, the Budget speech failed to fulfil the market expectations. It may be apt to quote Ghalib:

आह को चाहिए इक उम्र असर होने तक
कौन जीता है तेरी ज़ुल्फ़ के सर होने तक।
हम ने माना कि तग़ाफ़ुल न करोगे लेकिन
ख़ाक हो जाएँगे हम तुमको ख़बर होने तक।

Maintaining the buoyancy of the Capital Markets

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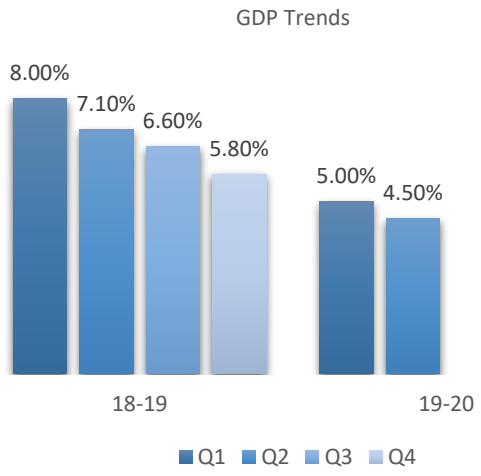
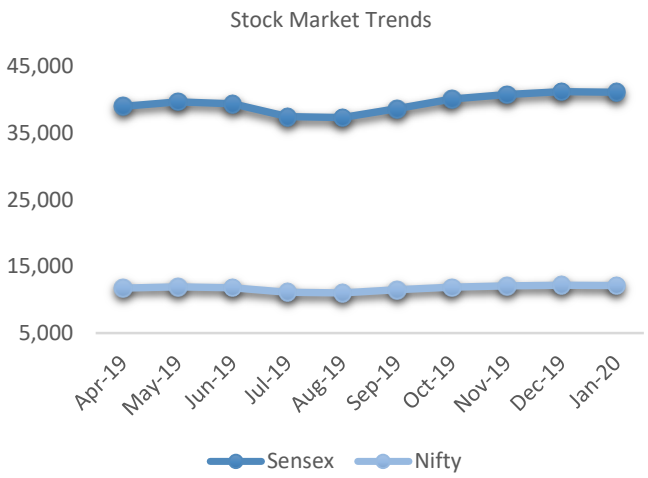
Except for the reactions to the Budget on the Budget day or thereafter, in general, the performance of the capital markets have been not completely in sync with the performance of the economy. The returns provided by large cap stocks have been impressive. Therefore, the indices seem to have done well. However, the performance of mid-cap and small-cap stocks have not been equally remarkable. By the end of Dec 2019, the total market capitalization in India was $ 2.15 trillion, showing a growth of 3.43%. On the other hand, Sensex gained 11.91% in calendar year 2019.



Source: Department of Economic Affairs Monthly Reports

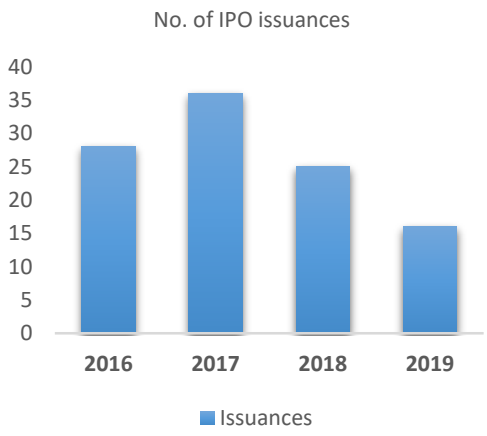


Source: BSE and NSE Historical Data

This apparent dichotomy may be explained by the fact that the capital markets are not exactly looking at the past; the markets look at the future. The economy's poor GDP numbers may not be depressing the stock markets, while the benchmark indices continue to climb the growth ladder.

Last year, the Budget faced some severe backlash from the markets ultimately forcing the Government to rollback of certain budget proposals such as the super tax on foreign investors. This year the markets were looking forward to incentives and other reforms and hoping for no unexpected shocks.

Equity Market



Source: NSE

The Equity Markets are an important and strong source of capital raising by Indian Companies. This market consists of the new issue and secondary trading markets. The number of new issues (IPOs) in the year 2019 is comparatively lower as compared to previous years. The continued economic uncertainties and the generally sluggish environment demotivated capital expenditure. Hence, companies did not reach out investors with IPOs.

Stock market indices have altogether not disappointed and are reaching new all-time highs despite the slowdown in the economy.

An increase in growth of the Indian equities market required substantial incentives and new policies to attract foreign as well as domestic investors to pool in higher resources. Further, retail investors should be actively promoted to invest directly in equities for markets to gain further traction and mobilize savings to investments.

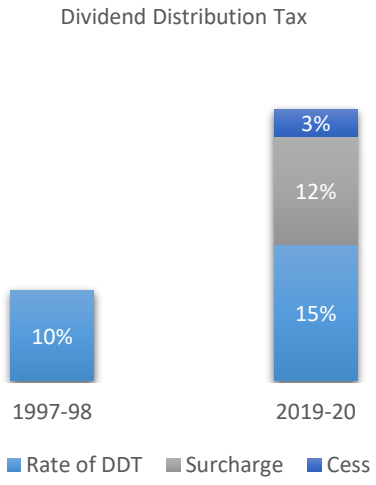
Issuers' view

Last year, post the Budget proposals, several foreign investors pulled out of the Indian markets as there were shocks relating to certain budget proposals.

From an issuer's perspective, to boost growth, policy reforms and other incentives are required so as to promote issuers to raise equity capital from the markets.

Expectations from Budget, 2020

1. **Dividend Distribution Tax (DDT)– Provide relief or shift the burden -**



DDT is the tax levied on distribution of profits by Companies. The same is taxed at 15% however the effective rate of DDT amounts to 20.35%. The intent of introducing DDT was to discourage corporates from distribution and focus more on ploughing back of profits for growth. This was back in FY 1997-98 where DDT was introduced for the first time in the Union Budget at a rate of 10%.

The exact rationale can be extracted from the Budget speech[19] of the then Hon'ble Finance Minister in FY 1997-98 –

"Some companies distribute exorbitant dividends. Ideally, they should retain the bulk of their profits and plough them into fresh investments. I intend to reward companies who invest in future growth. Hence, I propose to levy a tax on distributed profits at the moderate rate of 10

[19] https://www.indiabudget.gov.in/budget_archive/ub1997-98/bs/BS24.HTM

per cent on the amount so distributed. This tax shall be an incidence on the company and shall not be passed on to the shareholder."

Prior to the introduction of DDT on Corporates, dividend was taxed in the hands of shareholders.

Presently Companies are facing higher burden due to the high levy of DDT, which acts as a strain on the Company since it is a tax paid in addition to the normal taxes paid by the Company. The rationale with which DDT was introduced no longer remains reasonable as it acts as a deterrent to genuine companies who wish to reward their shareholders by distributing high amounts of dividend in profitable years.

Therefore there has been demand from the market to completely abolish DDT or shift the burden back on to the Investors.

2. Remove previously introduced Buyback tax on listed companies -
Buy Back tax was earlier payable by shareholders in case of a listed company and by the company in case of an unlisted company.

The previous budget shifted the burden of payment of buyback tax from the shareholder to the company in case of listed companies. This was done in an attempt to prevent companies from preferring buybacks over payment of dividend only to avoid DDT.

However, taxing the company does not take into consideration the actual capital gains made by the shareholder as the company pays tax on the difference between the buyback price and the issue price irrespective of the price at which the shareholder invested.

There may also be a case of double taxation, wherein an investor pays Long Term/Short Term Capital Gains (LTCG/STCG) tax on transfer of shares to another investor and subsequently the company goes for a buyback and must pay tax on the buyback price less the issue price without considering the tax already paid by the initial shareholder.

Thus the market expected a reversal of the Buyback tax imposed on listed companies as this causes several problems and discourages genuine buybacks as well.

3. Make the listing process more efficient and speedy.

As stated earlier, IPO trends have been falling and new issuances are significantly lower as compared to previous years. The IPO market fell

to a four year low, mainly due to global cues and slowdown in the economy.

Issuers expected a more efficient listing process to be brought in by the Budget, 2020 in hopes of more IPO data for the FY 2020-21.

Actual changes made in Budget, 2020

1. **Dividend Distribution Tax – Abolished**

   DDT has now been abolished in the hands of the company. The company will not be required to pay any tax on distribution of dividend.

   The move is taken in order to increase the attractiveness of the Indian Equity Market and to provide relief to a large class of investors
   The classical system of dividend taxation has been adopted under which the companies would not be required to pay DDT. The dividend shall be taxed only in the hands of the recipients at their applicable rate.

   This move will make India an attractive destination for investment and further the DDT abolishment will lead to ultimate benefit of companies by way of additional funds in the hands of companies which can be further reinvested into the business.

Investors' view

Active participation from investors is key to boosting growth in the slowing economy. Promoting investment in Capital Markets should be a priority for growth. This should be the top agenda for the government as major reforms are expected to bring about a massive change to investment environment.

Expectations from Budget, 2020

1. **Release investors from the burden of Securities Transaction Tax (STT):**

   While the Union Budget, 2019 added an LTCG tax on investors it did not remove or abolish STT which is now an additional burden on investors.

   This means that investors are taxed twice on the same gains. Therefore it was expected that the Budget will streamline taxes or remove STT completely.

2. **Provide incentives to retail investors:**

The Government's target of achieving a 5 trillion dollar economy is only possible with growth in investment from all areas.

In order to shift current savings of retail individuals from their bank accounts and into the capital market, there should be certain incentives, mainly tax incentives for investors.

This would provide additional motivation for retail individuals who lock up their savings in a bank account to mobilize the same into the equity markets. This would have the effect of increasing growth as well as providing incentives to investors.

3. **Increase holding period for/reduce Long Term Capital Gains Tax (LTCG):**

LTCG on gains exceeding ₹ 1 lakh are taxed at 10%. This was introduced in the Budget 2018, prior to which there was a tax exemption on the same. Further STT is also paid on these gains.

This is an additional burden for investors and does not motivate growth in investments. Thus it is expected to increase the holding period for long term capital gains from the present 1 year to 2 years for listed shares, which is likely to boost investments.

4. **Provide tax incentives to Foreign Investors:**

In order to increase the foreign equity inflows, there is a need to provide incentives in the form of tax reliefs to attract foreign investor's investment in Indian capital markets.

Foreign equity inflows have been a major source of capital for Indian markets and contribute significantly to our growth. The previous budget which introduced surcharges on foreign investors faced severe backlash from foreign investors.

Thus, it was expected to increase tax incentives to foreign investors to keep them from pulling out of the Indian markets.

Actual changes made in Budget, 2020

1. **Deduction of deduction of dividend received by holding company**

In order to remove the cascading effect, holding companies will be allowed to deduct dividend received by its subsidiary.

This is a tax incentive for the company investing in the shares of its subsidiary and receiving dividend from it.

Bond Market

Globally, the bond markets are regarded as the largest and deepest source of capital for companies. However, in India, the real sector consisting of non-banking non-financial companies (NBNCs) has a very small dependence on bonds, thereby making it heavily reliant on bank and shadow-bank credit.

The policy direction of taking India to a $ 5 trillion economy by 2024-25 will need a substantial part of corporate resources to come from the bond market.

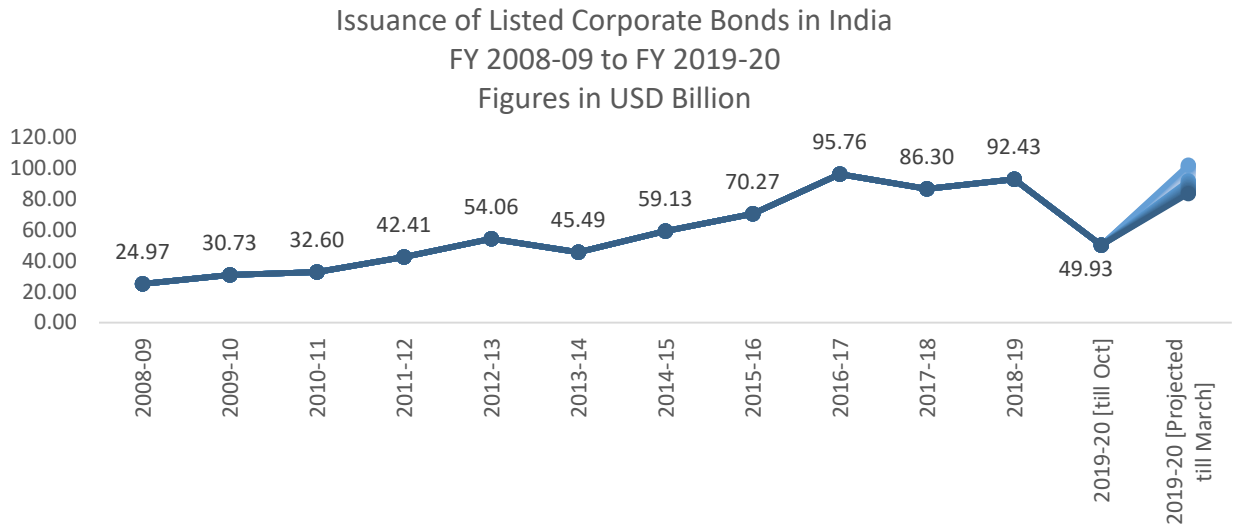
The Indian Bond Market can be divided into two major categories –

i. Government Bonds
ii. Corporate Bonds

However, for the purpose of this write up, the focus will be on the corporate bond market.

Issuers' view

Bond issuances in India have mainly been through private placements owing to the simpler issuing process as compared to the process for public issue of bonds. Listed Corporate Bond issuances growth rate has been consistent but has not been very impressive as shown in the figure below.



Source: Based on Securities and Exchange Board of India, Prime Database data. The fan chart for FY 2019-20 is probabilistic, based on authors' estimates

To increase the growth of corporate bond issuances in India, several reforms are required in terms of easing regulations and other motivators

in order to boost the corporate bond market and allow for further investor participation in lower than AA rated bonds.

Expectations from Budget, 2020

1. **Increased policy measures to deepen the Corporate Debt Market;**

   The Finance Minister (FM) recently launched a ₹ 102 lakh crore infrastructure pipeline with the objective to double growth and achieve the $ 5 trillion economy target.

   The funding for this infra project cannot only be dependent on government funding or banks considering the high amount involved.

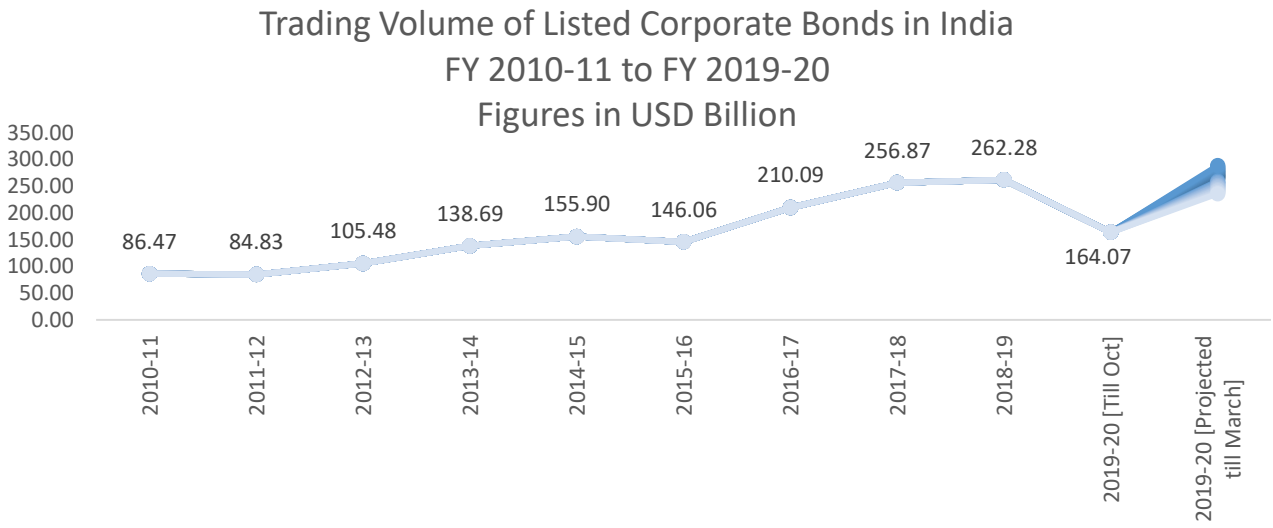
   The market expected certain policy measures to help achieve this target by deepening and encouraging growth of the corporate bond market.

2. **Introduce new measures to promote trading and liquidity in corporate bonds**

   The Corporate bond market is an essential source of funding for the infrastructure sector.

   The previous budget suggested to introduce new reforms for increasing the user friendliness of the corporate bond market.

   However, the Indian bond market, compared to global peers, is the relative illiquidity and lack of depth in the secondary markets. The figure below shows the trading volume of corporate bonds in India during the past few years.



Source: SEBI data on corporate bonds. The fan chart for FY 2019-20 is probabilistic, based on authors'

There is a need to ensure highly liquid corporate bond markets. With this mindset, the market expected the Government to set up a liquidity/ credit enhancement institution.

Actual changes made in Budget, 2020

Despite several representations being made by the industry, there was absolutely nothing for the issuers in the Budget. However, one could argue that the proactive role played by the SEBI to promote an efficient bond market in India, through its dynamic law making, may be one of the reasons for the FinMin to step back and stay silent on this front.

Investors' view

The corporate bonds market is mainly dominated by institutional investors like mutual funds, insurance companies and employee benefit funds. Besides, banks also continue to be a major investor in this space. However, what has been a matter of concern for the Government of India is the low level of participation from retail investors and FPIs.

Based on the above pretext, the market expected the following reforms from the Budget, 2020:

1. **Relaxation of investment norms for FPIs;**

FPIs investment in corporate bonds is subject to several investment norms issued by RBI. For instance a single FPI cannot invest in more than 9% of their outstanding investments in corporate bonds.

Further short term investment of a single FPI is also restricted to 30% (earlier 20%) of total investment of an FPI.

In order to further deepen and strengthen the corporate bond market there could be further liberalization of the said investment norms.

2. Incentives to retail investors to encourage participation in corporate bonds;

For increase in retail participation, the Government could increase the same by introducing incentives to investors in the form of tax incentives to retail investors.

This is likely to boost participation of retail investors in the corporate bond market.

3. Reforms in law and regulatory framework for corporate bond market:

The Credit Default Swaps segment has remained dormant for quite some time. This segment needs a kick-start through legislative reforms and changes.

The framework for privately placed debt is covered under the Companies Act, 2013 as well as SEBI ILDS Regulations. There is a need to streamline these laws in order to avoid duplicity and overlap of regulations in case of privately placed debt.

4. Extend timeline of Section 194LC for foreign investors.

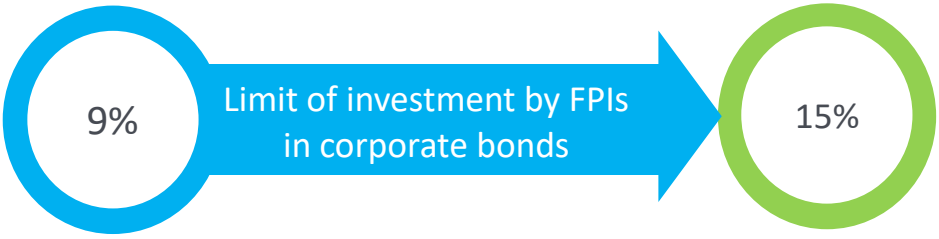
Presently, the withholding tax on interest payable by companies or business trusts to NRIs and foreign companies under any loan agreement or by issue of any long term bond including long term infrastructure bonds is at a concessional rate of 5%.

However this concessional rate was earlier applicable only up to 1st July, 2020. Foreign investors are currently in favor of the concessional rate of TDS and wish to maintain status quo. It was expected to extend the said timeline further.

Actual changes made in Budget, 2020

1. **Increase in limit of investment in corporate bonds by FPIs**
   The limit on FPI investment in corporate bonds was earlier capped at 9% of the outstanding stock of corporate bonds in FY 19-20.

   This limit has now been increased from 9% to 15% of the outstanding stock of corporate bonds. This will deepen the corporate bond market and also further improve ease of doing business.



2. **Legislation laying down a mechanism for netting of financial contracts:**

   Regulatory reforms are going to be brought in with respect to the regulatory framework for Credit default swaps. It is proposed to formulate a legislation for laying down the mechanism for netting of financial contracts.

   This is likely to increase investor confidence and expand CDS scope, while also giving it a boost.

3. **Tax concessions for foreign investors**
   Budget, 2020 has met foreign investor expectations and brought in several tax concessions in this regard. These incentives are likely to boost foreign inflows into the Indian corporate bond market.

   - **100% tax exemption to Sovereign Wealth Funds (SWF) of foreign governments –**

     SWFs will now have 100% tax exemption to their interest, dividend and capital gains income in respect of their investments made in infrastructure and other notified sectors. This investment however, must be made before 31st March, 2024 and with a minimum lock-in period of 3 years.

   - **Extension of concessional rate of withholding tax**

The period of concessional withholding tax of 5% under Section 194LC has been extended to 30th June, 2023 from the present date of 1st July, 2020.

Further, the timeline under Section 194LD has also been extended to 30th June, 2023 from the present date of 1st July, 2020. This means the concessional rate of 5% will still be available for payment to FPIs and Qualified Foreign Investors (QFIs) in respect of bonds issued by Indian companies and government securities.

Furthermore, the concessional rate of 5% has also been extended under Section 194LD to the interest payment on Municipal Bonds which is likely to attract higher foreign investment in Municipal Bonds as well.

- **Promoting listing of bonds on IFSC Exchange**
  The withholding tax on interest payment on bonds listed on IFSC exchange has been reduced from the earlier 5% to 4% in order to promote listing on the exchange.

Other changes made in Budget, 2020 which could impact both segments

1. **Listing of LIC**
   The government will sell part of its stake in Life Insurance Corporation of India (LIC) by way of an IPO. This is a strong move with the intent providing access to financial markets and unlock its value.

