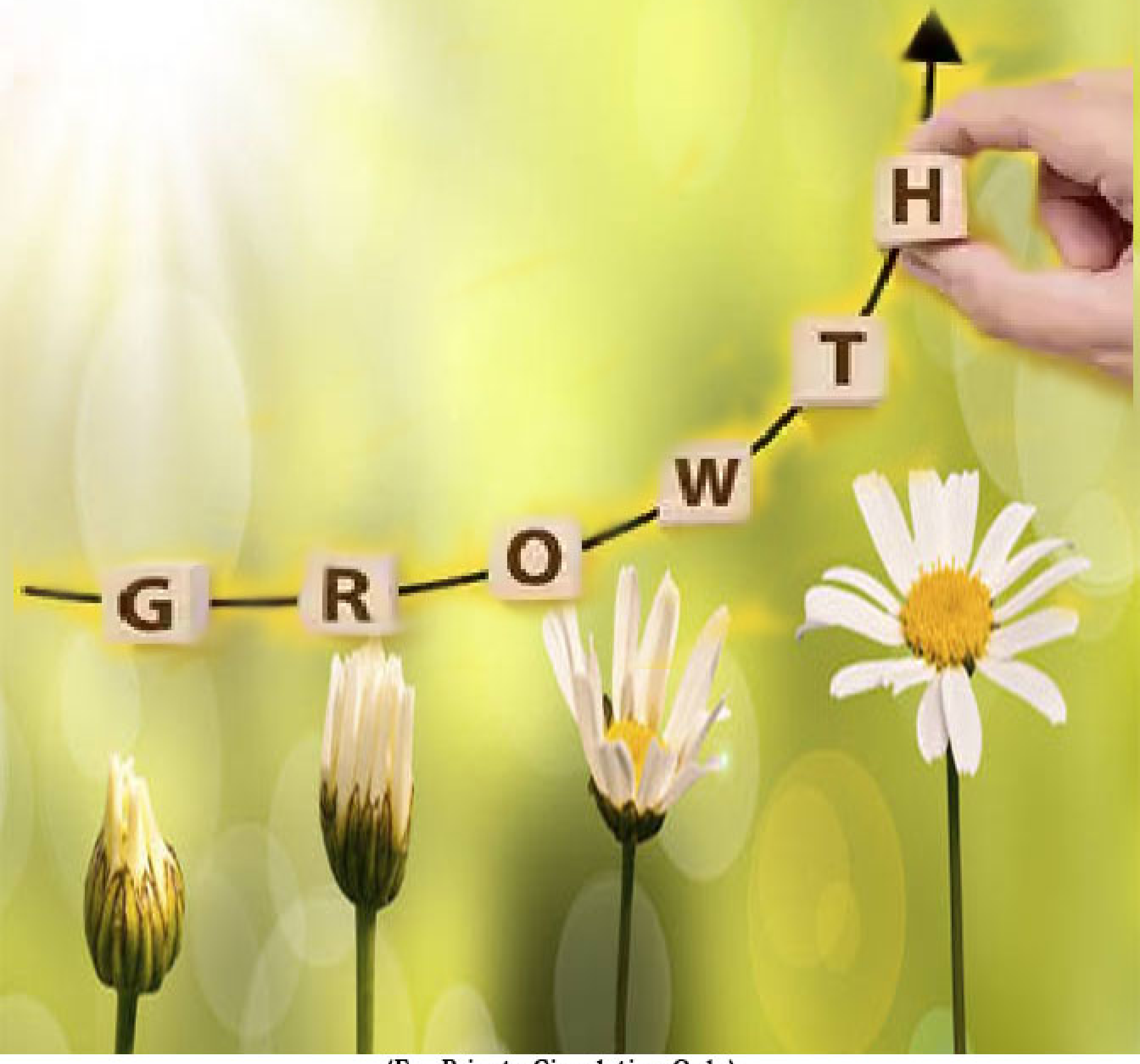
The Finance (No. 2) Bill, 2019

Ek Samiksha...