   It is also intended to give opportunity for retail investors to participate in the wealth so created.

Conclusion

The proposals and changes made in the Budget, 2020 are in line with several expectations and in some cases exceeding expectations. The Government has set its focus on deepening the corporate bond markets by bringing in several measures.

The equity markets however have not seen many reforms in favor of investors. At the same time there is no additional burden put on equity investors as well.

Overall, the changes are likely to increase foreign investment, see an increase in profits and better performance of companies by abolishment of DDT and increase ease of doing business.

The *aadhar* of Indian economy: Infrastructure Sector

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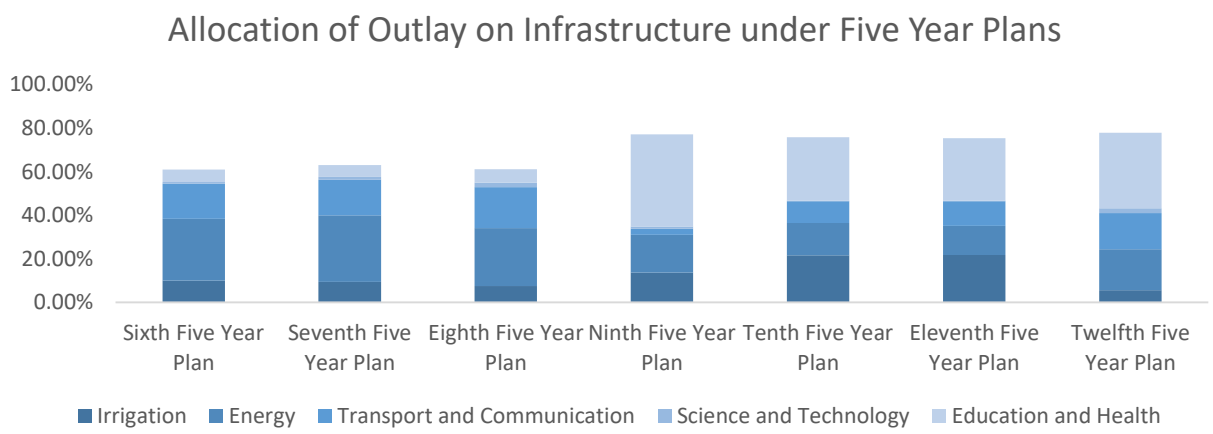
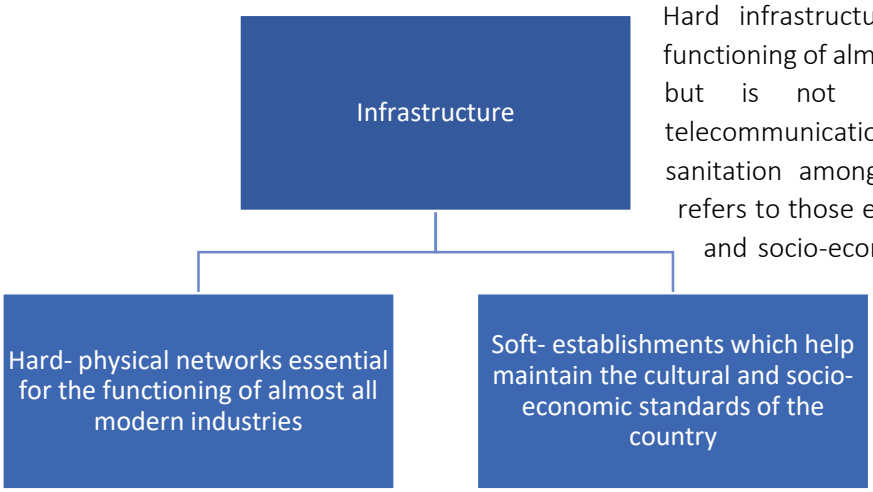
Economic development and prosperity of any country heavily depends on its infrastructural progress and technological advancements. UK, USA and other powerful countries have experienced major industrial and agricultural revolutions owing to the exponential infrastructural progress. In this connection Dr. V.K.R.V. Rao observed, *"The link between infrastructure and development is not a once for all affair. It is a continuous process and progress in development has to be preceded, accompanied and followed by progress in infrastructure, if we are to fulfil our declared objectives of a self-accelerating process of economic development."* Infrastructure is vital for alleviation of poverty and fostering economic growth.

Infrastructure has occupied a dominant place in India's Planning. About 55 to 61 per cent of the total planned outlay was devoted to the development of infrastructure in the first Six Five Year Plans. About 63 per cent of the total plan outlay was allocated to infrastructure in the Seventh Plan. About 61.1 per cent of the total outlay was allocated to infrastructure in the Eighth plan. 2 In the Ninth, Tenth, Eleventh and Twelfth five year plans, the allocation was in the range of 75% to 78%. The figure below shows the proportion of planned outlay in infrastructure along with the proportion of each sub-sectors during the last seven five year plans.



Source: http://mpplanningcommission.gov.in/



Broadly the infrastructure sector is classified into two types, hard and soft. Hard infrastructure are physical networks essential for the functioning of almost all modern industries. It primarily consists of but is not limited to roads, airports, waterways, telecommunications, electricity, power, water supply and sanitation among other utilities. Whereas Soft infrastructure refers to those establishments which help maintain the cultural and socio-economic standards of the country. These include educational and health programs, judicial and law enforcement agencies, transport services, disasters and emergency services among many others. As such infrastructure sector not only has a crucial impact on economic development (better resources for domestic businesses, attracting FDI etc.) but also has a ubiquitous impact on the quality of our daily lives. Although infrastructure development is primarily the concern of the Government, public-private initiatives over the year have led to accelerated development in this sector. The infrastructure sector has been of primary concerns of the Budget in recent years.

National Infrastructure Pipeline (NIP) plan was announced by Finance Minister Nirmala Sitharaman on 31st December as a part of government's 5 year plan to make India reach the $5 trillion target.

Infrastructure forms the foundation for any country's economic growth and development. So the health of the Infrastructure Industry is of utmost important to any country. Government's initiatives towards the Infrastructure development by introducing the NIP Plan, encouraging private participations and undertaking redevelopments in sectors like roads, railways, etc. and allocating ₹4.56 lakh crores in the union budget 2019-20 promises exponential growth of the infrastructure industry.

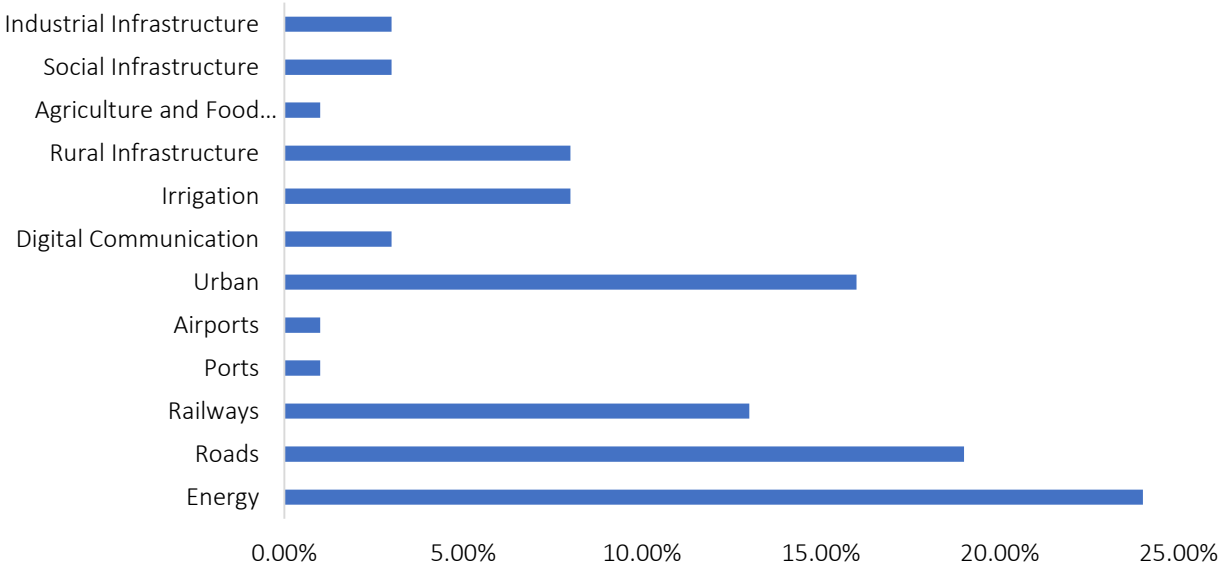
Text Box:

Building physical and social infrastructure will be the main focus area for the Government of India. Brookfield's US$ 1.9 billion acquisition of Pipeline Infrastructure India in first quarter of 2019 was largest PE investment in the sector. Investment in Infrastructure is necessary for growth. To achieve the GDP of $5 trillion by 2024-25, India needs to spend about $1.4 trillion (100 lakh crore) over these years on infrastructure. The challenge is to step-up annual infrastructure investment so that lack of infrastructure does not become a binding constraint to the growth of the Indian economy. To implement an infrastructure program of this scale, it is important that projects are adequately prepared and launched. To draw up the National Infrastructure Pipeline (NIP) for each of the years from FY 2019-20 to FY 2024-25, an inter-ministerial Task Force was set up in September 2019 under the chairmanship of Secretary (DEA), Ministry of Finance.

Allocation in Roads (19.17%), Urban Housing (15.90%), Railways (13.36%), Conventional Power (11.48%) and Renewable Energy (9.08%) forms ~68.89% of the rupees 102 lakh crores. During fiscal years 2020 to 2025,

sectors such as energy (24%), urban (16%), railways (13%) and roads (19%) accounts for ~70% of the projected infrastructure investments in India. The allocation and expenditure shows a major focus on urban infrastructure to tackle the urban growth explosion in India. Also, the government has focused on private participation in infrastructural development which stands at 22% while the Centre and State have an equal share of 39% each.

Sector-wise break-up of project capital expenditure worth ₹ 102 lakh crore during FY20-25



Source: Report of Task Force on NIP

In this article the author as tried to discuss what the expectations were and the hits and misses in the Budget.

Expectations:

There would have been a positive impact on the infrastructure sector if the allocations to schemes such as Pradhan Mantri Gram Sadak Yojana (PMGSY), Pradhan Mantri Awas Yojana – Gramin and Atal Mission for Rejuvenation and Urban Transformation (AMRUT) were increased.

It was expected that there will be more clarity provided by the budget on the government's 5 year plan of ₹102 crores for infrastructure projects. Increasing allocation to defense would also boost order books of the infrastructure and capital goods companies. The spending on infrastructure by the government will provide impetus to Toll and Engineering, Procurement, Construction (EPC) companies. Moreover, the increase in allocations towards large infrastructure projects such as bullet trains, Bharatmala, Sagarmala, Smart Cities, Inland Waterways development, etc. would be positive for the infrastructure players. Infrastructure companies sought finance from the center for affordable and real estate sector claiming that allocation of funds to these sectors in the upcoming 2020 budget would raise the consumption of cement and steel sectors. The cement players have asserted that they can even set up

12GW to 15 GW of renewable energy projects provided there is a positive ambience in the country.

- It was expected of the government to reintroduce deduction in respect of subscription to infrastructure bonds by individuals. This will also help the government to mobilize funds for investment in infra sector and thereby boost the economy.
- Infrastructure companies expected the central government to release stuck up funds which were meant for the infrastructure sector to revive the economy.

Terming the cross-subsidy and transmission charges as deterrents, have been making renewable energy more expensive than thermal power. Infrastructure players expected the government to provide exemptions so that cement and other core sectors can play a pivotal part in boosting renewable energy. There is a need for the introduction of captive renewable energy policy. The center should also provide exemptions from cross-subsidy as well as transmission charges for clean energy units to be set up beyond factory boundaries.

If the Budget 2020 is favorable, Infrastructure companies can play a key role in dealing with municipal and plastic waste or biomass.

Infra players expected from the centre further fine-tuning of the Income Tax Act, duties and lending rates.

The existing infrastructure of government hospitals, coupled with experienced surgeons and the latest technology from the private sector can go to great lengths in ensuring that the vast majority of the population that was previously bereft of the benefits of quality secondary care can now be guided on the path to health. Ayushman Bharat, Pristyn Care, the largest and sole provider of Laser General Surgery treatments in India has already taken steps in this regard to extending the benefit of Government schemes through a hassle-free patient experience, but now the Government must also include provisions for such partnerships in the upcoming Union Budget."

Budget Outcome:

The theme of the Union Budget 2020-21 is based on enhancing the living standards, improving productivity and efficiency and creating an environment for compassion social understanding. The budget aims at improving the physical quality of life through National Infrastructure Pipeline. ₹100 crores was promised by PM Narendra Modi in hid Independence Day speech and further ₹102 crores was allocated through the National Infrastructure Pipeline across 65000 projects which includes housing, safe drinking water, access to clean and affordable energy, healthcare for all, world-class educational institutes, modern railway stations, airports, bus terminals, metro and railway transportation, logistics and warehousing, irrigation projects, etc. About ₹22,000 crore has

already been provided, as support to Infrastructure Pipeline which would cater for equity support to Infrastructure Finance Companies such as IIFCL and a subsidiary of NIIF. They would leverage it, as permissible, to create financing pipeline of more than ₹1,00,000 crore. This would create a major source of long term debt for infrastructure projects and fulfil a long awaited requirement.

There exists a huge employment opportunity for the youth of India in construction, operation and maintenance of infrastructure. National Skill Development Agency will give special thrust to infrastructure-focused skill development opportunities.

The budget proposes to set up a project preparation facility for infrastructure projects. This programme would actively involve young engineers, management graduates and economists from India's Universities.

It is also proposed to direct all infrastructure agencies of the government to involve youth-power in start-ups. They will help in rolling out value added services in quality public infrastructure for citizens.

A National Logistics Policy will be released soon which will clarify the roles of the Union Government, State Governments and key regulators. It will create a single window e-logistics market and focus on generation of employment, skills and making MSMEs competitive.

Roads and National Highways

The budget has proposed to provide about ₹1.70 lakh crore for transport Infrastructure in 2020-21.

Accelerated development of highways will be undertaken which will include development of 2500 Km access control highways, 9000 Km of economic corridors, 2000 Km of coastal and land port roads and 2000 Km of strategic highways. Delhi-Mumbai Expressway and two other packages is proposed to be completed by 2023. Chennai-Bengaluru Expressway will be started.

Implementing the FASTag mechanism will encourages greater commercialization of national highways enabling NHAI to raise more resources. Hence, the budget proposes to monetize at least twelve lots of highway bundles of over 6000 Km before 2024.

The Indian Railways aims to achieve 27000 Km of tracks which will require cost optimization. Other developmental proposals such as setting up a large solar power capacity alongside the rail tracks on the land owned by the railways, employing PPP model for four station re-development projects and operation of 150 passenger trains, manufacturing more trains

like Tejas which will help in connecting iconic tourist destinations, active pursuit of high speed train between Mumbai to Ahmedabad and undertaking 148 km long Bengaluru Suburban transport project at a cost of ` 18600 crore. Central Government would provide 20% of equity and facilitate external assistance up to 60% of the project cost.

Ports and Waterways

The budget has focused on improving the efficiency of sea-ports through technology and a robust governance framework. The government would consider corporatizing at least one major port and subsequently it's listing on the stock exchanges.

Inland Waterways received a boost in the last five years. The Jal Vikas Marg on National Waterway-1 is proposed to be completed. Also, the 890 Km Dhubri-Sadiya connectivity will be done by 2022. The budget has proposed to consider the "Arth Ganga" plan. Plans to energise economic activity along river banks are expected.

Air traffic has been growing rapidly in the country as compared to global average. One hundred more airports would be developed by 2024 to support Udaan scheme. It is expected that the air fleet number shall go up from the present 600 to 1200 during this time.

Power

The budget proposes to provide about ₹22,000 crore to power and renewable energy sector in 2020-21

Taking into consideration the financial stress experienced by the distribution sector, particularly the DISCOMS the Ministry intends to promote "smart" metering. The States and Union Territories are advised to replace conventional energy meters by prepaid smart meters in the next 3 years. This would also give consumers the freedom to choose the supplier and rate as per their requirements. There would be taken further measures to reform DISCOMs.

In the upstream sector of oil and gas, the Open Acreage Licensing Policy (OALP) is a success having awarded 1,37,000 sq km for exploration to private sector and to the CPSEs. City gas distribution rights are also awarded. Further, the budget proposes to expand the national gas grid from the present 16200 km to 27000 km, and to deepen gas markets in India. It is expected that further reforms will be undertaken to facilitate transparent price discovery and ease of transactions.

Health

The budget has provided for the health sector about ₹69,000 crores that is inclusive of ₹6400 crores for Prime Minister Jan Arogya Yojana (PMJAY).

Tier-2 and Tier-3 cities is proposed to be included under the PM Jan Arogya Yojana (PMJAY) scheme. Viability Gap funding window for setting up hospitals in the PPP mode is proposed. In the first phase, those Aspirational Districts will be covered, where presently there are no Ayushman empanelled hospitals. This would also provide large scale employment opportunities to youth. Proceeds from taxes on medical devices would be used to support this vital health infrastructure

Using machine learning and AI, in the Ayushman Bharat scheme, health authorities and the medical fraternity can target disease with an appropriately designed Preventive regime. Commitment to end Tuberculosis by 2025.

Jan Aushadhi Kendra Scheme to expand to all districts offering 2000 medicines and 300 surgical by 2024.

Education

The budget proposes to provide about ` 99,300 crore for education sector in 2020-21 and about ` 3,000 crores for skill development.

With a rising population and a higher need for literacy, the New Education Policy will be announced soon.

Steps would be taken to enable sourcing External Commercial Borrowings and FDI so as to enable the delivery of higher quality education.

About 150 higher educational institutions will start apprenticeship embedded degree/diploma courses by March 2021 to improve the employability of general stream students.The government proposes to start a programme whereby urban local bodies across the country would provide internship opportunities to fresh engineers for a period up to one year.

In order to provide quality education to students of deprived section of the society as well as those who do not have access to higher education, it is proposed to start degree level full-fledged online education programme. This shall be offered only by institutions who are ranked within top 100 in the National Institutional Ranking framework. Initially, only a few such institutions would be asked to offer such programmes.

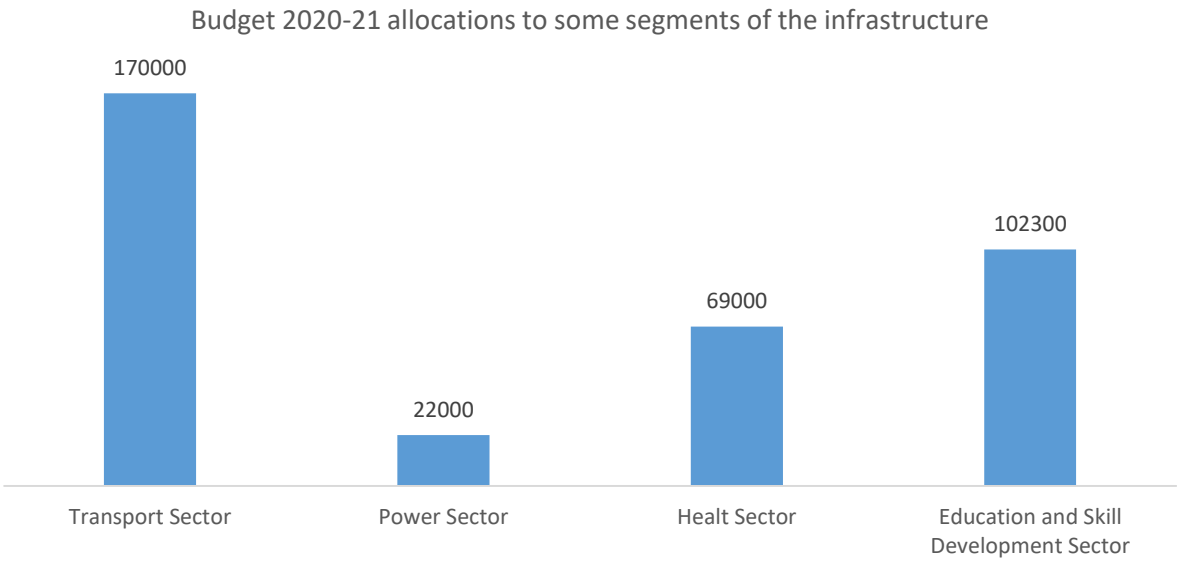
India's "Study in India" programme, Ind-SAT is proposed to be held in Asian and African countries to make it a preferred destination for higher education. This programme shall be used for benchmarking foreign candidates who receive scholarships for studying in Indian higher education centers.

A National Police University and a National Forensic Science University are being proposed in the domain of policing science, forensic science, cyber-forensics etc.

It is proposed to attach a medical college to an existing district hospital in PPP mode. Those states that fully allow the facilities of the hospital to the medical college and wish to provide land at a concession, would be able to receive Viability Gap Funding. This will be done to solve the problem of shortage of qualified medical doctors, both general practitioners as well as specialists.

The Government will encourage large hospitals with sufficient capacity to offer resident doctors DNB/FNB courses under the National Board of Examinations as it imparts PG medical qualifications; Diploma and fellow of National Board (DNB/FNB).

There is a proposal to design special bridge courses by the Ministries of Health, Skill Development together with professional bodies to bring in equivalence in the skill sets of teachers, nurses, para-medical staff and care-givers and the employer's standards. This would help meet the huge demand for these professions abroad. Language requirements of various countries need also to be included. All these should be achieved through special training packages.


Budget 2020-21 allocations to some segments of the infrastructure
170000
22000
69000
102300
Transport Sector
Power Sector
Healt Sector
Education and Skill Development Sector

Affordable housing in India

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Housing is one of the essential elements of survival. Affordable housing is that area of housing that strives to ensure availability of houses as well as finance for housing at affordable prices. This sector has been moving forward at a turtle speed since long. However, after introduction of schemes such as Pradhan Mantri Awas Yojana (PMAY) it has started picking pace. The scheme was introduced with a motive to bridge the gap between demand and supply for houses and it intends to achieve 'Housing for All by 2022'.