$5 Trillion Economy



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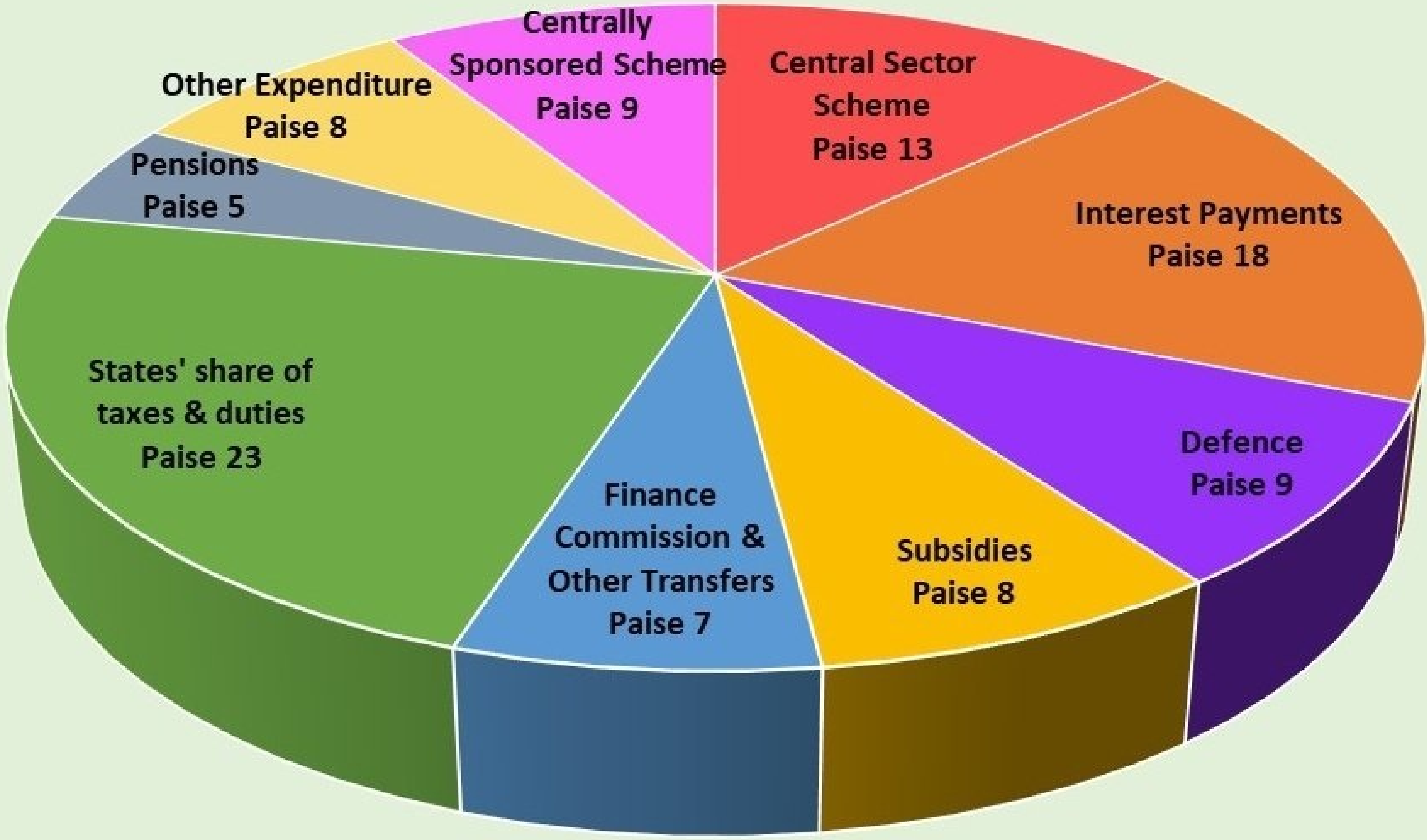
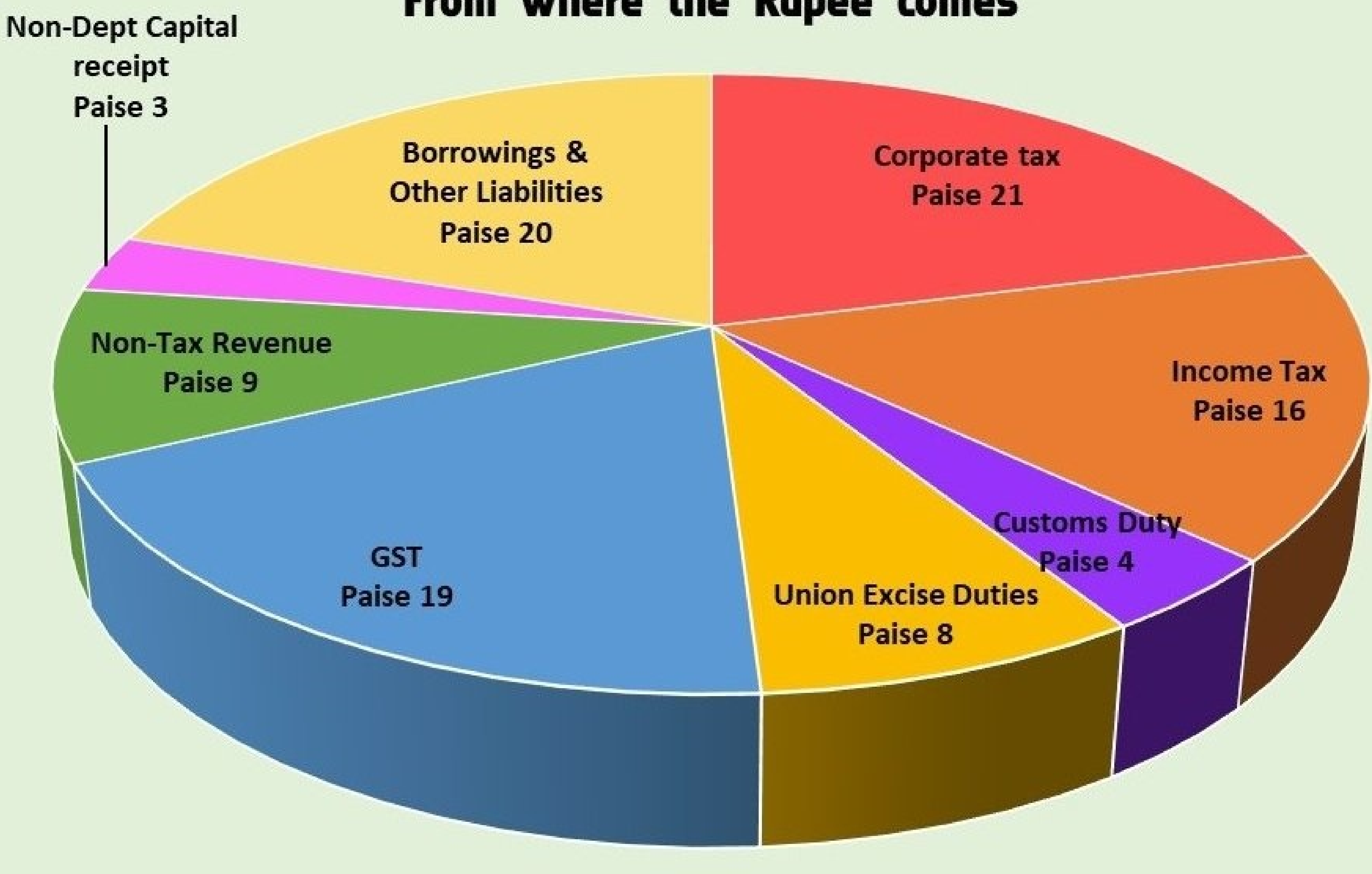
Where the Rupee goes



From where the Rupee comes



9th July, 2019

Dear Madam / Sir,

By very nature women of our society are blessed to take care of everyday finances, budget and needs of their family members. It is about balancing of income of family contributed to the common pool and managing expenditure of the family to meet the varied needs of all its members. It is an "inherent power" of women of our society. If it can be done successfully by each of them for their family, why can't it be efficiently managed for finances and needs of our nation as one whole big family. This balancing is very well reflected in the Union Budget presented by Madam Sitharaman, the Hon'ble Finance Minister.

She is the second lady who has presented the budget. The first being the legendary leader Late Smt. Indira Gandhi who presented the Union Budget 1970-71 on 28th February 1970.

Like all these years, we have made an attempt to appraise our esteemed clients of the important amendments as proposed by the Finance (No. 2) Bill, 2019 restricting to arena of Income Tax.

The current proposals in the Finance (No. 2) Bill are mostly on procedural matters and in that also in many places proposal / amendments provide enabling powers to the Board to notify details and conditions. The proposals in Finance (No. 2) Bill, 2019 needs to be studied in backdrop of –

1. **Project Insight:**

   The tax department is developing E-platform named as "Project Insight". Some functionalities of the project are already activated. This will have 360 degree profile of each Taxpayer.

   It will collate information available in several government databases, as well as public e-forums such as social media, is an effective and non-intrusive way of finding relevant information before a taxpayer can be formally approached. Information across various government databases such as records of the Registrar of Companies, immigration data, GST Network databases, RBI records and annual information return filings are a goldmine of 'big data' for Indian tax authorities.

   If "project insight" is successful in mining all of these, it would certainly be one of the big contributors to the policy and administrative goals of the Central Board of Direct Taxes.

   This, and information about Indians' foreign bank accounts obtained from overseas tax authorities, details about property transactions, rental income, motor vehicle purchases and spending pattern of individuals incompatible with their reported income will increasingly be processed to figure out how much tax evasion risk an assessee poses. It also means a smaller part of the total number of taxpayers will be subject to scrutiny every year.