State of housing over last few years

The urgent need for affordable housing in India essentially came to light over the last few years with reports such as the Report of the Technical Group (TG-12) on Estimation of Urban Housing Shortage (2012), and McKinsey Report (2010), highlighting the huge gap in demand and supply or urban housing in India.

Hence, while efforts to provide low cost housing were made for years (National Housing Policy, 1994, Jawaharlal Nehru National Urban Renewal Mission, 2005; Rajiv Awas Yojana 2013), the Pradhan Mantri Awas Yojana (PMAY) launched in 2015 provided a fresh impetus – the PMAY-Urban (PMAY-U), which subsumed all the previous urban housing schemes.

In the previous budgets, due weightage was given to affordable housing, as a significant constituent of infrastructural development and hence, tax proposals to incentivise affordable housing, both from the buyers' and developers' perspectives, were introduced to stimulate growth.

Few of the reforms introduced in the previous Union Budget, and impact thereof have been discussed hereunder-

1. Extension of tax holiday u/s 80-IBA for developers of affordable housing projects- 100% deduction was provided for the income of affordable housing projects.;
2. Additional deduction of upto ₹1,50,000/- for interest paid on loan, borrowed upto 31.03.2020;
3. Alignment of definition of affordable housing with that under GST Act.

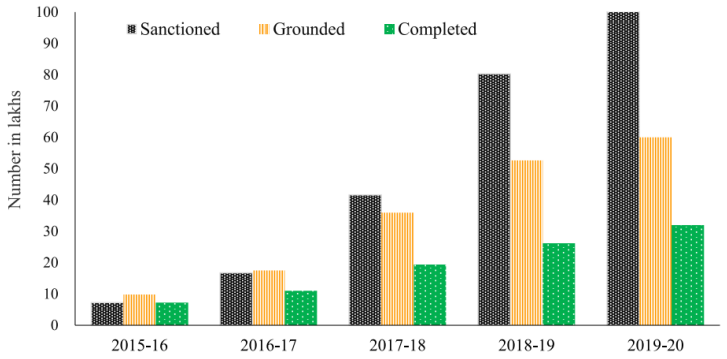
Interestingly, the reforms under affordable housing was a key beneficiary of sops through-out 2018-19. The tax related propositions resulted in reduction of cost to home buyers, thus, boosting up the housing industry. Complementary effects were also seen under the GST regime under which the rate for under-construction affordable homes were slashed to 1% per cent from 8%. Hence, The Government's mission of "Housing for All" by

2022, backed by the supporting reforms, paved way for a positive outlook for this sector.

The journey from Budget 19-20 to 20-21

Rapidly moving towards the goal of "Housing for All" by 2022, over and above the year-on-year budgetary provisions, a separate mechanism through creation of National Urban Housing Funds (NUHF) was approved by Union Cabinet to mobilise resources through Extra Budgetary Resources (EBR) to the tune of ₹ 60,000 crore for funding the Pradhan Mantri Awas Yojana- Urban (PMAY-U)

Performance of PMAY-U



Source: Economic Survey, 2019-20

The figure to the left represents the performance of PMAY-U since its inception. Presently, out of 1.03 crore houses approved, 60 lakhs have been grounded for construction, of which 32 lakh houses have been completed and delivered.

The Government also created an Affordable Housing Fund (AHF) in the National Housing Bank (NHB) with an initial corpus of ₹10,000 crore using priority sector lending shortfall of banks/financial institutions. The fund is used for micro financing of the HFCs and NBFCs which provide loans at reduced interest rate to the individual borrowers for promoting home ownership.

Expectations from the Union Budget

In stride of the ambitious goal of making India a $5 trillion economy by 2024-25, a total investment of about $1.4 trillion (over ₹100 lakh crores) is expected to be made over these years; 16% of which is allocated to urban infrastructure.

The Report of the Task Force on National Infrastructure Pipeline dated 31.12.2019 estimates a total expenditure of ₹ 16.29 crores towards Urban Infrastructure- affordable housing being one of its components.

The Task Force in its report has given its recommendations on required changes to several key sectoral policies and other reform initiatives by the Central and State Governments *inter-alia* developing a robust bond market for infrastructure companies, speedy resolution of infrastructure disputes, optimal risk sharing through better and balanced PPP contracts, and sanctity and enforceability of contracts.

Proposals under Budget 2020- A relay race

The present Budget, w.r.t. affordable housing, mainly reflects extension of benefits introduced in the previous budget. The proposals of the present Budget are discussed herein below-

1. **Deduction in respect of profits and gains from affordable housing projects:** The Finance Bill, 2020 proposes to extend the benefit of 100% tax holiday on the profits and gains derived from the business of developing and building affordable housing projects under Section 80-IBA of the Income Tax Act, by a period of one year, i.e. 31.03.2021

   This implies that such affordable housing projects approved by the competent authority by 31.03.2021 shall reap the benefit of the aforesaid deduction. Effective from 01.04.2021, this Amendment will accordingly apply in relation to the assessment year 2021-2022 and subsequent assessment years.

2. **Additional deduction of ₹1,50,000 towards interest paid on loans for purchase of an affordable house- section 80EEA of Income Tax Act, 196:** Introduced in the previous budgetary session, the present Budget proposes to extend the benefit of additional deduction of ₹1,50,000 for a year. Hence, as per the proposed amendment, persons who buy an affordable house, and for such purpose avail a loan within 31.03.2021, shall be eligible to an additional deduction of ₹1,50,000 towards interest paid on loans for purchase of an affordable house.

Way Forward

The performance in this sector post reforms under the previous budget has been appreciable, and hence makes it all the more prudential to extend the benefits that led to such results. While the number game seems to be in sync with the ambitious goal of “Housing for all”, the present conundrum also requires the focus on the lags in the Housing Finance sector, which, if made good shall only act as a catalyst for development in the affordable housing sector.

Invest in India: Ease of Foreign Direct Investment in India

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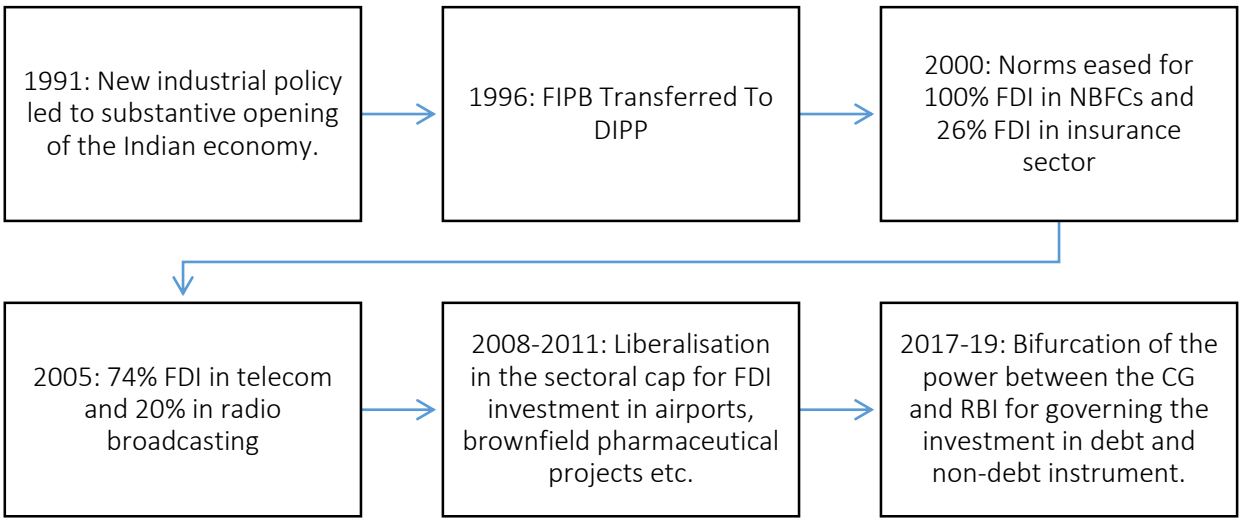
Since 1991 when the starting of the liberalization process paved the way for foreign investment in India, the country has come a long way. Currently, most of the sectors of the economy are open for FDI under the automatic route.

India received USD 27.2-billion foreign investment in the first half of 2019 and the pace is said to have sustained thereafter.



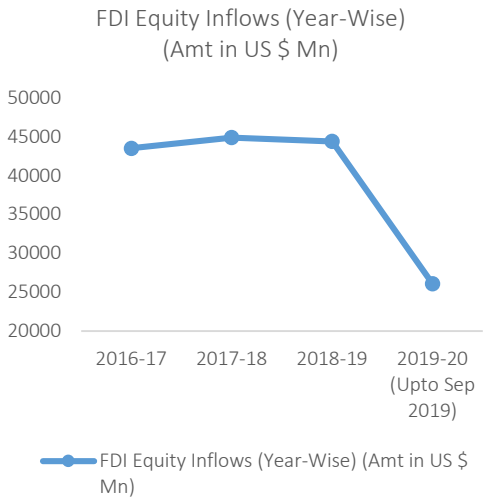
Foreign Direct Investment (FDI) in simple terms means investment by non-resident investor or a person resident outside India in the capital of an Indian company. FDI in India can be done through the Automatic route or the Approval route (also known as Government route). Under the Automatic route, no approval from the Reserve Bank or the Government is required prior to making the investment. Under the Approval route, prior approval from the Government is required to be taken before making any investment by a person resident outside India.

Foreign investment is a major source of capital for growth of our Indian economy. As may be noted from the timeline above, the FDI policy has been liberalized over a period of time, and this has impacted the foreign investment flows in India.

Some of the recent liberalization measures are:

- In August 2019, government permitted 100 per cent FDI under the automatic route in coal mining for open sale.

- In Union Budget 2019-20, the government of India proposed opening of FDI in aviation, media (animation, AVGC) and insurance sectors in consultation with all stakeholders.
- 100 per cent FDI is permitted for insurance intermediaries.
- In December 2018, the Government of India revised FDI rules related to e-commerce. As per the rules 100 per cent FDI is allowed in the marketplace-based model of e-commerce. Also, sales of any vendor through an e-commerce marketplace entity or its group companies have been limited to 25 per cent of the total sales of such vendor.



It was widely expected that further big steps in liberalisation will be taken alongside the Budget; in particular, the government was expected to permit 100% FDI in aviation sector to enable resolution of Air India.

India's foreign direct investment got elevated to the level of US$ 284 billion during FY 2014-19 from US$ 190 billion during FY 2009-14.

The figure on the left shows the foreign investments in India over a period of time.

The FDI inflows have been strong in the first half of FY 19-20 at USD 26.09 billion marking a 15% increase over the first half of FY 18-19. These foreign inflows are expected to grow despite the slowdown in the Indian economy considering the US-China trade deal driving positive sentiments to the market.

Government's continuing efforts to attract foreign investors

India is the fifth largest economy of the world. Given the hike in ease of doing business rankings all the way up to 63rd rank in 2019, India is set to maintain its status as an attractive FDI destination. The Government in previous Budget opened up several sectors for FDI investment giving a boost to foreign investors. However, certain policies such as the super tax on Foreign Portfolio Investors (FPIs) faced severe backlash with many foreign investors pulling out of the Indian markets, ultimately leading to a rollback of the super tax.

In the present scenario, net inflows from FPIs during the month of January, 2020 alone amount to INR 2980 crore in the wake of major expectations for foreign investors this budget period.

Further the RBI on 23rd January, 2020 brought in reliefs for FPI investment in debt as well as increasing the investment limit to Rs 1,50,000 crores from ₹ 75,000 crores in the Voluntary Retention Route (VRR) Scheme which is likely to increase FPI investments in the Indian Bond Market.

Current Scenario

As compared to April 18-Sep 18 with April 19-Sep 19 there was a growth rate of 17% in FDI Equity Inflows from the top investing countries such as Mauritius, Singapore, Japan, USA, UK & other countries. The budget 2020 is expected to help boost foreign inflows in the country and improve India's economy in terms of growth and ranking globally.

Foreign Investors Expectations from Budget, 2020

Foreign Investors were hoping for stability in policy of the Government. A consistent agenda followed by the government would have ensured consistent foreign investment flows in the country.

In case of unexpected shocks like the super tax on FPIs, the market may not react well and there would be possibility of backlash from foreign investors ultimately leading them to withdraw of investment from Indian markets.

Like every year, the Investors had certain expectations from the FM, some relating to taxation aspects, others relating to investment regulations. The same have been summarized below:

1. Streamlining tax rates on interest income for foreign investors:
   It was expected that the government to attract foreign investment shall provide concessional rate of TDS and relaxation of tax on the dividend declared by the company.

2. Opening up of new sectors to FDI investment:
   The proposed liberalization of the insurance sector, ease of restrictions on FDI by JVs/WOS of Indian Parties and other measures for liberalizing FDI were expected to increase foreign investment. This was expected to help the foreign players to bring in new technologies, new products and ensure better market penetration.

3. Increase overseas investment limit in insurance sectors from 49% to 74%:
   It was expected that the overseas investment limit in Indian insurance companies to 74% under the approval route from the existing 49%. Thereby, opening of doors for more foreign investments in insurance sector in India.

4. Further liberalization of FDI norms:
   DPIIT had issued a press note on 18th September 2019, to introduce relaxation in FDI norms in several sectors like single-brand retail trading, contract manufacturing, coal mining, and digital media. The Government had allowed 100% FDI in coal mining and contract

manufacturing eased sourcing norms for single-brand retailers and approved 26% foreign investment in digital media. There was much optimism around these policy changes, as it was expected to attract more FDI investments in the manufacturing and retail sector.

5. Liberalize FDI for real estate sector;
   The Real estate sector had hopes from the budget but the Budget 2020 does not have much to cheer the real estate sector of the country (as also in separate chapter on housing). It was expected that some measures would be taken to help boost the affordable housing segment. Initiatives to decrease the liquidity crunch of developers and buyers were expected.

Proposals in Budget 2020

As has been repetitively mentioned, Budget 2020 was woven with 3 themes:

- Aspirational India;
- Economic Development;
- Caring Society.

The focus of Budget 2020 was on attracting foreign investments in the education space. Both ECB & FDI are to be leveraged to improve the education system in India. Also, for making India a preferred destination for higher education under its 'Study in India Programme'.

Certain bold moves/benefits that were proposed in the recent announced Budget to make India an attractive destination for investment are as follows:

1. Removal of DDT - The foreign investors who were facing issue of non-availability of credit of DDT paid in their home country resulting in reduction of rates of return on equity capital for them. The Budget has moved to the old regime of destination-based tax on corporate profits. Under the prevailing regime, corporate profits were taxed first at the time of earning, and then at the time of distribution. Though the nominal tax rates in India were brought down, but the DDT effectively resulted into high tax rates.
   The elimination of DDT and switching back to the recipient-based tax system has a substantial advantage to FDI investors, particularly because many of them are invested out of low tax jurisdictions.

2. Certain Tax Concessions for foreign investment are proposed::

   a. 100% tax exemption to the interest, dividend and capital gains income in respect of investment made in infrastructure and

notified sector before 31st March, 2024 with a minimum lock in period of 3 years by the Sovereign Wealth Fund of foreign governments in priority sectors. This is a major move for encouraging investment in infrastructure projects in the country.

b. Concessional rate of 5% under Section 194LC i.e. TDS on income by way of interest from an Indian Company or business trust to non-resident in respect of moneys borrowed and bonds issued upto 30th June, 2023;

c. Concessional rate of 5% under Section 194LD i.e. TDS on income by way of interest on certain bonds and Government securities to foreign Portfolio Investors (FPIs) and Qualified Foreign Investors (QFIs) in respect of bonds issued by Indian companies and government securities upto 30th June, 2023.

Conclusion

To make sure that India stays globally competitive and a favored destination for fresh investment the aforesaid tax benefits have been provided. These measures will help to attract more foreign investment in our country and give higher rate of return on investments made in India. With these initiatives, the government hopes to continue India's FDI growth story and attractiveness in the year 2020.

Gearing up after starting up: Incentives for Start-Ups

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Overview

Indian demographics statistics show more than 65% of its population below the age of 35 years.[20] India will miss to hit the target of becoming $5 trillion economy, if the active and productive participation of "youth" in the booming economy is not fairly achieved.

The rise of start-ups in India did not happen overnight but it peddled its way up slowly and gradually over a period. In the year 2008, the Global Financial Crisis caused many businesses around the world to shut, suddenly laying off thousands of workers. Many of India's diaspora and youth working in the Western world came back home. Obviously, this was a reversal of what was earlier called the "brain drain". This was the right setting for initiating a start-up move.

In the meantime, technological developments and the willingness of the younger population to accept disruptive proposals led to the start-up revolution.

The start-up space has truly proven to be like a sunrise for several business models and industries. Additionally, the Government has come up with some appreciable flagship programmes like 'Start-up India', 'Stand-up India', 'Make in India' and 'Digital India' that have promoted many start-ups across the nation.

With a perfect blend of innovation, creativity, increase in various services and platforms such as crowd-funding, P2P lending, angel funding, Alternative Investment Fund (AIFs), several tax concessions and other relaxation to start-ups as well as the Government's constant and bonafide support to encourage this entrepreneurial journey, today India has proudly emerged as one of world's popular start-up eco-system in the world. A report by Startupblin says: "India is now featured in the top 20 country ranking, its growth story goes beyond national borders and could be considered global. India's startup ecosystem has been actively collaborating with Japan, Israel,

[20] https://www.undp.org/content/dam/india/docs/UNV/State%20of%20Youth%20Volunteering%20in%20India-compressed.pdf

the UK, and China, and has received both internal and external VC and Angel support."[21] Bengaluru and New Delhi are among world's leading start-up destinations.

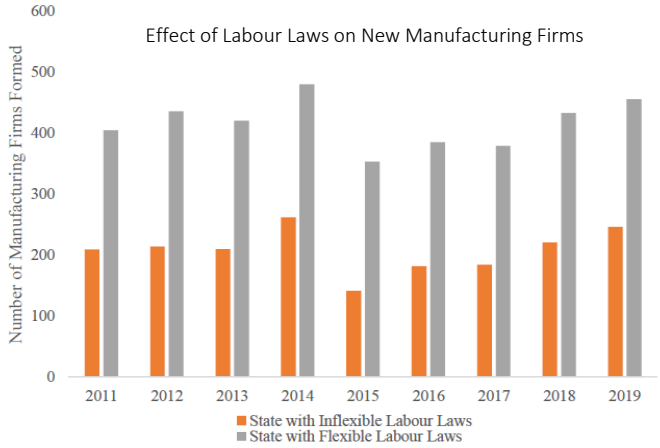
Despite the lowered growth rate estimates by IMF for FY 2019-20, India is widely perceived as one of the world's fastest growing destinations. The country has a massive consumer base, willing to accept disruptive technologies and ideas. Therefore, India is a logical hub for start-ups.

In light of the above, it is imperative that the existing government initiatives for start-ups continue unabated, and the unicorns within India may continue proliferating.

Outcome of the Economic Survey

1. Increase in creation of New Firms.

As per the World Bank's data on entrepreneurship, there is significant increase in creation of new firms in India since 2014. In the year 2014, about 70,000 new firms were created compare to which the number has grown by approximately 80% to about 1,24,000 new firms in 2018.



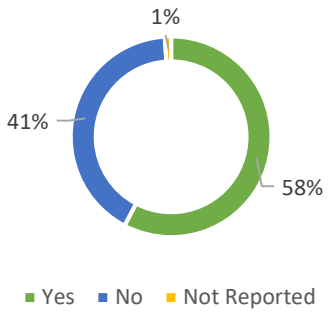
2. Ease of doing business and flexible labour regulations.

By launching the 'Make in India' campaign, India is expected to become 5th largest manufacturing hub across the globe by the year 2020[22]. Policies that facilitate ease of doing business and flexible labour regulations enable creation of new firms, especially in manufacturing sector which ultimately results into creation of employment opportunities for our youth, are expected to be pursued.

[21] https://www.startupblink.com/blog/top-ranked-startup-ecosystem-countries-in-2019/

[22] This estimation, of course, was done in 2015 in a Deloitte report of global manufacturing competitiveness. See here: https://www2.deloitte.com/in/en/pages/manufacturing/articles/global-manufacturing-competitiveness-index_msm_moved.html. However, things have since not been realised as expected, and domestically, there have been several issues, particularly, demonetisation, not predictable in 2015.

Plan to list on Indian Stock Exchanges in next 5 Years.



Expectations from Budget 2020

The Reserve Bank of India (RBI) had conducted a pilot survey[23] on Indian Start-ups during November 2018 to April 2019, the detailed report has been issued by RBI on December 31, 2019. The report on pilot survey contains major findings of the survey based on the responses received from 1,246 start-ups.

As per the said report, more than half of the start-ups have plans to get listed on the Indian stock exchanges in the next five years.
In line with the outcome of the report, it can be expected that the Government may consider a liberalised regime for listing of start-ups.

It would not only attract investors from the domestic market, but could attract foreign investments as well.

Additionally, following were some expectations of Start-up entities from upcoming Union Budget 2020.

1. **An extension of tax incentives to incubators supported under Atal Innovation Mission (AIM).**
   AIM is Government of India's endeavour to promote a culture of innovation and entrepreneurship. Its objective is to serve as a platform for promotion of world-class Innovation Hubs, Grand Challenges, Start-up businesses and other self-employment activities, particularly in technology driven areas.[24] It was expected that the Central Government extends tax benefits to such newly set up businesses for their growth and nation's development.

2. **Reduction in GST rates on AIF (alternate investment fund) management fees.**
   AIF management service is a taxable supply, therefore the fees charged by fund managers of AIF shall be subject to GST. Currently this supply is levied with GST at the rate of 18% which was expected to be reduced in Union Budget.

3. **Tax benefits on issuance of ESOPs or Sweat equity.**
   Start-ups require talented workforce which facilitates higher productivity and efficiency. Majority Start-ups opt for issuance of ESOPs or sweat equity to retain talented employees at the early

[23] https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=956
24 https://aim.gov.in/what-is-an-incubator.php

stage. It was expected that the Government would abolish or lessen the tax imposition on such issuance of shares.

4. **Extension of Interest Subvention scheme for MSMEs.**
   The Central Government had introduced Interest Subvention Scheme for MSMEs for the year 2018-19 and 2019-20. This scheme was introduced with an objective to encourage both manufacturing and service enterprises to increase their productivity by reducing their cost of credit. The scheme was expected to be extended for few more years.

5. **Ease the Compliance and filing Guidelines for Tech start-ups.**
   Recently, India has jumped from 77th to 63rd rank in ease of doing business. This substantial progress made by India is only because of supportive business reforms brought by the Government. In line with the Government's agenda relating to Ease of Doing Business, Tech start-ups were expecting that the Government would make essential investment in technology hubs and would reduce compliance and filing requirements of tech start-ups. This would enable establishment of more Tech start-ups and reduce the cost of compliance.

6. **To extend the tax benefit of Section 80IAC to all start-ups incorporated in India.**
   Section 80 IAC was introduced under Finance Act, 2016 where the Start-ups on fulfilment of certain conditions become eligible to claim 100% deduction in respect of profits. The said deduction is available, at the option of an assessee, for 3 consecutive assessment years out of 7 years beginning from the year in which the eligible start-up is incorporated.

   This deduction is available to start-ups having annual turnover of ₹ 25 crore or less in previous year. However the Government did not recognise the definition provided by Department for Promotion of Industry and Internal Trade (DPIIT), as per which the entities having turnover of ₹ 100 crores or less shall be considered as Start-up. Hence it was expected that the Government would extend the benefits of the said section to all start-ups.

Budget proposals for start-ups

As our Finance Minister (FM) has mentioned in her Budget speech, 'Entrepreneurship has always been the strength of India'. It is beyond doubt that start-ups in India are playing crucial role in speeding up an Indian economy. The Government has always taken supportive measures to promote creation of more and more start-up firms, and utilise potential of our youth. This time also the Government has continued with its trend to promote start-ups and provide some perks to the start-up entities.

Following proposals are made by FM in Union Budget, 2020.

1. The Government, by keeping in mind knowledge, skill and risk taking ability of our youth, has proposed to set up an Investment Clearance Cell that will provide 'end to end' facilitation and support, including pre-investment advisory. This Investment Cell will work through a portal.

2. The Government has also proposed to provide early life funding, including a seed fund to support ideation and development of early stage Start-ups.

3. This time Government has stood in tune with market expectation with respect to tax on ESOPS. The Government has considered ESOP as an essential tool to attract and retain high skilled employees at early stage of Start-ups. At present ESOPs are taxable as perquisite at the time of exercise under the head Income from Salary. For reducing the burden of tax on the employees, the Government has deferred the tax payment by five years or till an employee leaves the company or sells his shares, whichever is earliest.

4. As discussed earlier, it was expected from the Government to come up with amendment under section 80IAC of the Income Tax Act, 1961. In this Budget, it has been proposed to extend benefit of the said section to larger start-ups by increasing the turnover limit from existing ₹ 25 crores to 100 crores.

   Further the Government has considered the fact that a start-up may not have adequate profit in its initial years to avail this deduction. In view of this, it has been proposed to extend the period of eligibility for claim of deduction from the existing 7 years

to 10 years. The said amendment will be effective from 1st April, 2021.

Tax deduction by e-commerce platforms: will it not hamper e-commerce?

The FM has once again proposed something which was proposed earlier, and scrapped due to huge objection by e-commerce platforms – TDS to be deducted while making payments to e-commerce vendors. It may be recalled that a similar proposal was mooted in GST law in September, 2018, and was shelved.

The proposed section is section 194-O of the Income-tax Act. The provision, to be effective from 1st April, 2020, requires a 1% deduction of tax at the time of making of payment by an e-commerce platform to a vendor called e-commerce participant for "sale of goods or provision of services". The provision is effective even in cases where the payment is made directly by the purchaser of goods or services. The threshold limit for the applicability of the provision is gross amount of sale of goods or provision of services being Rs 5 lacs or more in a year. There is a further condition that the vendor must have provided aadhar or PAN card to the platform.

The definition of "services" is wide enough. The inclusive definition refers to fees for technical services or professional fees – but these are illustrative references.

E-commerce has become the source of employment and livelihood for thousands of vendors. Many households, including housewives, supply food items through e-commerce platforms. It will also remain arguable whether fintech-based lending platforms, such as P2P platforms are also providing e-commerce services.

There will also be tremendous confusion whether sales, clocked by individuals through social-networking sites are e-commerce sales, coming under this provision. The answer must be negative, because the section is supposed to apply only in those cases where the payments are routed through a platform.

Tax deduction at source is merely a tax collection device – it is not taxation itself. Government's reliance on TDS was only as a device to stop tax leakage. In case of e-commerce, all transactions happen with fullest transparency. The bank account details and remittances are all clearly within the system. If that is the case, the very case for at-source deduction of tax at source does not arise. This proposal is expected to meet stiff opposition by the e-commerce industry.

Conclusion

As rightly mentioned by the FM in her Budget speech, our youth are no longer job seekers but rather job creators. The Government is clear with its agenda to bring significant reforms in Start-up segment. It has taken some remarkable steps for stabilizing and putting the economy back on the growth trajectory. Retrograde steps such as deduction of tax at source on e-commerce stand out as exceptions. However, it is hoped that the expectations of the start-up ecosystem will be addressed by the government.

Will small be beautiful?

Does Budget bring rays of hope for Micro, Small and Medium Enterprises (MSMEs)

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Introduction

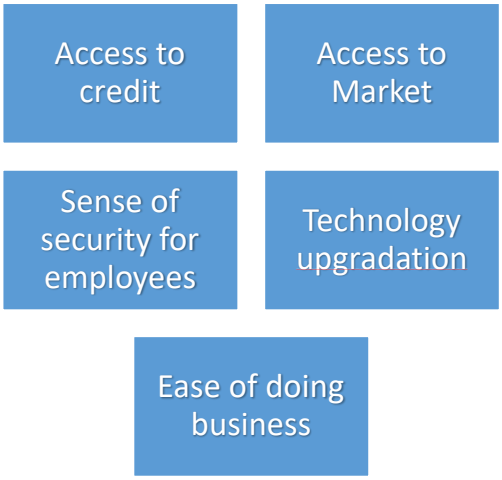
E F Schumacher, the famous author of Small is Beautiful, wrote: "*If greed were not the master of modern man--ably assisted by envy -- how could it be that the frenzy of economism does not abate as higher "standards of living" are attained, and that it is precisely the richest societies which pursue their economic advantage with the greatest ruthlessness? How could we explain the almost universal refusal on the part of the rulers of the rich societies -- where organized along private enterprise or collective enterprise lines -- to work towards the humanisation of work? It is only necessary to assert that something would reduce the "standard of living" and every debate is instantly closed. That soul-destroying, meaningless, mechanical, monotonous, moronic work is an insult to human nature which must necessarily and inevitably produce either escapism or aggression, and that no amount of of "bread and circuses" can compensate for the damage done -- these are facts which are neither denied nor acknowledged but are met with an unbreakable conspiracy of silence -- because to deny them would be too obviously absurd and to acknowledge them would condemn the central preoccupation of modern society as a crime against humanity.*"

Micro, Small and Medium Enterprises (MSMEs) are truly called the backbone of the Indian economy as this sector majorly contributes to country's GDP. MSMEs generate large amount of employment opportunities and promote entrepreneurship. The sector also focuses on the development of backward section of the society, thus promoting 'inclusive growth' of India. MSMEs contribute around 29% to the country's GDP. Approximately 45% of manufacturing output is attributable to MSMEs, along with over 40% of exports.

The MSME sector have been facing disruptions post the currency scrapping exercise of the government in November 2016 and the GST implementation in 2017. The sector was further affected by the liquidity crunch faced by NBFCs after the IL&FS case and several other non-performing loans adversely affecting the lending ability of banks. It was widely expected that the Union Budget 2020 shall provide incentives and, where required, bring relief to this stressed sector.

Present state of MSME sector

Global trends in classifying the MSMEs show that the classification of an entity as MSME widely differs across jurisdictions and depends upon the government policies of the country. In India, the classification at present is based on the quantum of investment in plant and machinery for manufacturing and equipment for service sector; and is proposed to be linked with the total turnover of the entity. Globally, MSMEs are defined in terms of either turnover or number of employees or both. In India, Government and regulators through various legislations and directives have attempted to create a conducive environment for development of MSME sector. MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets.



There are five key aspects for facilitating MSME sector which are described through the chart shown on the left side.

On November 2, 2018, Hon'ble Prime Minister made 12 key announcements for promoting MSME Sector[25]. An expert committee on MSME chaired by Shri U.K. Sinha was set up by the RBI in June, 2019[26], which made several recommendations some of which are also brought to effect as a part of current regulatory framework.

Some recent Policy initiatives taken are:

- Udyog Aadhaar Memorandum[27]: UAM is a one page online registration system for MSMEs based on self-certification.
- MSME Databank[28]: all MSMEs furnish information relating to their enterprises online to the Central Government through the data bank to enable Ministry to streamline and monitor the schemes and pass on the benefits directly to MSMEs.
- Web-based application module 'My MSME'[29]: to facilitate the enterprises to take benefits of various schemes.
- Credit Linked Capital Subsidy Scheme (CLCSS): This scheme provides an upfront subsidy of 15% on institutional credit upto ₹ 1 crore for MSMEs[30].

[25] https://pib.gov.in/Pressreleaseshare.aspx?PRID=1551776
[26] https://rbidocs.rbi.org.in/rdocs/PressRelease/PDFs/PR29733EDFD9435DB44F07A7853685B384D031.PDF
[27] https://udyogaadhaar.gov.in/UA/UAM_Registration.aspx
[28] http://www.msmedatabank.in/Info/MSME_databank_notification.PDF
[29] http://my.msme.gov.in/MyMsme/Reg/Home.aspx
[30] http://dcmsme.gov.in/CLCS-TUS%20Guidelines-14-8-2019.pdf

- **Interest Equalization Scheme (IES)[31]:** This scheme is being implemented for pre and post Shipment Rupee Export Credit. Under the Scheme, interest equalization @ 3% per annum has been made available to eligible exporters. Afterwards, the rate increased from 3% to 5% for exports made by MSME sector.

- Composition scheme was introduced for service providers. The scheme can be availed by a registered person having annual turnover upto 50 lakhs in the preceding financial year. The service providers opting for new composition scheme can now pay GST @ 6% and would not be eligible to avail any input tax.

- Permitting One-time Restructuring of Existing Loans to MSMEs Classified as 'Standard' without a Downgrade in the Asset Classification as on January 1, 2019[32].

Various key initiatives taken for promoting MSMEs and their current status as per Economic Survey 2019-20 are:

- In-principle approval for loans up to 1 crore within 59 minutes through online portal: 1,59,422 number of loans, involving 49,330 crore have been sanctioned and 1,38,646 number of loans, involving 37,106 crore have been disbursed (up to October 2019).

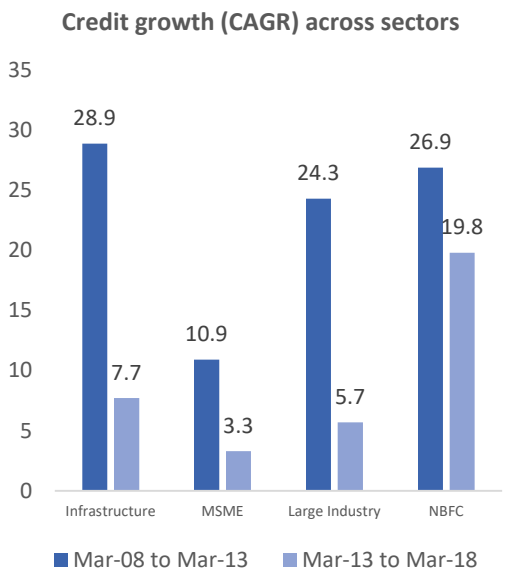
- Interest subvention of 2% for all GST registered MSMEs on incremental credit up to 1 crore: SIDBI has received and settled the claims of 18 crore from 43 Banks/NBFCs for the period (02.11.2018 – 31.03.2019).

- All companies with a turnover of more than 500 crore to be mandatorily on TReDS platform: Out of these 1881 non-compliant Companies, so far 329 companies have registered themselves on the TReDS portal.

- All CPSUs to compulsorily procure at least 25% from MSEs instead of 20% of their total purchases & 3% reserved for women MSEs: *During 2019-20 (up to October 2019), CPSUs have procured goods and services worth 15,936.39 crore from 59,903 MSEs and that is 28.26 % of its total procurement and procured 242.12 crore from 1471 women MSEs.* (Medium enterprises are not a part of this policy)

- Out of All CPSUs to compulsorily procure through GeM portal: *Total 57,351 MSE Sellers & Service providers registered on GeM portal and 50.30% of orders value on GeM portal is from MSEs.*

[31] https://www.rbi.org.in/scripts/FS_Notification.aspx?Id=11453&fn=2&Mode=0
[32] https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=45879



MSMEs have low bargaining power and face problems of funding and delayed payments. As timely payments to MSEs is of least priority to the buyers, the need of proper solution around the buyers is felt. Apart from the aforesaid problems, another top issue for the MSME sector is rationalisation of Goods and Services Tax (GST).

There was a significant decline in the credit growth in recent months, both for MSME sector as well as large industries. (Refer Fig on the left).

To resolve the problem of liquidity and to provide the MSME sector with adequate finance, the government had initiated to strengthen the legislative framework for delayed payment to the MSMEs and provide security to the MSMEs against the unwarranted delays. In this regard, MCA on January 2019 came up with a notification[33] to solve the problem of delayed payments to MSMEs requiring all the companies whose payment to MSMEs for supplies of goods or services exceeds 45 days to submit half yearly return to the Ministry.[34]

Budget 2020 expectations for MSMEs

One of the major point of issue in the growth of MSMEs is "funding for MSMEs". The problem is widely identified and also several measures have been brought in past to iron out the same but still the problem is not completely washed out. So, MSMEs were also looking forward to the Union Budget 2020 to provide reforms for MSMEs. The MSME and small business sector also expected the Union Budget 2020 to address the rationalising of GST slabs, improving the GST refunds system, and addressing export problems caused due to GST.

Following were some of the expectations from the Union Budget 2020 based on the previous actions taken with regard to MSME:

I. Fund of funds

Background: An expert committee on MSME recommended to set up a "**A government sponsored Fund of Funds (FoF)** of Rs 10,000 crore in order to support funding from venture capital and private equity firms in MSME segment.

Expectations: It was expected that the Government could unveil a **'fund of funds'** for micro, small and medium enterprises (MSME) sector in the upcoming budget 2020 to provide funding line to the sector. This expectation had its genesis from the report of an expert committee on MSME which has in its report recommended the same.

[33] https://www.mca.gov.in/Ministry/pdf/MSMESpecifiedCompanies_22012019.pdf
[34] Refer our FAQs on this subject here - http://vinodkothari.com/wp-content/uploads/2019/05/Revised-FAQs-MSME-upload-1.pdf

II. Interest subvention scheme for MSMEs

Background: Ministry of MSME decided to implement the "Interest Subvention Scheme for Incremental credit to MSMEs 2018" for F.Y. 2018-19 and 2019-20. As part of access to credit, Prime Minister announced 2% interest subvention for all GST registered MSMEs, on fresh or incremental loans under the scheme.

Expectations: The government through its budget was anticipated to extend the interest subvention scheme for MSMEs.

III. Budgetary Allocation for MSMEs

Background: MSME ministry's allocation in FY20 stood at Rs 7,011 crore which is its highest till date. The ministry has utilised around 78% of the funds allocated in the current fiscal.

Expectations: The MSME ministry was expected to have a budgetary allocation of Rs 12,000 crore for financial year 2020-21, a jump of 70% of the allocation for the current fiscal.

IV. Focus Area of Investments

Background: The current reforms for MSMEs focuses on different areas including Finance or credit support, Technology upgradation, Infrastructure etc.

Expectations: It was anticipated that the focus will be on spurring investments in the rural, economic activity in rural, backward and tribal areas. The Government was expected to create maximum jobs in the agriculture, rural and tribal areas. Speaking broadly, the focus is visualised to be shifted from urban to rural areas.

V. Enhanced credit flow to NBFCs

Background: MSMEs often struggle to secure funding from formal credit markets owing to lack of financial data and suspect cash flow data. Its primary source of capital i.e. NBFCs have also suffered in the last 18 months due to rising percentages of NPAs.

Expectations: It was anticipated to enhance the credit flows to NBFCs as the role of NBFCs in capitalising MSMEs is very important as per the current scenario. Moreover improved government guarantee schemes ensuring fair value purchase of assets by Public Sector Banks (PSBs) from stressed NBFCs also should have been introduced.

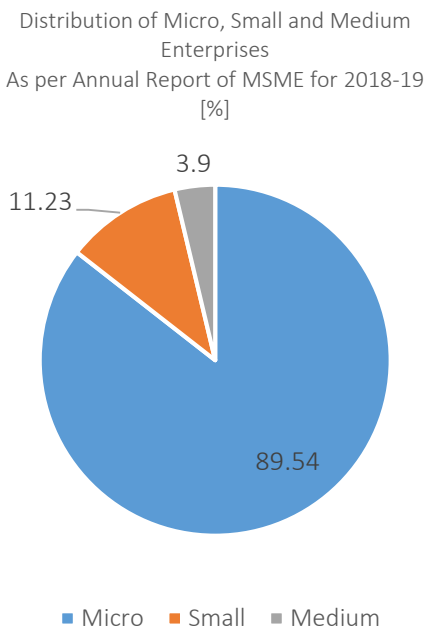
VI. Linking platforms

Background: Payment delay is a huge issue for the MSMEs as it leads to financial crunch. Trade Receivables Discounting System (TReDS) platforms

facilitates the financing of trade receivables of MSMEs from corporate and other buyers, including Government Departments and PSUs. This have been proven beneficial in enabling access to quick credit from a range of financiers, still the usage of this platform is deemed to be low. The need to create awareness of the availability and benefits of such a platform is felt.

Expectations: The linking of TReDS with GSTN was first announced in Budget 2018, but this has not been operationalised yet. This process of TReDS-GSTN linking is expected to be expedited via this forthcoming Budget. Such linkage would generate better credit discipline. Vendors will have to be GST-compliant in order to be eligible for bill discounting via TReDs.

TReDS platform for MSMEs	
What is TReDS?	TReDS is an electronic platform for facilitating the financing / discounting of trade receivables of MSMEs through multiple financiers.
Who are participants?	Sellers: MSMEs ***Buyers:*** Corporates, Government Departments, PSUs and any other entity ***Financiers:*** Banks, NBFC - Factors and other financial institutions as permitted by the RBI
Who are mandatorily required to get themselves registered on TReDS Platform?	All companies with a turnover of more than ₹ 500 crores and all Central Public Sector Enterprises



VII. MSME Ministry

Background: Currently, Micro Small and Medium enterprises are under the control of Ministry of MSME. According to the MSME Ministry's 2019 annual report, out of 6.33 crore MSMEs in India, only 0.05 lakh are medium enterprises while 3.31 lakh are small and 6.30 crore are micro-units. A strange deep-rooted bias against medium enterprises in India is felt as they are specifically barred from Public Procurement Policy which mandates 25% procurement from MSEs.

Expectations: In the Union Budget 2020, it is looked forward that the medium enterprises in the MSME sector could be moved out of the administrative control of the Ministry of MSME as they are 'persona non grata' in the government. Keeping in view that medium enterprises have specific needs and they do require policy attention, it would be better that their administrative control is shifted from Ministry of MSMEs to Ministry of Commerce and Industries.

VIII. Definition of MSME

Background: The Current definition of MSME is based on its investment in plant and machinery/equipment.

Present Definition of MSME	Manufacturing Sector	Service Sector
	Investment in Plant & Machinery	Investment in equipment
Micro	Does not exceed ₹ 25 Lakhs	Does not exceed ₹ 10 Lakhs
Small	More than ₹ 25 Lakhs but does not exceed ₹ 5 crores	More than ₹ 10 Lakhs but does not exceed ₹ 2 crores
Medium	More than ₹ 5 crores but does not exceed ₹ 10 crores.	More than ₹ 2 crores but does not exceed ₹ 5 crores.

Expectations: The upcoming budget could also unveil the new definition of MSMEs, which classifies them on the basis of turnover.

Proposed Definition of MSME	Manufacturing & Service Sector
Micro	A unit where annual turnover does not exceed ₹ 5 crores
Small	A unit where annual turnover is more than ₹ 5 crores but does not exceed ₹ 75 crores
Medium	A unit where annual turnover is more than ₹ 75 crores but does not exceed ₹ 250 crores

Actual reforms brought by the Union Budget 2020

Encouraging Government e-Marketplace

GeM has been offering a lot of opportunities to MSMEs, with around registration of 3.24 lakh vendors. It is now proposed to create a Unified Procurement System in the country for providing a single platform for procurement of goods, services and works.

Relevant regulations in this regard shall be issued separately.

National Logistics Policy

The Budget has proposed the introduction of a National Logistics Policy to clarify the roles of the Union Government, State Governments and key regulators. The policy shall create a single window e-logistics market and focus on generation of employment, skills and making MSMEs competitive.

Amendments to the Factoring Regulation Act 2011

The Finance Minister in her speech mentioned about amendments to the Factoring Regulation Act 2011 (wrongly referred to as Factor Regulation Act). The amendments are expected to enable NBFCs to extend invoice

financing to the MSMEs through TReDS, thereby enhancing their economic and financial sustainability. The existing TReDS platform allows banks, financial institutions and NBFC-Factors to register themselves as financiers. It is expected that NBFCs other than NBFC-Factor may be allowed to carry out factoring activities on the TReDS platform[35]. This will require amendments in the Factoring Regulation Act which currently seems to be not allowing NBFCs, other than factors, to carry out factoring business.