Some of the proposals in the Bill like prefilled return of income, increase in scope of SFT as well as mandatory filing of return, etc. are very much outcome of this project.

2. Interim Budget 2019:

This was presented by the then Finance Minister Mr. Piyush Goyal and it has become an Act on 21st February, 2019 with the consent of Hon'ble President of India. In this Interim Budget few amendments were made in the Income Tax Act and the same is now part of Income Tax Act. Our Study Notes on Finance Bill, 2019 contended in Interim Budget, 2019 were circulated to our esteem readers as special edition of Tax Chat for the month of February 2019. However, the same is placed at Page 62 of these notes for the sake of completeness.

3. Ongoing changes in cross boarder taxation:

- *Proposed Amendments in Rules for Profit Attribution to Permanent Establishments in India:*

  The Central Board of Direct Taxes ("CBDT") has formed a Committee to examine the existing scheme of profit attribution and to recommend the amendments. The Committee has issued a report on 18th April 2019 proposing the amendments to the rules for profit attribution open for public consultation. The last date for feedback from the public is over and now the final rules are awaited.

- *India deposits its instrument of ratification for MLI*

  On 25th June, 2019, India has deposited the Instrument of Ratification to OECD, Paris alongwith its Final Position in terms of Covered Tax Agreements (CTAs), Reservations, Options and Notifications under the MLI, as a result of which MLI will enter into force for India on 1st October, 2019 and its provisions will have effect on India's DTAAs from FY 2020-21 onwards.

  The MLI is an innovative and a swift way to implement the BEPS measures. The MLI being a single instrument offers a hassle-free way to transfer recommendations of the BEPS Project to bilateral tax treaties. The provisions of the MLI can be implemented into various treaties without actually amending the text of the treaties on individual basis. Hence, after its applicability, the MLI will have to be read parallelly with the amended treaties.

As of June 25, 2019, a total of 89 countries have signed the MLI out of which around 28 have already been ratified, deposited and made effective (including India).

Many of India's important treaty partners have signed the MLI and submitted the ratified instrument with the OECD Depositary. These include the United Kingdom, Australia, Finland, France, Singapore, Netherlands, Luxembourg, Japan, Ireland and United Arab Emirates. Key countries that have so far not signed the Multilateral Convention include the United States, Brazil, Thailand and Oman.

- The commencement of *Automatic Exchange of Financial account Information* (AEOI) on a global basis with almost 90 jurisdictions successfully exchanging information in 2018.

- Taxation of digital economy:
  G 20 is likely to come out with its report on Taxation of Digital Economy by next year. Our Madam FM who participated in the G20 meeting at Japan strongly supported the potential solution based on the concept of 'significant economic presence' of businesses taking into account the evidence of their purposeful and sustained interaction with the economy of a country. She expressed confidence that a consensus-based global solution, which should also be equitable and simple, would be reached by 2020.

4. Direct Tax Code:
This may become a reality soon. The task force will present its report by end of July, 2019 and thereafter after completion of due process of law, it may become a Law. Since a new law is in pipeline, the Hon'ble FM has rightly not made many changes in the current Finance (No. 2) Bill and has restricted the proposals mostly on procedural matters.

This study note of ours titled "The Finance (No. 2) Bill, 2019 – Ek Samiksha" is enclosed herewith. After you had an opportunity to go through the same, we may discuss this further at your convenience.

Happy Reading!