VKC View: The Factoring Regulation Act has helped, if at all, to demote factoring in the country. The law was passed to promote factoring, and it ended up regulating factoring, with the result that factoring has almost become extinct in the country. It is necessary to either substantially recast the law, or to scrap it altogether, as it is not helping the cause of factoring at all.

Subordinated debt for entrepreneurs of MSMEs

The Budget has proposed to introduce a scheme to provide subordinate debt for entrepreneurs of MSMEs. This subordinated debt to be provided by banks would count as quasi-equity and would be fully guaranteed through the Credit Guarantee Trust for Medium and Small Entrepreneurs (CGTMSE). The corpus of the CGTMSE would accordingly be augmented by the government.

The detailed instructions is this regard are to be issued.

VKC View: One wonders what is the role of subordinated debt in case of MSMEs. Usually, for financial sector entities, subordinated debt is relevant, since these entities work at high levels of leverage, and the presence of quasi-equity provides support to debt. In case of MSMEs, what is needed is either plain debt, or preferred stock, not subordinated debt. It is quite likely that subordinated debt comes with high cost, and on default, the subordinated lender may still take measures under the IBC and move for insolvency of the MSME. On the contrary, preference shares would have alleviated such fears.

Restructuring of debt permitted by RBI

RBI had earlier relaxed the provisioning and asset classification norms for NBFCs and banks by permitting one-time restructuring of stressed MSME accounts. The scheme was first announced by the RBI on January 1, 2019, [36]for MSMEs with loans up to Rs 25 crore. It was applicable on loans that are stressed but still standard at the time of releasing the guidelines. The existing scheme required the restructuring of the borrower account to be

[35] Our FAQs on TReDS can be read here- http://vinodkothari.com/wp-content/uploads/2019/01/FAQs-on-TReDS-1.pdf

[36] https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=45879

implemented on or before March 31, 2020. Any restructuring under this scheme would exempt the lender from downgrading of the asset classification, however, 5% additional provisioning was to be made against the restructured account.

The Budget has proposed to RBI to consider extending the restructuring window till March 31, 2021. It is expected that the RBI shall issue a notification accordingly.

App-based invoice financing

An app-based invoice financing loan product will be launched. This will obviate the problem of delayed payments and consequential cash flows mismatches for the MSMEs.

This will be in addition to the TReDS platform and other fintech app based invoice discounting platforms. It seems that such app-based financing product would be regulated.

VKC View: This is quite an interesting proposition, though, as may be widely known, there are several Fin-tech companies currently offering app-based lending for MSMEs. However, a full-fledged app-based invoice discounting platform may integrate the invoice with the app, such that the generation of the invoice, its acceptance, and financing may all be integrated.

Taxation reforms

Tax Audit of books of accounts

Presently, businesses having turnover of more than ₹1 crore are required to get their books of accounts audited by a chartered accountant. In order to reduce the compliance burden on small retailers, traders, shopkeepers who comprise the MSME sector, it has been proposed to raise the turnover threshold for audit by five times from the existing ₹1 crore to ₹5 crore. Further, the increased limit shall apply only to those businesses which carry out less than 5% of their business transactions in cash. This will in turn boost the idea of cashless economy. (Amendments in section 44AB)

Custom Duty

Cheap and low-quality imports are an impediment to the growth of MSME. Further, in lieu of the employment generation done by the MSME sector, it has been proposed to put measured restraint on import of those items which are being produced by our MSMEs with better quality. In this regard custom duty is being raised on items manufactured by labour intensive sectors in MSME like footwear and furniture.

Conclusion

MSMEs have been facing disruptions following the currency scrapping exercise of the government in November 2016 and the GST implementation in 2017. The sector was further affected by the liquidity crunch faced by NBFCs after the IL&FS case and several other non-performing loans adversely affecting the lending ability of banks.

One needs to be cautiously optimistic as to the impact of the Budget proposals. Particularly, the protection regime planned in case of footwear and furniture industry may have some immediate impact.

Direct Tax Amendments proposed under Finance Bill, 2020

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Re-vamped Slabs in Income Tax

A revamped Income Tax slab has been introduced in the Budget 2020, however there remains one catch, that being, if one opts for this slab rate, the individual will have to let go off the exemptions as was applicable in the earlier regime which remains optional for the said individual to decide upon as to whether the individual wants to be assessed as per the earlier regime or as per the modified regime

Income Tax Slabs & Rates for Individual Tax Payers & HUF (Less Than 60 Years Old) for FY 2020-21			
Income Bracket (In ₹)	New Tax Rate	Old Tax Rate (Tax Rate for Individual & HUF Below the Age Of 60 Years)	Implication
<2,50,000	Nil	Nil	No change
2,50,000-5,00,000	5%	5% of the total income exceeding ₹ 2,50,000	
5,00,000-7,50,000	10%	₹12,500 + 20% of total income exceeding ₹5,00,000	The rate of tax has been significantly slashed
7,50,000-10,00,000	15%	₹12,500 + 20% of total income exceeding ₹5,00,000	The rate of tax has been significantly slashed New Slab has been added
10,00,000-12,50,000	20%	₹1,12,500 + 30% of total income exceeding ₹10,00,000	The rate of tax has been significantly slashed
12,50,000-15,00,000	25%	₹1,12,500 + 30% of total income exceeding ₹10,00,000	The rate of tax has been significantly slashed New Slab has been added
>15,00,000	30%	₹1,12,500 + 30% of total income exceeding ₹10,00,000	New Slab has been added

Income Tax Slabs & Rates for Individual Tax Payers & HUF (Above 60 years but less Than 80 Years Old) for FY 2020-21	
Income Bracket	New Tax Rate
3,00,000	Nil
3,00,000-5,00,000	5%
5,00,000-10,00,000	20%
Above 10,00,000	30%

Income Tax Slabs & Rates for Individual Tax Payers & HUF (Above 80 years but less Than 80 Years Old) for FY 2020-21	
Income Bracket (In ₹)	New Tax Rate
5,00,000	Nil
5,00,000-10,00,000	20%
Above 10,00,000	30%

However, as set-out above, there are certain deductions which an assessee shall no longer be able to avail as per the new regime *inter-alia*

- Exemption u/s 80C of Rs 1,50,000/-
- Exemption u/s 80D of upto Rs 25,000/-
- Deduction on Home Loan interest of upto Rs 2,00,000/-
- Leave travel concession as contained in clause (5) of section 10;
- House rent allowance as contained in clause (13A) of section 10;
- Deductions under section 32AD, 33AB, 33ABA

Surcharge on Income Tax for Individuals/HUFs/AoPs/BOIs

If income (In ₹)	Rate of Tax (%)
50,00,000<Income<1,00,00,000	10
1,00,00,000 < Income< 2,00,00,000	15
2,00,00,000<Income<5,00,00,000	25
Income>5,00,00,000	37

Where the income is included under the provisions of section 111A and 112A ("Capital Gains") of the Act

If income (In ₹)	Rate of Tax (%)
Income>2,00,00,000	15

Every artificial person not who is not a Hindu undivided family, a company, firm, association of persons or a body of individuals, whether incorporated or not a local authority, of the Income-tax Act having income under section 115AD (Foreign Institutional Investors from securities or capital gains arising from their transfer) of the Act, excluding income u/s 115AD(1)(b) (long term capital gain),

If income (In ₹)	Rate of Tax (%)
50,00,000<Income<1,00,00,000	10
1,00,00,000 < Income< 2,00,00,000	15
2,00,00,000<Income<5,00,00,000	25
Income>5,00,00,000	37

Where the income is included under the provisions of section 111A and 112A ("Capital Gains") of the Act, including income u/s 115AD (1)(b) (long term capital gain):

If income (In ₹)	Rate of Tax (%)
Income>2,00,00,000	15

Income in case of Co-operative Societies, Local Authorities and Firms

If income (In ₹)	Rate of Tax (%)
Income>1,00,00,000	12

Income Tax for incomes other than Salaries

- Remains the same
- Surcharge to be increased in the case of a non-resident person (other than a company)
- 10% subject to the deduction exceeds fifty lakh rupees but does not exceed one crore rupees
- 15% subject to the deduction exceeds one crore rupees but does not exceed two crore rupees
- 25% income or the aggregate of such incomes paid or likely to be paid and subject to the deduction exceeds two crore rupees but does not exceed five crore rupees;
- 37% where the income or the aggregate of such incomes paid or likely to be paid and subject to the deduction exceeds five crore rupees;

- Co-operative Societies or firm being a non resident at 12% if income exceeds rupees one crores

Income Tax Rate of Companies

Domestic Companies

Income Bracket (In ₹)	Tax Rate
<400,00,00,000	25%
Income>400,00,00,000	30%

Surcharge

If income (In ₹)	Rate of Tax (%)
1,00,00,000 < Income< 10,00,00,000	7
Income>10,00,00,000	12

Surcharge in case of companies other than domestic company

If income (In ₹)	Rate of Tax (%)
1,00,00,000 < Income< 10,00,00,000	2
Income>10,00,00,000	5

- However, domestic companies also have an option to opt for taxation under section 115BAA or section 115BAB of the Act.
- The tax rate is 15% and 22% in section 115BAB
- Surcharge is 10% in both cases.
- Deductions under any provisions of Chapter VI-A except 80JJAA or section 80M, prohibited

Cess:

Health & Education cess (4%) over tax payable

Computation of difference between the old and the new regime on same levels of taxable income for individuals below 60 years of age

	FY 19-20		FY 20-21	
Income level (in ₹)	Tax Rate (%)	Tax	Tax Rate (%)	Tax
2,50,000	0	0	0	0
2,50,000-5,00,000	5	12,500	5	12,500
Tax Rebate		12,500		12,500
Tax after rebate		0		0

Health and Education Cess	4	0	4	0
Tax Payable		**0**		**0**

On earning an income of ₹7,50,000

	FY 19-20		FY 20-21	
Income level (in ₹)	Tax Rate (%)	Tax	Tax Rate (%)	Tax
2,50,000	0	0	0	0
2,50,001-5,00,000	5	12,500	5	12,500
5,00,001-7,50,000	20	50,000	10	25,000
Tax Rebate		0		0
Tax after rebate		62,500		37,500
Health and Education Cess	4	2,500	4	1,500
Tax Payable		**65,000**		**39,000**

On earning an income of ₹ 10,00,000

	FY 19-20		FY 20-21	
Income level (in ₹)	Tax Rate (%)	Tax	Tax Rate (%)	Tax
2,50,000	0	0	0	0
2,50,001-5,00,000	5	12,500	5	12,500
5,00,001-7,50,000	20	50,000	10	25,000
7,50,001-10,00,000	20	50,000	15	37,500
Tax Rebate		0		0
Tax after rebate		1,12,5000		75,000
Health and Education Cess	4	4,500	4	3,000
Tax Payable		**1,17,000**		**78,000**

On earning an income of ₹ 12,50,000

	FY 19-20		FY 20-21	
Income level (in ₹)	Tax Rate (%)	Tax	Tax Rate (%)	Tax
2,50,000	0	0	0	0
2,50,001-5,00,000	5	12,500	5	12,500
5,00,001-7,50,000	20	50,000	10	25,000
7,50,001-10,00,000	20	50,000	15	37,500
10,00,001-12,50,000	30	75,000	20	50,000
Tax Rebate		0		0
Tax after rebate		1,87,500		1,25,000
Health and Education Cess	4	7,500	4	5,000
Tax Payable		**1,95,000**		**1,30,000**

On earning an income of ₹ 15,00,000

	FY 19-20		FY 20-21	
Income level (in ₹)	Tax Rate (%)	Tax	Tax Rate (%)	Tax
2,50,000	0	0	0	0
2,50,001-5,00,000	5	12,500	5	12,500
5,00,001-7,50,000	20	50,000	10	25,000
7,50,001-10,00,000	20	50,000	15	37,500
10,00,001-12,50,000	30	75,000	20	50,000
12,50,001-15,00,000	30	75,000	25	62,500
Tax Rebate		0		0
Tax after rebate		2,62,500		1,87,500
Health and Education Cess	4	10,500	4	7,000
Tax Payable		**2,73,000**		**1,95,000**

On earning an income of ₹ 20,00,000

	FY 19-20		FY 20-21	
Income level (in ₹)	Tax Rate (%)	Tax	Tax Rate (%)	Tax
2,50,000	0	0	0	0
2,50,001-5,00,000	5	12,500	5	12,500
5,00,001-7,50,000	20	50,000	10	25,000
7,50,001-10,00,000	20	50,000	15	37,500
10,00,001-12,50,000	30	75,000	20	50,000
12,50,001-15,00,000	30	75,000	25	62,500
15,00,001-20,00,000	30	1,50,000	30	1,50,000
Tax Rebate		0		0
Tax after rebate		4,12,500		3,37,500
Health and Education Cess	4	16,500	4	13,500
Tax Payable		**4,29,000**		**3,51,000**

Proposals for tax on distributed income

- Under present provisions of section 115-O, domestic companies were to pay dividend distribution tax @15% on the income distributed by way of dividend.
- Similarly, as per Section 115-R, specified companies and mutual funds were liable to pay additional income tax @10% on income distributed to its units holders.
- The income discussed above were exempt in the hands of the holder under section 10(34) and 10(35) respectively.

In order to promote investments in India, it is proposed to remove the burden of tax on income distributed by the domestic companies. Further the dividend income made taxable in the hands of the recipient which was earlier exempt from tax under section10. Therefore the following key amendments were proposed:

- Section 115-O: Tax on distributed profits of domestic companies shall be applicable up to 31st March, 2020.
- Section 115-R: Tax on distributed income to unit holders shall be applicable up to 31st March, 2020.
- Section 10(34): Dividend shall be taxable in the hands of shareholders from 1st April, 2020.
- Section 10(35): Income from units of mutual funds shall be taxable in the hands of the unit holder from 1st April, 2020.
- Section 10(23FC): Dividend received or receivable by business trust from special purpose vehicle is exempt.
- Section 10(23FD): Exclude dividend income received by a unit holder from business trust from the exemption so that the dividend income is taxable in the hand of unit holder of the business trust.
- Dividend income distributed by a special purpose vehicle to business trust would be taxed in the hands of unit holder.
- Deduction for expense under section 57 of the Act shall be maximum 20% of the dividend or income from units

Section 80M: Deduction in respect of certain inter-corporate dividends

(Newly inserted)
(Effective from: 1st April. 2021)

- Domestic companies while computing their gross total income may reduce any dividends received from any other domestic companies.
- Deduction from dividends received from other domestic companies shall be limited to the dividend distributed by the first mentioned domestic company.

Amendment in Section 115BBDA: Tax on certain dividends received from domestic companies

Section 115BBDA which imposed a tax on dividends to large dividend receipts (Rs 10 lacs or more in a year), becomes irrelevant, and is therefore, proposed to be inapplicable from FY 20-21.

Proposals for REITs and InvITs

Amendment in definition of "Business Trusts"

It is proposed to amend clause (13A) of section 2 of the Act to modify the definition of "business trust"

- In light of the amendments in SEBI (Infrastructure Investment Trusts) (Amendment) (Regulations), 2019, whereby mandatory listing requirement for InvITs was done away with, section 2 (13A) is proposed to do away with the requirement of the units of business trust to be listed on a recognised stock exchange.

  This amendment will take effect from 1st April, 2021 and will, accordingly, apply in relation to the assessment year 2021-22 and subsequent assessment years.

Amendment w.r.t. section 10 (23FC) - exemption in income of business trusts

Section 10 (23FC) of the IT Act essentially:

- exempts certain income of business trusts including income by way of dividend referred to in section 115-O (7).
- Is applicable in case of any dividend received by the business trust

The present Budget proposes to limit the scope to only those dividends which are received from a special purpose vehicle.

This amendment will take effect from 1st April, 2021 and will, accordingly, apply in relation to the assessment year 2021-2022 and subsequent assessment years

Amendments in Income-tax Act relating to certain income from units of a business trust

- **Section 115UA- enabling pass through of the income of certain nature from business trust to its unit holders.**
  - It provides that if in any previous year, the distributed income or any part thereof, received by a unit holder from the business trust is of the nature as referred to in sub-clause 10 (23FC) (a) or clause 10 (23FCA), then, such distributed income or part thereof shall be deemed to be the income of such unit holder and shall be charged to tax as income of the previous year.
  - Proposed Amendment widens the scope of such incomes
    - It is proposed to omit the reference of sub-clause (a) of clause 10 (23FC) of section 10 from the said sub-section

- Hence, now provides that the distributed income of the nature as referred to in clause (23FC) or clause (23FCA) of section 10 shall be deemed to be income of unit holder and shall be charged to tax as income of the previous year.

- Section 194LBA- **requires business trust to deduct tax on distribution of income, referred to in section 115UA**

  - Section 194LBA provides that business trust to deduct tax on distribution of income under section 115UA at the rate of 10% to a resident and 5% to a non-resident (not being a company) or a foreign company, respectively.

  - The said amendment comes into picture so as to being in sync the various provisions of the IT Act. Hence, the scope of income for distribution of which tax is to be deducted, now stands amended to the same effect as section 115UA.

  - It is further proposed to amend section 194LBA (2) to provide that the tax is to be deducted at the rate of 5% in case of income the nature referred to in section 10 (23FC) (a), and at the rate of 10% in case of income of the nature referred to in section 10 (23FC) (b).

These amendments will take effect from 1st April, 2020.

Amendments in Withholding Tax

Section 194LC: Income by way of interest from Indian company

- Period extended for concessional rate of TDS of 5% to 1st July, 2023 from 1st July, 2020
- TDS rate shall be 4% on the interest payable to a non-resident, in respect of monies borrowed in foreign currency from a source outside India, by way of issue of any long term bond or RDB on or after 1st April, 2020 but before 1st July, 2023 and which is listed only on a recognised stock exchange located in any IFSC

The above amendments shall be effective from 1st April, 2020

Section 194LD: Income by way of interest on certain bonds and Government securities

- Period extended for concessional rate of TDS of 5% to 1st July, 2023 from 1st July, 2020

- The concessional rate of TDS of 5% under the said section shall also apply on the interest payable, on or after 1st April, 2020 but before 1st July, 2023, to a FII or QFI in respect of the investment made in municipal debt security.

The above amendments shall be effective from 1st April, 2020.

Section 194J: Reduction in the rate of TDS on fees for technical services

- Earlier TDS on fees for technical services were deducted @10% under section 194J
- It is proposed to reduce the rate of TDS from 10% to 2%
- Rates for other fees as mentioned in section 194J shall remain the same

The above amendments shall be effective from 1st April, 2020.

Section 194A: Interest other than Interest on securities

The scope of section 194A has been widened keeping in mind the large co-operative society.

The following amendments has been proposed:

In order to extend the scope of this section to interest paid by large co-operative society, it is proposed to amend sub-section (3) and insert proviso to provide that a co-operative society referred to in clause (v) or clause (viia) of said sub-section (3) shall be liable to deduct income-tax in accordance with the provisions of sub-section (1), if-

a. *the total sales, gross receipts or turnover of the co-operative society exceeds fifty crore rupees during the financial year immediately preceding the financial year in which the interest referred to in sub-section (1) is credited or paid; and*
b. *the amount of interest, or the aggregate of the amount of such interest, credited or paid, or is likely to be credited or paid, during the financial year is more than fifty thousand rupees in case of payee being a senior citizen and forty thousand rupees, in any other case.*

The above amendments shall be effective from 1st April, 2020.

Section 194-O: Payment of certain sums by e-commerce operator to e-commerce participant

(Newly inserted)

The major highlights are as follows:

- New levy of TDS @1% on E-commerce transaction
- The TDS shall be paid by the E-commerce operator for sale of goods 0r services
- E-commerce operator is required to deduct tax at the time of credit of amount of sale or service or both to the account of e-commerce participant or at the time of payment thereof to such participant by any mode, whichever is earlier
- Tax to be deducted on the gross amount of sale value
- Any payment to an e-commerce participant shall be deemed to be amount credited or paid by the e-commerce operator to the e-commerce participant and shall be included in the gross amount of such sales or services for the purpose of deduction of income-tax.
- The sum credited or paid to an e-commerce participant (being an individual or HUF) by the e-commerce operator shall not be subjected to provision of this section, if the gross amount of sales or services or both of such individual or HUF, through e-commerce operator, during the previous year does not exceed five lakh rupees and such e-commerce participant has furnished his Permanent Account Number (PAN) or Aadhaar number to the e-commerce operator.

The above amendments shall be effective from 1st April, 2020.

Amendment in definition of "work: in section 194C

It is proposed to amend the definition of "work" under section 194C to provide that in a contract manufacturing, the raw material provided by the assessee or its associate shall fall within the purview of the 'work' under section 194C. Associate is proposed to be defined to mean a person who is placed similarly in relation to the customer as is the person placed in relation to the assessee under the provisions contained in clause (b) of sub-section (2) of section 40A of the Act.

The amendment will take effect from 1st April, 2020.

Proposal for Start-ups

Relief to employees of start-ups on income pertaining to Employee Stock Option Plan (ESOP)

Presently ESOPs are taxed as perquisites under section 17(5) of the Act. The taxation of ESOPs is split into two components:

a. Tax on perquisite as income from salary at the time of exercise
b. Tax on income from capital gain at the time of sale

The tax on perquisite is required to be paid at the time of exercising of option which may lead to cash flow problem as this benefit of ESOP is in kind. Therefore to ease the burden of tax on the employees of start-ups, it is proposed to amend section 192 of the Act.

Tax on perquisite income shall be paid on such income within 14 days:

a. after the expiry of forty eight months from the end of the relevant assessment year; or
b. from the date of the sale of such specified security or sweat equity share by the assessee; or
c. from the date of which the assessee ceases to be the employee of the person;

-whichever is the earliest.

The above amendments shall be effective from 1st April, 2020.

Amendment in section 80-IAC: Special provision in respect of specified business

In the existing provisions of section 80-IAC a deduction of amount equal to 100% of the profits and gains derived from an eligible business by an eligible start-up for three consecutive assessment years out of seven years, at the option of the assesse

- The above option is available on the condition that the eligible start-up is incorporated on or after 1st April, 2016 but before 1st April, 2021 and the turnover of the business does not exceed ₹ 25 crores.

The above has been amended as follows:

- The deduction has been extended to ten years instead of seven years.
- The turnover limits has been increased from ₹ 25 crores to ₹ 100 crores.

The amendment will be effective from 1st April, 2021 and will, accordingly, apply in relation to the assessment year 2021-22 and subsequent assessment years.

Proposal for electricity generation units

Amendment of section 115BAB: Tax on income of new manufacturing domestic companies

- Under section 115BAB, domestic manufacturing companies were given an option to avail concessional rate of 15%, set up on or after 1st October, 2019, which commence manufacturing or production by 31st March, 2023
- It has been proposed to include generation of electricity which may not amount to manufacture or production of an article or thing

The amendment will take effect from 1st April, 2020 and will, accordingly, apply in relation to the assessment year 2020-21 and subsequent assessment years.

Proposals for Affordable Housing Sector

The present Budget, w.r.t. affordable housing, mainly reflects extension of benefits introduced in the previous budget. The proposals of the present Budget are discussed herein below-

Deduction in respect of profits and gains from affordable housing projects-

The Finance Bill, 2020 proposes to extend the benefit of 100% tax holiday on the profits and gains derived from the business of developing and building affordable housing projects under Section 80-IBA of the Income Tax Act, by a period of one year, i.e. 31.03.2021

This implies that such affordable housing projects approved by the competent authority by 31.03.2021 shall reap the benefit of the aforesaid deduction. Effective from 01.04.2021, this Amendment will accordingly apply in relation to the assessment year 2021-2022 and subsequent assessment years.

Additional deduction of ₹1,50,000/- towards interest paid on loans for purchase of an affordable house- section 80EEA of Income Tax Act, 1961

Introduced in the previous budgetary session, the present Budget proposes to extend the benefit of additional deduction of ₹1,50,000/- for a year. Hence, as per the proposed amendment, persons who buy an

affordable house, and for such purpose avail a loan within 31.03.2021, shall be eligible to an additional deduction of ₹1,50,000/- towards interest paid on loans for purchase of an affordable house.

Change in determination for cost of acquisition for computing capital gains

The existing provisions of section 55 of the Act provide that for computation of capital gains, an assessee shall be allowed deduction for cost of acquisition of the asset and also cost of improvement, if any.

However, for computing capital gains in respect of an asset acquired before 1st April, 2001, the assessee has been allowed an option of either to take:

- the fair market value of the asset as on 1st April, 2001 or
- the actual cost of the asset as cost of acquisition.

Therefore a new clause has been inserted where the capital asset is land or building or both, the fair market value of such an asset on 1st April, 2001 shall not exceed the stamp duty value of such asset as on 1st April, 2001 where such stamp duty value is available.

It is also proposed to insert an Explanation so as to provide that for the purposes of sub-clause (i) and (ii), "stamp duty value" shall mean the value adopted or assessed or assessable by any authority of the Central Government or a State Government for the purpose of payment of stamp duty in respect of an immovable property.

These amendments will take effect from 1st April, 2021 and will, accordingly, apply in relation to the assessment year 2021-22 and subsequent assessment years.

Incentive to MSMEs

Rationalisation of provisions relating to tax audit in certain cases

In order to reduce compliance burden on small and medium enterprises, it is proposed to increase the threshold limit for a person carrying on business from one crore rupees to five crore rupees in cases where,-

a. Aggregate of all receipts in cash during the previous year does not exceed five per cent of such receipt; and
b. Aggregate of all payments in cash during the previous year does not exceed five per cent of such payment.

These amendments will take effect from 1st April, 2020 and will, accordingly, apply in relation to the assessment year 2020-21 and subsequent assessment years.

Proposals for Double Taxation Avoidance Scheme

Section 90 of the Act empowers the Central Government to enter into agreement with foreign countries or specified territories, with the principal motive of avoiding double taxation of income under Indian regime and that of the foreign territory.

Section 90A of the Act contains provision similar to section 90 of the Act so as to empower the Central Government to adopt and implement an agreement between a specified association in India and any specified association in specified territory outside India for granting relief, avoidance of double taxation, exchange of information and recovery of income-tax.

The MLI is an outcome of the G20-OECD project to tackle Base Erosion and Profit Shifting (the BEPS Project), i.e. tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity, resulting in little or no overall corporate tax being paid. The MLI will modify India's DTAAs to curb revenue loss through treaty abuse and base erosion and profit shifting strategies by ensuring that profits are taxed where substantive economic activities generating the profits are carried out. The MLI will be applied alongside existing DTAAs, modifying their application in order to implement the BEPS measures.

Therefore, it is proposed to amend clause 90 (1) (b) of the Act so as to provide that the Central Government may enter into an agreement with the Government of any country outside India or specified territory outside India for, inter alia, the avoidance of double taxation of income under the Act and under the corresponding law in force in that country or specified territory, as the case may be, without creating opportunities for non-taxation or reduced taxation through tax evasion or avoidance (including through treaty-shopping arrangements aimed at obtaining reliefs provided in this agreement for the indirect benefit of residents of any other country or territory). It is also proposed to make similar amendment in clause 90A (1) (b) of the Act.

These amendments will take effect from 1st April, 2021 and will, accordingly, apply in relation to the assessment year 2021-22 and subsequent assessment years.

Allowing carry forward of losses or depreciation in certain amalgamations

In order to uphold its commitment towards financial health of public sector banks, the Government has already infused capital for current fiscal of some of the public sector banks. Now, with the proposed budget, Govt. has further addressed the issues faced by amalgamated public sector banks and public sector life insurance companies relating to carry forward of accumulated loss or unabsorbed depreciation pursuant to scheme of arrangement with effect from 1st April, 2020. The proposal provides for extension of the scope of section 72AA to include new banks and Government Companies within its ambit.

Other Tax incentives

Exemption in respect of certain income of wholly owned subsidiary of Abu Dhabi Investment Authority and Sovereign Wealth Fund

Section 10 of the Act provides for exemption in respect of certain incomes and activities under specific circumstances

In order to promote investment of sovereign wealth fund, including the wholly owned subsidiary of Abu Dhabi Investment Authority (ADIA), it is proposed to insert a new clause in the section 10 so as to provide exemption to any income of a specified person in the nature of dividend, interest or long-term capital gains arising from an investment made by it in India, whether in the form of debt or equity, in a company or enterprise carrying on the business of developing, or operating and maintaining, or developing, operating or maintaining any infrastructure facility as defined in Explanation to clause (i) of sub-section (4) of section 80-IA of the Act or such other business as may be notified by the Central Government in this behalf. In order to be eligible for exemption.

The investment is required to be made on or before 31st March, 2024 and is required to be held for at least three years.

The amendment will be effective from 1st April, 2021 and will, accordingly, apply in relation to the assessment year 2021-22 and subsequent assessment years.

Preventing of Tax Abuse

Instances have come to notice where period of 182 days specified in respect of an Indian citizen or person of Indian origin visiting India during the year, is being misused. Individuals, who are actually carrying out substantial economic activities from India, manage their period of stay in India, so as to remain a non-resident in perpetuity and not be required to declare their global income in India.

Referring to section 6 of the Act, the following modification of residency provision has been proposed:

- The exception provided in clause (b) of Explanation 1 of sub-section (1) to section 6 for visiting India in that year be decreased to 120 days from existing 182 days.
- An Indian citizen who is not liable to tax in any other country or territory shall be deemed to be resident in India
- An individual or an HUF shall be said to be "not ordinarily resident" in India in a previous year, if the individual or the manager of the HUF has been a non-resident in India in seven out of ten previous years preceding that year. This new condition to replace the existing conditions in clauses (a) and (b) of sub-section (6) of section 6.

This amendment will take effect from 1st April, 2021 and will, accordingly, apply in relation to the assessment year 2021-22 and subsequent assessment years.

Inclusion of attribution of profit to PE of a non-resident for ease of determination of ALP- Amendments to section 92CB and 92CC of the Act

The much questioned disputes relating to the attribution of profits to the Permanent Establishment (PE) of a non-resident (which are included in the definition of associated enterprise as per section 92B of the Act) as income deemed to accrue or arise in India has been addressed by the amendments brought in by the Finance Bill, 2020.

The determination of profits were always a matter of dispute since the profit calculations were based on the arm's length price and accordingly the transfer price declared by the assesse.

The safe harbour rules (SHA) as per section 92CB of the Act, which aid in acceptance of the transfer price declared by the assesse and the advance pricing agreement (APA) as per section 92CC of the Act, which aids in providing certainty as well as reduction in litigation for arriving at the transfer price determined by the assesse are amended to include the determination of attribution of PE within the scope of SHR and APA.

The Amendments are prospectively applicable from 1st April, 2020.

Insertion of new section to tackle false entries and window dressing of books of accounts

There have been several instances where falsification of accounts, inflated profits and window dressing of accounts have been done. The inherent reason of the liquidity crunch in the current economy, and the reason for various scams in the past have been due to window dressing and on a granular level, false entries in the books of accounts.

To tackle the above fiasco, The Finance Bill, 2020 has brought amendments vide insertion of section 271AAD which imposes penalty on persons having false entries in their books of accounts. The quantum of penalty is equivalent to the aggregate amount of the false entry/omitted entry.

Also, persons causing other person to violate the provisions of section 271AAD will also be liable to be penalised in the same manner.

False entry has been defined to include forged documents, false invoice or false piece of documentary evidence and invoices issued without any actual supply of goods/services or in cases where the parties do not exists in a transactions.

The above provisions are in line with the insertion in the CGST Act, 2017 of sub-section 1A of section 122, which deals with penalty in case of false tax invoices.

Improving Effectiveness of Tax Administration

Modification of e-assessment scheme

The E-assessment scheme notified by the government under section 143(3A) of the Income Tax Act is proposed to be amended. Section 143 of the Act provides the manner for processing and assessment of return of income (ITR) where a return has been made under section 139, or in response to a notice under sub-section (1) of section 142 of the Act.

The Finance Bill proposes to expand the scope so as to include the reference of section 144 of the IT Act relating to best judgement assessment. Further, the CG may issue any direction under sub-section (3B) of this section upto 31st March, 2022.

This amendment will take effect from 1st April, 2020.

Amendment in Dispute Resolution Panel (DRP)

It is proposed that the provisions of section 144C of the Act may be suitably amended to:-

(A) include cases, where the AO proposes to make any variation which is prejudicial to the interest of the assessee, within the ambit of section 144C;
(B) expand the scope of the said section by defining eligible assessee as a non-resident not being a company, or a foreign company.

This amendment will take effect from 1st April, 2020. Thus, if the AO proposes to make any variation after this date, in case of eligible assessee, which is prejudicial to the interest of the assessee, the above provision shall be applicable.

Provision for e-appeal

With the advent of the e-assessment scheme, most of the functions/ processes under the Act, including of filing of return, processing of returns, issuance of refunds or demand notices and assessment, which used to require person-to-person contact between the taxpayer and the Income-tax Department, are now in the electronic mode.

Accordingly, it is proposed to insert sub-section (6A) in section 250 of the Act to provide for the following:

- Empowering Central Government to notify an e-appeal scheme for disposal of appeal so as to impart greater efficiency, transparency and accountability.
- Eliminating the interface between the Commissioner (Appeals) and the appellant in the course of appellate proceedings to the extent technologically feasible.
- Optimizing utilization of the resources through economies of scale and functional specialisation.
- Introducing an appellate system with dynamic jurisdiction in which appeal shall be disposed of by one or more Commissioner (Appeals).

It is also proposed to empower the Central Government, for the purpose of giving effect to the scheme made under the proposed sub-section, by notification in the Official Gazette, to direct that any of the provisions of this Act relating to jurisdiction and procedure of disposal of appeal shall not apply or shall apply with such exceptions, modifications and adaptations as may be specified in the notification. Such directions are to be issued on or before 31st March 2022. It is proposed that every notification issued shall be required to be laid before each House of Parliament. This amendment will take effect from 1st April, 2020.

Providing check on survey operations under section 133A of the Act

Under the existing provisions of section 133A of the Act, an income-tax authority as defined therein is empowered to conduct survey at the business premises of the assessee under his jurisdiction. To prevent the possible misuse of such powers, vide Finance Act 2003, a proviso to sub-section (6) in the said section was inserted to provide that no income-tax authority below the rank of Joint Director or Joint Commissioner, shall conduct any survey under the said section without prior approval of the Joint Director or the Joint Commissioner, as the case may be.

This amendment will take effect from 1st April, 2020.

Clarity on stay by the Income Tax Appellate Tribunal (ITAT)

The first proviso to sub-section (2A) of section 254 of the Act, inter-alia, provides that the ITAT may, after considering the merits of the application made by the assessee pass an order of stay for a maximum period of 180 days in any proceedings against the order of the Commissioner of Income-tax (Appeal).

It is proposed to provide that ITAT may grant stay under the first proviso subject to the condition that the assessee deposits not less than twenty per cent of the amount of tax, interest, fee, penalty, or any other sum payable under the provisions of this Act, or furnish security of equal amount in respect thereof. It is also proposed to substitute second proviso to provide that no extension of stay shall be granted by ITAT, where such appeal is not so disposed of which the said period of stay as specified in the order of stay.

Provision for e-penalty

Section 274 of the Act provides for the procedure for imposing penalty under Chapter XXI of the Act. In response to a show cause notice issued by the Assessing Officer (AO), assessee or his authorised representative is still required to visit the office of the Assessing Officer. With the advent of the E-Assessment Scheme-2019 and in order to ensure that the reforms initiated by the Department to eliminate human interface from the system reaches the next level, it is imperative that an e-penalty scheme be launched on the lines of E-assessment Scheme-2019. Therefore, it is proposed to insert a new sub-section (2A) in the said section so as to provide that the Central Government may notify an e-scheme for the purposes of imposing penalty so as to impart greater efficiency, transparency and accountability.

Insertion of Taxpayer's Charter in the Act

It is proposed to insert a new section 119A in the Act to empower the Board to adopt and declare a Taxpayer's Charter and issue such orders, instructions, directions or guidelines to other income-tax authorities as it may deem fit for the administration of Charter.

The charter will be prepared by the Central Board of Direct Taxes (CBDT) and is expected to be released soon.

Other proposals

Increase in safe harbour limit from 5% to 10%

The present provisions of section 43CA, 50C and 56 of the Act provide for safe harbour of five per cent. Representations have been received in this regard requesting that the said safe harbour 5% may be increased. It is, therefore, proposed to increase the limit to 10%.

The amendment will take effect from 1st April, 2021 and will, accordingly, apply in relation to the assessment year 2021-22 and subsequent assessment years.

Amendment in section 35AD: Deduction in respect of expenditure on specified business

A domestic company opting for concessional tax rate under section 115BAA or section 115BAB of the Act, which does not claim deduction under section 35AD, would also be denied normal depreciation under section 32 due to operation of sub-section (4) of section 35AD.

The amendments has been made considering the above provisions:

- The deduction shall become optional
- No deduction will be allowed in respect of expenditure incurred in any other section in any previous year or under this section in any other previous year, if the deduction has been claimed by the assessee and allowed to him under this section.

The amendment will take effect from 1st April, 2020 and will, accordingly, apply in relation to the assessment year 2020-21 and subsequent assessment years.

Exempting non-resident from filing of Income-tax return in certain conditions

- The current provisions of section 115A of the Act provide relief to non-residents from filing of return of income where the non-

resident is not liable to pay tax other than the TDS which has been deducted on the dividend or interest income,

- The relief was not been extended to non-residents whose total income consists only of the income by way of royalty or fees from technical services.
- It has been proposed to extend the benefit to those non-residents who derive income from technical services.

The amendment will take effect from 1st April, 2020 and will, accordingly, apply in relation to the assessment year 2020-21 and subsequent assessment years.

Widening the scope of section 206C

- Section 206C of the Act provides for the collection of tax at source (TCS) on business of trading in alcohol, liquor, forest produce, scrap etc.
- In order to widen and deepen the tax net, it is proposed to amend section 206C accordingly to levy TCS on overseas remittance and for sale of overseas tour package

The amendment will be effective from 1st April, 2020

Changes in GST regime under Union Budget 2020

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Introduction

With several issues faced by the economy like a drop in GDP, liquidity crunch, rising inflation and low tax revenues, the country is expecting a fiscal stimulus to revive the growth. With the erstwhile union budget focusing on enabling India to achieve the $ 5 trillion economy mark by 2024, several tailwinds such as capital infusion, focus on infrastructure through National Infrastructure Pipeline (NIP), revival of Private Sector Banks (PSBs) and helping out NBFCs, through introduction of Troubled assets relief programme (TARP) inducing the deferment of recognition of Non- Performing Assets were introduced.

One of the major changes brought in the indirect tax regime was the introduction of Goods and Services Tax (GST). GST was implemented with the objective of enhancing "Ease of Doing Business" in the country. With the same intention, the GST council has constantly brought improvements in the areas of procedure as well as regulations.

The journey so far for GST has been including glitches and blockages such as difficulties in return filing which have resulted in extension of due dates, staggered state-wise due dates for filing of returns. One of the major issue in the implementation of GST has been the deferment of the system of GST returns which was initially introduced and on the expectation side, the introduction of the new system of returns effective from 1st April, 2020 which currently is running on the GST portal on a trial run basis.

Expectations from the Union Budget 2020

The decisions pertaining to the technical as well as critical issues are addressed by the GST council through the GST council meetings, the expectations from the budget on the other hand was long term solution to the existing problems.

The expectations from this budget ranged from reduction in rates on Automobiles from 28% to 18% to absorption of the additional price impact due to the norms of Bharat Stage Emission Standards (BSES) as well as a robust vehicle scrapping policy to remove the old vehicles off road and trigger demand for new ones. There have been proposals for a reduction in 50% GST and a 50% cut in road tax and registration charges. The Oil Ministry also proposed inclusion of natural gas in the ambit of GST

with the intention to promote the use of environment friendly fuel and reduction in multiplicity of taxes.

The industry has been expecting changes in the GST regime in a manner which would provide ease in compliances and minimise the last-day hassle faced by major part of the taxpayers. With the already in loop, the new system of filing GST returns, the expectations are more inclined towards reduction in rates and ease in compliances.

Outcome of the Budget

The following are the major changes brought in by the Union Budget 2020 in the indirect taxes regime:

Central Goods and Services Tax (CGST)

Amendments to Section of CGST Act, 2017	Amended section:	Remarks/comments
clause (114) Section 2-Union Territory	(114) "Union territory" means the territory of— (a) the Andaman and Nicobar Islands; (b) Lakshadweep; (c) Dadra and Nagar Haveli and Daman and Diu; **(d) Ladakh;** (e) Chandigarh; and (f) other territory. -XX-	Inclusion of Ladakh as a union territory and combining Dadra and Nagar Haveli and Daman and Diu as one Union Territory
Section 10 (2)-Composition Levy	(2) The registered person shall be eligible to opt under sub-section (1), if:— (a) he is not engaged in the supply of services other than supplies referred to in clause (b) of paragraph 6 of Schedule II; (b) he is not engaged in making any supply of goods **or services** which are not leviable to tax under this Act; (c) he is not engaged in making any inter-State outward supplies of goods **or services**; (d) he is not engaged in making any supply of goods **or services** through an electronic commerce operator who is required to collect tax at source under section 52;	Exclusion of person engaged in supply of services not leviable to tax in the ambit of Composition levy

Amendments to Section of CGST Act, 2017	Amended section:	Remarks/comments
	-XX-	
Section 16- Input Tax Credit	A registered person shall not be entitled to take input tax credit in respect of any invoice or debit note for supply of goods or services or both after the due date of furnishing of the return under section 39 for the month of September following the end of financial year to which such invoice or ~~invoice relating to~~ such debit note pertains or furnishing of the relevant annual return, whichever is earlier.	Amendment brought in for alignment with new system of return filing
Section 29 (1) (c) – Cancellation of registration	. (1) The proper officer may, either on his own motion or on an application filed by the registered person or by his legal heirs, in case of death of such person, cancel the registration, in such manner and within such period as may be prescribed, having regard to the circumstances where,— ~~(c) the taxable person, other than the person registered under sub-section (3) of section 25, is no longer liable to be registered under section 22 or section 24~~ **(c) the taxable person is no longer liable to be registered under section 22 or section 24 or intends to opt out of the registration voluntarily made under sub-section (3) of section 25:"**	Inclusion of surrender of registration by person taking voluntary registration
Section 30 – Revocation of cancellation of registration	Subject to such conditions as may be prescribed, any registered person, whose registration is cancelled by the proper officer on his own motion, may apply to such officer for revocation of cancellation of the registration in the prescribed manner within thirty days from the date of service of the cancellation order. **Provided that such period may, on sufficient cause being shown, and for reasons to be recorded in writing, be extended,—** **(a) by the Additional Commissioner or the Joint Commissioner, as the case may be, for a period not exceeding thirty days;**	Extention of time limit for applying for revocation of cancellation of registration

Amendments to Section of CGST Act, 2017	Amended section:	Remarks/comments
	(b) by the Commissioner, for a further period not exceeding thirty days, beyond the period specified in clause (a).	
Section 31 (2) - Tax Invoice	A registered person supplying taxable services shall, before or after the provision of service but within a prescribed period, issue a tax invoice, showing the description, value, tax charged thereon and such other particulars as may be prescribed: ~~Provided that the Government may, on the recommendations of the Council, by notification and subject to such conditions as may be mentioned therein, specify the categories of services in respect of which—~~ ~~(a) any other document issued in relation to the supply shall be deemed to be a tax invoice; or~~ ~~(b) tax invoice may not be issued~~ Provided that the Government may, on the recommendations of the Council, by notification,— (a) specify the categories of services or supplies in respect of which a tax invoice shall be issued, within such time and in such manner as may be prescribed; (b) subject to the condition mentioned therein, specify the categories of services in respect of which— (i) any other document issued in relation to the supply shall be deemed to be a tax invoice; or (ii) tax invoice may not be issued.	Categorisation of services for which Tax invoice or any other document may or may not be issued
Section 51- Tax deducted at source	~~(3) The deductor shall furnish to the deductee a certificate mentioning therein the contract value, rate of deduction, amount deducted, amount paid to the Government and such other particulars in such manner as may be prescribed.~~ (3) A certificate of tax deduction at source shall be issued in such form and in such manner as may be prescribed.	Particulars of provisions of TDS certificate transferred to CGST Rules. Removal of late fees for delay in/not providing TDS certificate. (Applicable in case of (a)department or

Amendments to Section of CGST Act, 2017	Amended section:	Remarks/comments
	~~(4) If any deductor fails to furnish to the deductee the certificate, after deducting the tax at source, within five days of crediting the amount so deducted to the Government, the deductor shall pay, by way of a late fee, a sum of one hundred rupees per day from the day after the expiry of such five days period until the failure is rectified, subject to a maximum amount of five thousand rupees.~~	establishment of the Central Government or State Government; or (b) local authority; or (c) Governmental agencies; or (d) such persons or category of persons as may be notified by the Government on the recommendations of the Council)
Section 109- Constitution of Appellate Tribunal and Benches thereof.	(6) The Government shall, by notification, specify for each State or Union territory, a Bench of the Appellate Tribunal (hereafter in this Chapter, referred to as "State Bench") for exercising the powers of the Appellate Tribunal within the concerned State or Union territory: ~~Provided that the Government shall, on receipt of a request from any State Government, constitute such number of Area Benches in that State, as may be recommended by the Council~~ Provided further that the Government may, on receipt of a request from any State, or on its own motion for a Union territory, notify the Appellate Tribunal in a State to act as the Appellate Tribunal for any other State or Union territory, as may be recommended by the Council, subject to such terms and conditions as may be prescribed.	
Section 122- Penalty for certain offences. Insertion of sub-section 1A	(1A) 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."	Penalty imposed on actual amount of the transaction on retention of benefit from non-issuance/incorrect invoice, issue of bogus invoices, claiming/distributing input tax credit with actual receipt of goods/services.
Section 132- Punishment for certain offences	~~(1)Whoever commits any of the following offences, namely:—~~	Extention of punishment on causing to commit and retention of benefit arising from an offence.

Amendments to Section of CGST Act, 2017	Amended section:	Remarks/comments
	(1)Whoever commits, or causes to commit and retain the benefits arising out of, any of the following offences namely:- -XX- ~~(c) avails input tax credit using such invoice or bill referred to in clause (b);~~ (c) avails input tax credit using the invoice or bill referred to in clause (b) or fraudulently avails input tax credit without any invoice or bill; (e) evades tax, ~~fraudulently avails input tax credit~~ or fraudulently obtains refund and where such offence is not covered under clauses (a) to (d);	
Section 140 - Transitional arrangement for input tax credit	(1)A registered person, other than a person opting to pay tax under section 10, shall be entitled to take, in his electronic credit ledger, the amount of CENVAT credit carried forward in the return relating to the period ending with the day immediately preceding the appointed day, furnished by him under the existing law within such time in such manner as may be prescribed: -XX- (2) A registered person, other than a person opting to pay tax under section 10, shall be entitled to take, in his electronic credit ledger, credit of the unavailed CENVAT credit in respect of capital goods, not carried forward in a return, furnished under the existing law by him, for the period ending with the day immediately preceding the appointed day within such time and in such manner as may be prescribed: (3) A registered person, who was not liable to be registered under the existing law, or who was engaged in the manufacture of	Streamlining the provisions of ITC with new system of GST return filing to be applicable from 1st April 2020

Amendments to Section of CGST Act, 2017	Amended section:	Remarks/comments
	exempted goods or provision of exempted services, or who was providing works contract service and was availing of the benefit of notification No. 26/2012—Service Tax, dated the 20th June, 2012 or a first stage dealer or a second stage dealer or a registered importer or a depot of a manufacturer, shall be entitled to take, in his electronic credit ledger, credit of eligible duties in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the appointed day, **within such time and in such manner as may be prescribed, subject to** the following conditions, namely:— -XX-	
Section 168 – Power to issue instructions or directions	(2) The Commissioner specified in clause (91) of section 2, sub-section (3) of section 5, clause (b) of sub-section (9) of section 25, sub-sections (3) and (4) of section 35, sub-section (1) of section 37, sub-section (2) of section 38, sub-section (6) of section 39, ~~sub-section (5) of section 66, sub-section (1) of section 143,~~ **sub-section (1) of section 143, except the second proviso thereof** sub-section (1) of section 151, clause (l) of sub-section (3) of section 158 and section 167 shall mean a Commissioner or Joint Secretary posted in the Board and such Commissioner or Joint Secretary shall exercise the powers specified in the said sections with the approval of the Board.	
Section -172- Removal of difficulties	If any difficulty arises in giving effect to any provisions of this Act, the Government may, on the recommendations of the Council, by a general or a special order published in the	Extention of time for the department to bring amendments in the GST law from 3 years to 5 years from

Amendments to Section of CGST Act, 2017	Amended section:	Remarks/comments
	Official Gazette, make such provisions not inconsistent with the provisions of this Act or the rules or regulations made thereunder, as may be necessary or expedient for the purpose of removing the said difficulty: Provided that no such order shall be made after the expiry of a period of ~~three years~~ **five years** from the date of commencement of this Act.	date of commencement of GST Law
Para 4 of Schedule II	4. Transfer of business assets (a) where goods forming part of the assets of a business are transferred or disposed of by or under the directions of the person carrying on the business so as no longer to form part of those assets, ~~whether or not for a consideration~~, such transfer or disposal is a supply of goods by the person; (b) where, by or under the direction of a person carrying on a business, goods held or used for the purposes of the business are put to any private use or are used, or made available to any person for use, for any purpose other than a purpose of the business, ~~whether or not for a consideration~~, the usage or making available of such goods is a supply of services; -XX-	W.e.f. 1st July, 2017 the sale of business assets without any consideration to be excluded from the purview of deemed supply as per Schedule II
Retrospective exemption from, or levy or collection of, central tax in certain cases.	(1) Notwithstanding anything contained in the notification of the Government of India in the Ministry of Finance (Department of Revenue) number G.S.R. 673(E), dated the 28th June, 2017, issued by the Central Government, on the recommendations of the Council, in exercise of the powers under sub-section (1) of section 9 of the Central Goods and Services Tax Act, 2017,— (i) no central tax shall be levied or collected in respect of supply of fishmeal (falling under heading 2301), during the period	W.e.f. 1st July 2017 Exclusion of fishmeal, pulley, wheels as part of agricultural machinery from the purview of GST. Further amendments done for claiming Refund of taxes paid

Amendments to Section of CGST Act, 2017	Amended section:	Remarks/comments
	commencing from the 1st day of July, 2017 and ending with the 30th day of September, 2019 (both days inclusive); (ii) central tax at the rate of six per cent. shall be levied or collected in respect of supply of pulley, wheels and other parts (falling under heading 8483) and used as parts of agricultural machinery (falling under headings 8432, 8433 and 8436), during the period commencing from the 1st day of July, 2017 and ending with the 31stday of December, 2018 (both days inclusive). (2) No refund shall be made of all such tax which has been collected, but which would not have been so collected, had sub-section (1) been in force at all material times.	
Retrospective effect to notification issued under clause (ii) of proviso to subsection (3) of section 54 of Central Goods and Services Tax Act.	The notification of the Government of India in the Ministry of Finance (Department of Revenue) number G.S.R. 708(E), dated the 30th September, 2019, issued by the Central Government, on the recommendations of the Council, in exercise of the powers under clause (ii) of the proviso to sub-section (3) of section 54 of the Central Goods and Services Tax Act, 2017, read with sub-section (2) of section 9 of the Goods and Services Tax (Compensation to States) Act, 2017, shall be deemed to have, and always to have, for all purposes, come into force on and from the 1st day of July, 2017.	Further amendments done for claiming Refund of taxes paid

Integrated Goods and Services Tax (IGST)

Amendments to Section of IGST Act, 2017	Amended section:	Remarks/comments
Section 25 (1)	If any difficulty arises in giving effect to any provision of this Act, the Government may, on the recommendations of the Council, by a general or a special order published in the Official Gazette, make such provisions not inconsistent with the provisions of this Act or the rules or regulations made thereunder, as may be necessary or expedient for the purpose of removing the said difficulty: Provided that no such order shall be made after the expiry of a period of ~~three years~~ **five years** from the date of commencement of this Act.	Extention of time for the department to bring amendments in the GST law from 3 years to 5 years from date of commencement of GST Law
Retrospective exemption from, or levy or collection of, integrated tax in certain cases.	Notwithstanding anything contained in the notification of the Government of India in the Ministry of Finance (Department of Revenue) number G.S.R. 666(E), dated the 28th June, 2017, issued by the Central Government, on the recommendations of the Council, in exercise of the power under sub-section (1) of section 5 of the Integrated Goods and Services Tax Act, 2017,— **(i) no integrated tax shall be levied or collected in respect of supply of fishmeal (falling under heading 2301), during the period commencing from the 1st day of July, 2017 and ending with the 30th day of September, 2019 (both days inclusive);** **(ii) integrated tax at the rate of twelve per cent. shall be levied or collected in respect of supply of pulley, wheels and other parts (falling under heading 8483) and used as parts of agricultural machinery (falling under headings 8432, 8433 and 8436), during the period commencing from the 1st day of July, 2017 and ending with the 31st day of December, 2018 (both days inclusive).** (2) No refund shall be made of all such tax which has been collected, but which would not have been so collected, had sub-section (1) been in force at all material times.	W.e.f. 1st July 2017 Exclusion of fishmeal, pulley, wheels as part of agricultural machinery from the purview of GST. Further amendments done for claiming Refund of taxes paid

Union Territory Goods and Services Tax

Amendments to Section of UTGST Act, 2017	Amended section:	Remarks/comments
Section 1	(2) It extends to the Union territories of the Andaman and Nicobar Islands, Lakshadweep, ~~Dadra and Nagar Haveli, Daman and Diu~~ **Dadra and Nagar Haveli and Daman and Diu, Ladakh,** Chandigarh and other territory	Inclusion of Ladakh as a union territory and combining Dadra and Nagar Haveli and Daman and Diu as one Union Territory
Section 2	(8) ''Union territory'' means the territory of,— (i) the Andaman and Nicobar Islands; (ii) Lakshadweep; ~~(iii) Dadra and Nagar Haveli;~~ ~~(iv) Daman and Diu;~~ **(iii) Dadra and Nagar Haveli and Daman and Diu;** **(iv) Ladakh** (v) Chandigarh; or (vi) other territory	Inclusion of Ladakh as a union territory and combining Dadra and Nagar Haveli and Daman and Diu as one Union Territory
Section 26- Removal of difficulties	(1) If any difficulty arises in giving effect to any provision of this Act, the Central Government may, on the recommendations of the Council, by a general or a special order published in the Official Gazette, make such provisions not inconsistent with the provisions of this Act or the rules or regulations made thereunder, as may be necessary or expedient for the purpose of removing the said difficulty: Provided that no such order shall be made after the expiry of a period of ~~three years~~ **five years** from the date of commencement of this Act.	Extention of time for the department to bring amendments in the GST law from 3 years to 5 years from date of commencement of GST Law
Retrospective exemption from, or levy or collection of, Union territory tax in certain cases.	(1) Notwithstanding anything contained in the notification of the Government of India in the Ministry of Finance (Department of Revenue) number G.S.R. 710(E), dated the 28th June, 2017, issued by the Central Government, on the recommendations of the Council, in exercise of the powers under sub-section (1) of section 7 of the Union Territory Goods and Services Tax Act, 2017, — Retrospective exemption from, or levy or collection of, Union territory tax in certain cases. (i) no Union territory tax shall be levied or collected in respect of supply of fishmeal (falling under heading 2301), during the period commencing from the 1st	W.e.f. 1st July 2017 Exclusion of fishmeal, pulley, wheels as part of agricultural machinery from the purview of GST. Further amendments done for claiming Refund of taxes paid

Amendments to Section of UTGST Act, 2017	Amended section:	Remarks/comments
	day of July, 2017 and ending with the 30th day of September, 2019 (both days inclusive); (ii) Union territory tax at the rate of six per cent. shall be levied or collected in respect of supply of pulley, wheels and other parts (falling under heading 8483) and used as parts of agricultural machinery (falling under headings 8432, 8433 and 8436), during the period commencing from the 1st day of July, 2017 and ending with the 31st day of December, 2018 (both days inclusive). (2) No refund shall be made of all such tax which has been collected, but which would not have been so collected, had sub-section (1) been in force at all material times.	

Goods and services tax (Compensation to states)

Amendments to Section of GST (Compensation to states) Act, 2017	Amended section:	Remarks/comments
Section 14 – Power to remove difficulties	4. (1) If any difficulty arises in giving effect to the provisions of this Act, the Central Government may, on the recommendations of the Council, by order published in the Official Gazette, make such provisions, not inconsistent with the provisions of this Act, as appear to it to be necessary or expedient for removing the difficulty: Provided that no order shall be made under this section after the expiry of ~~three years~~ **five years** from the commencement of this Act.	Extention of time for the department to bring amendments in the GST law from 3 years to 5 years from date of commencement of GST Law

Health Cess

The introduction of Health Cess at a rate of 5% as duty of customs on all goods imported medical devices has been brought in force vide chapter V of the Finance Bill, 2020.

The list of medical devices on which such Health cess is to be applicable on the goods falling under headings 9018, 9019, 9020, 9021 and 9022 of the First Schedule[37] Customs Tariff Act, 1975.

[37] http://www.wbcomtax.nic.in/GST/GST_PPU/Consolidated_Customs_Tariff_Code%20_2016_17.pdf

Status of implementation of proposals of Interim and Union Budget 2019-20

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Sr. No.	Proposals by the Government	Status of Implementation	Details of implementation	Link
Interim Budget - February 01, 2019				
1.	**MSMEs:** Interest rebate of 2% on incremental loan of ₹ 1 crore for MSMEs who have registered themselves under the GST framework.	Implemented	**RBI, vide notification dated 21st February, 2019,** notified the salient features and operational guidelines for implementation of the 'Interest Subvention Scheme 2018, for MSMEs. • 2% interest subvention for all GST registered MSMEs, on fresh or incremental loans. • The scheme was made effective for the FY 2018-2019 and 2019-2020. • **Eligible loans**- Incremental or fresh term or working capital loan extended from 2nd November 2018 and in FY 2019-2020. • Loans extended only by Scheduled Commercial Bank to be eligible. • **Eligible MSMEs**- MSMEs having a valid Udyog Aadhar Number and GSTN. MSMEs availing interest subvention under any Scheme of the State / Central Govt. will not be eligible.	https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11478#enclosed

Sr. No.	Proposals by the Government	Status of Implementation	Details of implementation	Link
			• Amount of loan- extent of loan upto ₹100 lakh. • SIDBI to be single national level nodal agency for implementation.	
2.	**Stamp duty on financial securities:** Reforms in stamp duty levied and collected on Financial Securities transactions. Stamp duty to be levied on one instrument relating to one transaction and get collected at one place through stock exchange.	**To be Implemented from April 1, 2020**	The Finance Act, 2019 brought amendments to the Indian Stamp Act, 1899. Key changes: 1. Levy of stamp duty on demat transactions 2. Levy of stamp duty by the Central Government on all securities transactions 3. Responsibility for collection of stamp duty on clearing corporations and stock exchanges in case of demat transactions. 4. Change in rate of stamp duties for demat and physical transactions. Ministry of Finance vide notification dated 10th December presented Indian Stamp (Collection of Stamp Duty through Stock Exchanges, Clearing Corporations and Depositories) Rules, 2019. **These amendments and rules have been made effective from 1st April 2020** by Ministry of Finance vide notification dated 8th January, 2020.	Finance Act, 2019 http://egazette.nic.in/WriteReadData/2019/198304.pdf Rules: http://egazette.nic.in/WriteReadData/2019/214585.pdf
3.	**Affordable Housing** Exemption of levy of income tax on second self-occupied house	**Implemented**	Section 4 of The Finance Act, 2019, notified on 21st February, 2019, amended Sec 23 of the Income Tax Act, 1941 w.e.f. 1st April, 2019.	http://egazette.nic.in/WriteReadData/2019/198304.pdf

Sr. No.	Proposals by the Government	Status of Implementation	Details of implementation	Link
4.	**Affordable Housing** Increase in TDS threshold for deduction of tax on rent from ₹ 1,80,000 to ₹ 2,40,000 to provide relief to small taxpayers	**Implemented**	Section 10 of the Finance Act, 2019, notified on 21st February, 2019, amended Sec 194I of the Income Tax Act, 1941 w.e.f. 1st April, 2019.	http://egazette.nic.in/WriteReadData/2019/198304.pdf
5.	**Affordable Housing** Rollover of capital gains u/s 54 of Income tax Act to be increased from investment in 1 residential house to 2 residential houses foe a tax payer having capital gains upto ₹2 crore.	**Implemented**	Section 6 of the Finance Act, 2019, notified on 21st February, 2019, amended Sec 54 of the Income Tax Act, 1941 w.e.f. 1st April, 2019.	http://egazette.nic.in/WriteReadData/2019/198304.pdf
6.	**Housing** Benefit u/s 80IBA to be extended for housing projects approved till 31st March, 2020.	**Implemented**	The Finance Act, 2019, notified on 21st February, 2019, amended Sec 80IBA of the Income Tax Act, 1941 w.e.f. 1st April, 2019.	http://egazette.nic.in/WriteReadData/2019/198304.pdf
7.	**Agriculture credit market** Extension of 2% interest subvention scheme to farmers pursuing activities of animal husbandry and fisheries who avail loan through Kisan Credit Card (KCC). In case of timely repayment, additional 3% interest subvention.	**Implemented**	**RBI, vide notification dated 4th February, 2019,** extended KCC scheme to farmers undertaking animal husbandry and fisheries activity.	https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11462&Mode=0

Sr. No.	Proposals by the Government	Status of Implementation	Details of implementation	Link
	To ensure easy and concessional credit and bring all farmers under KCC, a comprehensive drive with a simplified application form to be initiated.			
8.	**Agriculture credit market** For farmers affected by natural calamity and severe natural calamity and are provided funds via National Disaster Relief Fund (NDRF), an interest subvention of 2% to be given for entire crop loan restructuring period. In case of timely repayment, additional 3% interest subvention.	Implemented	**RBI vide notification dated 7th March, 2019** extended the Interest Subvention Scheme for Short Term Loans with modifications for the years 2018-19 and 2019-20. • For farmers affected by natural calamities, an interest subvention of 2% p.a. to be made available to banks for 1st year. However, normal rate of interest from 2nd year onwards. • For farmers affected by severe natural calamities , an interest subvention of 2% p.a. to be made available to banks for 1st 3 years/ entire period (subject to max 5 years). • In case of timely repayment, additional 3% interest subvention • Grant of benefits for severe natural calamities shall be decided by High Level Committee (HLC) based on the recommendation of Inter-Ministerial Central Team (IMCT) and Sub Committee of National Executive Committee (SC-NEC)	https://www.rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=11494

Sr. No.	Proposals by the Government	Status of Implementation	Details of implementation	Link
9.	**Labour welfare** Launch of 'Pradhan Mantri Shram-Yogi Maandhan' for the unorganized sector workers 1. Monthly pension of ` 3,000 from the age of 60 years with a contribution of ₹ 100 p.m. for workers having monthly income upto ₹ 15,000 2. Government will deposit an equal amount in the pension account of the worker every month	Implemented	**The Ministry of Labour and Employment launched the scheme vide notification dated 7th February, 2019.** Effective date: 15th February, 2019	https://labour.gov.in/sites/default/files/197105_0.pdf
10.	**Youth empowerment** 1. Launch of National Programme on 'Artificial Intelligence' 2. Establishment of the National Centre on Artificial Intelligence as a hub 3. Development of a National Artificial Intelligence portal	Yet to be implemented		
11.	**Prevention of Money Laundering Act 2002**	Implemented	The Finance Act, 2019, notified on 21st February, 2019, amended Sec 8 of the PMLA, 2002.	http://egazette.nic.in/WriteReadData/2019/198304.pdf

Sr. No.	Proposals by the Government	Status of Implementation	Details of implementation	Link
	Amendment to section 8(3) of PMLA 2002 by extension of attachment period from 90 days to 360 days during pendency of proceedings before a criminal court under PMLA or any corresponding foreign law. This period shall exclude the period during which the investigation is stayed by any court under any law.		The amendment was made effective from 20th March, 2019.	
Final Budget - July 05, 2019				
12.	**Banking sector** Setting up of a 'Credit Guarantee Enhancement Corporation' in 2019-20, for which regulations have been notified by the RBI.	**Yet to be implemented**		
13.	**Debt market** Initiation of an action plan to deepen the market for long term bonds including for deepening markets for corporate bond repos, credit default swaps etc., with specific focus on infrastructure sector.	**Yet to be implemented**		

Sr. No.	Proposals by the Government	Status of Implementation	Details of implementation	Link
14.	**Debt market** Investments made by FIIs/FPIs in debt securities issued by Infrastructure Debt Fund – Non-Bank Finance Companies (IDF-NBFCs) to be permitted to be transferred/sold to any domestic investor within the specified lock-in period.	**Yet to be implemented**		
15.	**Debt market** To deepen the Corporate tri-party repo market in Corporate Debt securities, Government to work with regulators RBI/SEBI to enable stock exchanges to allow AA rated bonds as collaterals.	**Yet to be implemented**		
16.	**Debt market** User-friendliness of trading platforms for corporate bonds will be reviewed, including issues arising out of capping of International Securities Identification Number (ISIN).	**Yet to be implemented**		
17.	**Equity capital market**	**Yet to be implemented**		

Sr. No.	Proposals by the Government	Status of Implementation	Details of implementation	Link
	Increase in minimum public shareholding in the listed companies and raising the current threshold of 25% to 35% by SEBI.			
18.	**Capital market** Rationalizing and streamlining the existing Know Your Customer (KYC) norms for FPIs to make it more investor friendly without compromising the integrity of cross-border capital flows.	**Implemented**	SEBI introduced the SEBI (FPI) Regulations, 2019 on 23rd September, 2019 with immediate effect. The new Regulations have allowed for FPIs, a simpler KYC process which aims to rely on KYC done in the jurisdiction where it is organised. This is with a view to avoid duplication of the KYC process. The necessary KYC undertaken by the FPI can now be relied upon. The new norms are in line with the recommendations of the SEBI working group on FPI.	https://www.sebi.gov.in/media/press-releases/aug-2019/sebi-board-meeting_43978.html https://www.sebi.gov.in/legal/circulars/nov-2019/operational-guidelines-for-fpis-and-ddps-under-sebi-foreign-portfolio-investors-regulations-2019-and-for-eligible-foreign-investors_44870.html
19.	**Capital market** Organisation of an annual Global Investors Meet in India, using National Infrastructure Investment Fund (NIIF) as the anchor, to get all three sets of global players-top industrialists/corporate honchos, top pension/insurance/sovereign wealth funds and top digital	**Yet to be implemented**		

Sr. No.	Proposals by the Government	Status of Implementation	Details of implementation	Link
	technology/venture funds interested in Indian capital Markets.			
20.	**Capital market and support of social development** Creation of an electronic fund raising platform – a social stock exchange - under the regulatory ambit of Securities and Exchange Board of India (SEBI) for listing social enterprises and voluntary organizations working for the realization of a social welfare objective so that they can raise capital as equity, debt or as units like a mutual fund.	**Yet to be implemented**	A Working group has been created by SEBI to examine and make recommendations with respect to possible structures and mechanisms, within the securities market domain, to facilitate raising of funds by social enterprises and voluntary organizations.	https://www.sebi.gov.in/media/press-releases/sep-2019/sebi-constitutes-working-group-on-social-stock-exchanges-sse-_44311.html
21.	**Foreign Direct Investment** Further opening up of FDI in aviation, media (animation, AVGC) and insurance sectors in consultation with all stakeholde₹	**Yet to be implemented**	For FDI in insurance sector, IRDA invited views on 2nd December, 2019, from companies to increase the FDI limit.	
22.	**Foreign Direct Investment** 100% Foreign Direct Investment (FDI) will be permitted for insurance intermediaries.	**Implemented**	The Ministry of Finance introduced the Indian Insurance Companies (Foreign Investment) Amendment Rules, 2019 on 2nd September, 2019.	https://financialservices.gov.in/sites/default/files/FDI%20Gazette%20intermediaries%2002.09.2019.pdf

Sr. No.	Proposals by the Government	Status of Implementation	Details of implementation	Link
			The above rules substitute Rule 9 of the Indian Insurance Companies (Foreign Investment) Rules, 2015 that specifies that 'there shall be no cap to foreign equity investment for intermediaries or insurance intermediaries' subject to conditions as mentioned.	
23.	**Foreign investment** Increase in statutory limit for FPI investment in a company from 24% to sectoral foreign investment limit with option given to the concerned corporates to limit it to a lower threshold.	**Implemented**	The Ministry of Finance notified the FEMA (Non-debt instruments) Rules, 2019 on 17th October, 2019. Point 1(a) (ii) of Schedule II (Investments by FPIs) provides for the said provision.	http://egazette.nic.in/WriteReadData/2019/213332.pdf
24.	**Foreign investment in PSUs** Increase in foreign shareholding limit in all PSU companies to maximum permissible sector limits.	**Yet to be implemented**		
25.	**Public shareholding for listed PSUs** Steps to meet public shareholding norms of 25% for all listed PSUs	**Yet to be implemented**	Some listed PSUs have still not met with the criteria of minimum public shareholding of 25%. Eg. Cochin Shipyard Ltd, Hindustan Copper Ltd	
26.	**Foreign investment**	**Implemented**	SEBI issued the operating guidelines for FPIs under SEBI (FPIs) Regulations, 2019 on 5th November, 2019.	https://www.sebi.gov.in/legal/circulars/nov-2019/operational-guidelines-

Sr. No.	Proposals by the Government	Status of Implementation	Details of implementation	Link
	FPIs will be permitted to subscribe to listed debt securities issued by ReITs and InvITs.		As per Para 14 (i) of the Guidelines, FPIs are permitted to invest in units of REITs, InvITs and Category III AIFs in terms of Regulation 21 (1) of SEBI (FPI) Regulations, 2019 subject to such other terms and conditions as may be prescribed by SEBI from time to time.	for-fpis-and-ddps-under-sebi-foreign-portfolio-investors-regulations-2019-and-for-eligible-foreign-investors_44870.html
27.	**Capital market** NRI-Portfolio Investment Scheme Route to be merged with the Foreign Portfolio Investment Route for seamless access to Indian equities	**Yet to be implemented**		
28.	**NBFCs** Offer one time six months' partial credit guarantee to public sector banks, to the extent of ₹ 1 lakh crores, for acquisition of high rate pooled assets of financially stable NBFCs for first loss of up to 10%.	**Implemented**	The Union Cabinet gave its approval on 11th December, 2019 to the "Partial Credit Guarantee Scheme", to be offered by the Government of India to Public Sector Banks (PSBs) for purchasing high-rated pooled assets from financially sound Non-Banking Financial Companies (NBFCs) / Housing Finance Companies (HFCs), with the amount of overall guarantee being limited to first loss of up to 10 per cent of fair value of assets being purchased by the banks under the Scheme, or ₹ 10,000 crore, whichever is lower, as agreed by Department of Economic Affairs (DEA). The scheme would cover NBFCs / HFCs that may have slipped into SMA-0	https://pib.gov.in/Pressreleaseshare.aspx?PRID=1595952

Sr. No.	Proposals by the Government	Status of Implementation	Details of implementation	Link
			category during the one year period prior to 1.8.2018, and asset pools rated "BBB+" or higher.	
29.	NBFCs In order to allow NBFCs to raise funds in public issues, the exemption from creating a DRR in case of private placement shall also be applicable to public issue of debt securities.	Implemented	MCA vide notification dated 16th August, 2019 issued the Companies (Share Capital and Debentures) Amendment Rules, 2019 to amend the Companies (Share Capital & Debentures) Rules, 2014. These amendment rules removed the requirement of creating DRR by HFCs and NBFCs for public issue of debentures.	https://www.mca.gov.in/Ministry/pdf/ShareCapitalRules_16082019.pdf
30.	NBFCs To allow other NBFCs not registered as NBFCs-Factor, to carry out factoring activities on the TReDS platform and accordingly amend the Factoring Regulation Act, 2011.	Yet to be implemented		
31.	Housing Shift of regulation authority over the housing finance sector from NHB to RBI.	Yet to be implemented	The Ministry of Finance notified the amendment mentioned in the Finance Act, 2019 to be effective from 9th August, 2019. A press release issued by RBI on 13th August, 2019 stated that RBI will carry out a review of the regulatory framework applicable to the HFCs and come out with revised regulations in due course. In the meantime, HFCs shall continue to comply with the directions and instructions issued by the NHB.	Press release by RBI: https://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=47871

Sr. No.	Proposals by the Government	Status of Implementation	Details of implementation	Link
32.	**NBFCs** Allowing NBFC-D and NBFC- ND-SI to recognise income on NPAs only on cash basis by making section 43D of RBI Act applicable to them.	**Yet to be implemented**		
33.	**Foreign investment** Relief in levy of Securities Transaction Tax (STT) by restricting it only to the difference between settlement and strike price in case of exercise of options.	**Implemented**	W.e.f. 1st September, 2019 STT shall be charged on the intrinsic value i.e. difference between Settlement price and Strike Price.	BSE Circular- https://www.bseindia.com/markets/MarketInfo/DispNoticesNCircula₹aspx?Noticeid=%7BFC5E9E37-A934-4BAE-B200-870FCAB28612%7D&noticeno=20190823-28&dt=08/23/2019&icount=28&totcount=31&flag=0
34.	**Start-ups** Introduction of a television programme within the DD bouquet of channels exclusively for start-ups which shall serve as a platform for promoting start-ups, discussing issues affecting their growth, matchmaking with venture capitalists and for funding and tax planning. The channel	**Implemented**	The 'Startup Ki Baat' is aired on DD National every Sunday at 5 pm from 15th July, 2019 and features successful entrepreneurs who talk about their ideas, inspirations and their startup journeys.	https://entrackr.com/2019/07/startup-focused-tv-programme-startup-ki-baat-dd-national/

Sr. No.	Proposals by the Government	Status of Implementation	Details of implementation	Link
	shall be designed and executed by start-ups themselves.			
35.	Start-ups • No scrutiny by IT department for start-ups and their investors who file requisite declarations and provide information in their returns in respect of valuations of share premiums (angel tax). • Also, a mechanism of e-verification to be put in place to resolve the issue of establishing identity of the investor and source of his funds. • Special administrative arrangements to be made by CBDT for pending assessments of start-ups and redressal of their grievances. It will be ensured that no inquiry or verification in such cases can be carried out by the Assessing Officer without obtaining approval of his supervisory officer.	Implemented	• CBDT on 5th March, 2019 issued a notification exempting start-ups from Section 56(2)(viib) of the IT Act. The notification has a retrospective effect from 19th February, 2019 • Further, CBDT on 7th August, 2019 provided methodology for e-verification, assessment of start-ups and redressal of their grievances.	https://www.startupindia.gov.in/content/dam/invest-india/Templates/public/CBDT_notification_angel_tax_mar_5_2019.pdf https://docs.google.com/viewerng/viewer?url=https://community.nasscom.in/wp-content/uploads/attachment/18095-clarification-in-assessment-of-startup-companies-involving-application-of-section-56-2--viib-.pdf

Sr. No.	Proposals by the Government	Status of Implementation	Details of implementation	Link
36.	**Start-ups** Valuation of shares issued to Category-II AIF to be beyond the scope of income tax scrutiny	**Implemented**	Section 21 of the Finance Act, 2019, inserted the words 'specified funds' to Section 56 of the IT Act w.e.f. 1st April, 2019 exempting valuation of shares issued to Category-II AIF to be beyond the scope of income tax scrutiny. 'specified funds' has been defined as a fund established or incorporated in India in the form of a trust or a company or a limited liability partnership or a body corporate which has been granted a certificate of registration as a Category I or a Category II Alternative Investment Fund and is regulated under the Securities and Exchange Board of India (Alternative Investment Fund) Regulations, 2012 made under the Securities and Exchange Board of India Act, 1992	http://egazette.nic.in/WriteReadData/2019/209695.pdf
37.	**Ease of doing business for start-ups** In the case of closely held eligible start-up, loss incurred in any year prior to the previous year, , shall be allowed to be carried forward and set off against income of previous year on satisfaction of prescribed conditions.	**Implemented**	Section 22 of the Finance Act, 2019 substituted Sec 79 of the Income Tax Act to be effective from 1st April, 2019. Closely held start-ups (as referred to in section 80-IAC) can carry forward and set off losses against their income subject to fulfilment of any of the following 2 conditions: 1. continuity of 51% shareholding- 51% of more of voting power beneficially held by the same persons on the last day of the previous year in which set off or carry	

Sr. No.	Proposals by the Government	Status of Implementation	Details of implementation	Link
			forward is claimed and on the last day of the year in which the loss is incurred. 2. continuity of 100% of original shareholders- all shareholders carrying voting power are the same on the last day of the previous year in which set off or carry forward is claimed and on the last day of the year in which the loss is incurred. Also such loss is incurred during 7 years from incorporation.	
38.	Infrastructure sector (soft) 1. Expansion of solid waste management in villages under Swachh Bharat Abhiyan		1. The Government launched the Open Defecation Free (ODF) Plus programme vision document on 13th July, 2019 envisaging solid waste management in villages, along with the collection and transportation of biodegredable and non-biodegradable waste. The ODF Plus is an extension of the ODF programme under the Swachch Bharat Mission. Further, an ODF plus mobile app has also been launched	https://sbm.gov.in/slwmodfplus/Index.aspx App: https://sbm.gov.in/ODFPlus/
39.	Infrastructure sector (Railways, ports, roads, etc) 1. Use of public-private partnership for Railways 2. Railways will be encouraged to invest more in suburban	Yet to be implemented	1. A draft document for discussion on Private Participation in Passenger Trains for review by stakeholders and provide written comments was uploaded on the Ministry of Railways website by the Ministry of railways and NITI Aayog.	https://niti.gov.in/sites/default/files/2020-01/Draft_PIM.pdf

Sr. No.	Proposals by the Government	Status of Implementation	Details of implementation	Link
	railways through Special Purpose Vehicle (SPV) structures like the Rapid Regional Transport System proposed on the Delhi-Meerut 3. Programme for modernisation of railway station. 4. Enabling an ecosystem of Maintenance, repair and Growth (MRO) industry to achieve self-reliance in the aviation industry and leverage India's engineering potential		2. As part of the modernisation process, as many as 1250 Indian Railways stations have been identified for development by the Government under the Adarsh Railway Station Development Scheme across all the states of the country out of which 1149 railway stations have been developed so far and the remaining stations are planned to be developed by 2019-20.	
40.	Infrastructure sector (Power) 1. Building of a successful model in ensuring power connectivity – One Nation, One Grid to ensure power availability to states at affordable rates. 2. Additional income tax deduction of ₹1.5 lakh on interest paid on loans taken to purchase electric vehicles 3. A package of power sector tariff and structural reforms to be informed.	Implemented	Section 25 of the Finance Act, 2019 inserted section 80EEB in the Income Tax Act, 2019 w.e.f. 1st April, 2019. The deduction shall be allowed in computing the total income of the individual for the assessment years starting from 1st day of April, 2020 and subsequent assessment yea₹ The loan should be sanctioned by the financial institution during the period beginning on the 1st day of April, 2019 and ending on the 31st day of March, 2023.	http://egazette.nic.in/WriteReadData/2019/209695.pdf

Sr. No.	Proposals by the Government	Status of Implementation	Details of implementation	Link
41.	**Banking sector** 1. Levy of TDS of 2% on cash withdrawal exceeding 1 crore in a year from a bank account 2. Business establishments with annual turnover more than 50 crore shall have to offer low cost digital modes of payment like BHIM UPI, UPI-QR Code, Aadhaar Pay, certain Debit cards, NEFT, RTGS etc to their customers and no charges or Merchant Discount Rate shall be imposed on customers as well as merchants. RBI and Banks to absorb these costs from the savings that will accrue to them on account of handling less cash as people move to these digital modes of payment.	Implemented	1. Section 46 of the Finance Act, 2019, has inserted a new section 194N in the Income Tax Act whereby every Bank, co-operative society engaged in banking and post office shall levy of TDS of 2% on cash withdrawal exceeding 1 crore in a year. Effective date: 1st September, 2019 2. CBDT, vide notification dated 30th December, 2019, introduced the Income-tax (16th Amendment) Rules, 2019 whereby every person, carrying on business, has total sales, turnover or gross receipts exceeding Rs 50 crore during the immediately preceding previous year then such person will have to provide facility for accepting payment through following electronic modes (i) Debit Card powered by RuPay; (ii) Unified Payments Interface (UPI) (BHIM-UPI); and (iii) Unified Payments Interface Quick Response Code (UPI QR Code) (BHIM-UPI QR Code).”.	http://egazette.nic.in/WriteReadData/2019/209695.pdf http://egazette.nic.in/WriteReadData/2019/214972.pdf
42.	**Housing** Increase in the tax benefit by allowing an additional deduction of ₹ 1.5 Lakhs on the interest paid	Implemented	Section 25 of the Finance Act, 2019 inserted section 80EEA in the Income Tax Act, 2019 w.e.f. 1st April, 2019.	http://egazette.nic.in/WriteReadData/2019/209695.pdf

Sr. No.	Proposals by the Government	Status of Implementation	Details of implementation	Link
	on home loans, by insertion of section 80EEA in the IT Act. Conditions: i. Loan has been sanctioned by a financial institution during the period beginning on 1st April 2019 to 31st March, 2020 ii. The stamp duty value of house property does not exceed ₹ 45 Lakhs. iii. Assessee does not own any residential house property on the date of sanction of loan			
43.	**NBFCs** **(Insertion of Section 45ID to RBI Act)** Power given to RBI to remove directors of an NBFC on specified grounds	**Implemented**	Section 138 of the Finance Act, 2019 inserted Section 45ID to the RBI Act, 2019. The Ministry of Finance vide notification dated 9th August 2019 brought these amendments into force from 9th August, 2019.	Gazette notification no.: 4142 GI/2019
44.	**NBFCs**	**Implemented**	Section 138 of the Finance Act, 2019 inserted Section 45IE to the RBI Act, 2019.	Gazette notification no.: 4142 GI/2019

Sr. No.	Proposals by the Government	Status of Implementation	Details of implementation	Link
	(insertion of Section 45IE to RBI Act) Power given to RBI to pass an administrative order to supersede the Board of an NBFC appoint an administrator for a period upto 5 years of an NBFC on specified grounds		The Ministry of Finance vide notification dated 9th August 2019 brought these amendments into force from 9th August, 2019.	
45.	**NBFCs** **(Insertion of Section 45-MAA to RBI Act)** Power given to RBI to issue order removing and/or debarring the auditor for functioning as an auditor of any RBI-regulated entities in case it fails to comply with the directions of the RBI given under section 45-MA (RBI regulated entities include banks, NBFCs, asset reconstruction companies, etc)	**Implemented**	Section 139 of the Finance Act, 2019 inserted Section 45-MAA to the RBI Act, 2019. The Ministry of Finance vide notification dated 9th August 2019 brought these amendments into force from 9th August, 2019.	Gazette notification no.: 4142 GI/2019
46.	**NBFCs**	**Implemented**	Section 140 of the Finance Act inserted Section 45-MBA in the RBI Act, 2019.	Gazette notification no.: 4142 GI/2019

Sr. No.	Proposals by the Government	Status of Implementation	Details of implementation	Link
	(Insertion of Section 45-MBA to RBI Act) Power to RBI to order amalgamation, splitting, and reconstruction of NBFCs on grounds of (a) public interest; (b) interest of financial stability; (c) continuation of activities which are critical to the financial system.		The Ministry of Finance vide notification dated 9th August 2019 has brought these amendments into force from 9th August, 2019.	
47.	MSMEs Entities with annual turnover upto ₹ 400 crores shall pay income tax at reduced rate of 25% instead of 30%.	Implemented	As per Paragraph E of the Finance Act, 2019, in case of a domestic company having turnover or gross receipt in the previous year 2017-2018 not exceeding ₹ 400 crores, the rate of income tax will be 25% of the total income	http://egazette.nic.in/WriteReadData/2019/209695.pdf
48.	MSMEs 1. Setting up of more Common Facility centres (CFCs) under the Scheme of Fund for Upgradation and Regeneration of Traditional Industries' (SFURTI) to facilitate cluster based development to make the traditional industries (like	Yet to be implemented		

Sr. No.	Proposals by the Government	Status of Implementation	Details of implementation	Link
	Bamboo, Honey and Khadi) more productive, profitable and capable for generating sustained employment opportunities. 2. Setting up of 80 Livelihood Business Incubators (LBIs) and 20 Technology Business Incubators (TBIs) in 2019-20 under Scheme for Promotion of Innovation, Rural Industry and Entrepreneurship' (ASPIRE)to develop 75,000 skilled entrepreneurs in agro-rural industry secto₹			
49.	**MSMEs** Payment platform for MSMEs to enable filing of bills and payment thereof on the platform itself.	**Yet to be implemented**		
50.	**Companies- Tax on buyback** Section 115QA of IT Act whereby applicability of additional tax at 20% on the distributed income on buy-back of shares to be applied to listed companies as well.	**Implemented**	Section 36 of the Finance Act, 2019, notified on 21st February, 2019, amended Sec 115QA of the Income Tax Act, 1941 w.e.f. 1st April, 2019. The amendment withdraw the exemption given to listed companies from additional tax on distributed income from buy-back of shares	http://egazette.nic.in/WriteReadData/2019/209695.pdf

Sr. No.	Proposals by the Government	Status of Implementation	Details of implementation	Link
51.	**Companies- SCRA 1956** The penalty under section 23A to be levied where the listed entity fails to furnish information, return, etc to the SEBI. Earlier the penalty was levied if the listed entity failed to report to the stock exchange only.	**Implemented**	The provisions, brought by Section 146 of the Finance Act, 2019, were made effective by the Ministry of Finance from 20th January, 2020. **Effective date**- 20th January, 2020	Effective date- http://egazette.nic.in/WriteReadData/2020/215605.pdf Finance Act 2019- http://egazette.nic.in/WriteReadData/2019/209695.pdf
52.	**Companies- SEBI Act, 1992** 1. Section 14: i. General Fund constituted under the section can be utilized for capital expenditure as per annual capital expenditure plan approved by the Board and the Central Government ii. Reserve Fund shall be constituted and 25% of the annual surplus shall be transferred to such Reserve Fund iii. After application towards expenses, the surplus of the General Fund to be	**Implemented**	The provisions, brought by Sections 182, 183, 184 and 185 of the Finance Act, 2019, were made effective by Ministry of Finance vide notification dated 20th January, 2020. **Effective date**- 20th January, 2020	Effective date- http://egazette.nic.in/WriteReadData/2020/215605.pdf Finance Act 2019- http://egazette.nic.in/WriteReadData/2019/209695.pdf

Sr. No.	Proposals by the Government	Status of Implementation	Details of implementation	Link
	transferred to Consolidated Fund of India 2. Penalty shall be levied u/s 15C if the listed entity fails to redress investors' grievances when called upon to do so either in writing or by means of electronic communication 3. Penalty u/s 15F for non-compliance by stock brokers extended to one crore rupees 4. Section 15HAA inserted Penalty for alteration, destruction, etc., of records and failure to protect the electronic database of Board inserted.			

Contributors

"For the strength of the Pack is the Wolf, and the strength of the Wolf is the Pack"

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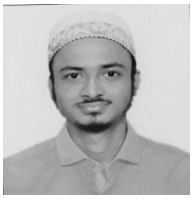

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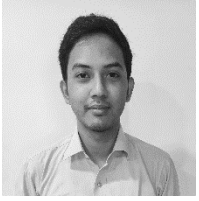

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