With regards,

Yours truly,

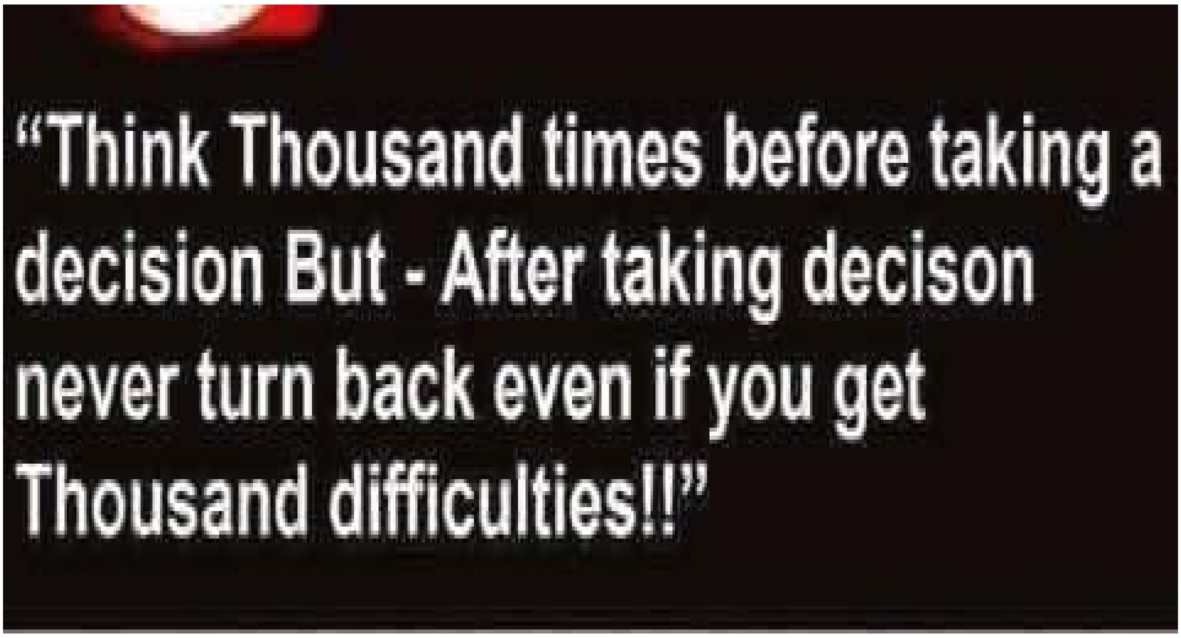
Team-S. S. Jhunjhunwala & Co.

CONTENTS

In this note an attempt has been made to summarize various proposals of The Finance Bill, 2018. Specific guidance may be obtained before acting on the proposals and provisions.

It should be noted that the Finance (No.2) Bill, 2019 will be discussed in the Parliament and is subject to any amendments that may be made pursuant to such discussion.

Now a days, two trends are seen, roll back of certain proposals and putting some new proposals at the time of enactment of the Bill. So when the Bill is enacted please have a relook at it to see changes between “Bill” and “Act”



Budget at a Glance

Rs. in crores

Particulars	2017-2018	2017-2018	2018-2019	2019-2020
	Actuals	Budget	Revised	Budget
		Estimates	Estimates	Estimates
1 **Revenue Receipts**	**14,35,233**	**17,25,738**	**17,29,682**	**19,62,761**
2 Tax Revenue (Net to Centre)	12,42,488	14,80,649	14,84,406	16,49,582
3 Non-Tax Revenue	1,92,745	2,45,089	2,45,276	3,13,179
4. Capital Receipts (1)	**7,06,740**	**7,16,475**	**7,27,553**	**8,23,588**
5 Recoveries of Loans	15,633	12,199	13,155	14,828
6 Other Receipts	1,00,045	80,000	80,000	1,05,000
7 Borrowing and Other Liabilities (2)	5,91,062	6,24,276	6,34,398	7,03,760
8 Total Receipts (1+4)	**21,41,973**	**24,42,213**	**24,57,235**	**27,86,349**
9 Total Expenditure (10+13)	**21,41,973**	**24,42,213**	**24,57,235**	**27,86,349**
10 On Revenue Account of which	18,78,833	21,41,772	21,40,612	24,47,780
11 Interest Payments	5,28,952	5,75,795	5,87,570	6,60,471
12 Grants in Aid for creation of captial	1,91,034	1,95,345	2,00,300	2,07,333
13 On Capital Account	2,63,140	3,00,441	3,16,623	3,38,569
14 Revenue Deficit (10-1)	**4,43,600**	**4,16,034**	**4,10,930**	**4,85,019**
	(2.6)	**(2.2)**	**(2.2)**	**(2.3)**
15 **Effective Revenue Deficit (14-12)**	2,52,566	2,20,689	2,10,630	2,77,686
	(1.5)	**(1.2)**	**(1.1)**	**(1.3)**
16 Fiscal Deficit [9-(1+5+6)]	5,91,062	6,24,276	6,34,398	7,03,760
	(3.5)	**(3.3)**	**(3.4)**	**(3.3)**
17 Primary Deficit (16-11)	62,110	48,481	46,828	43,289
	(0.4)	**(0.3)**	**(0.2)**	**(0.2)**

1 Excluding receipts under Market Stabilisation Scheme

2 Includes draw - down of Cash Balance

Notes:

(i) GDP for BE 2019-2020 has been projected at Rs. 21100607 crore assuming 12.0% growth over the estimated GDP of Rs. 18840731 crore for 2017-18 (RE).

(ii) Individual items in this document may not sum up to the totals due to rounding off

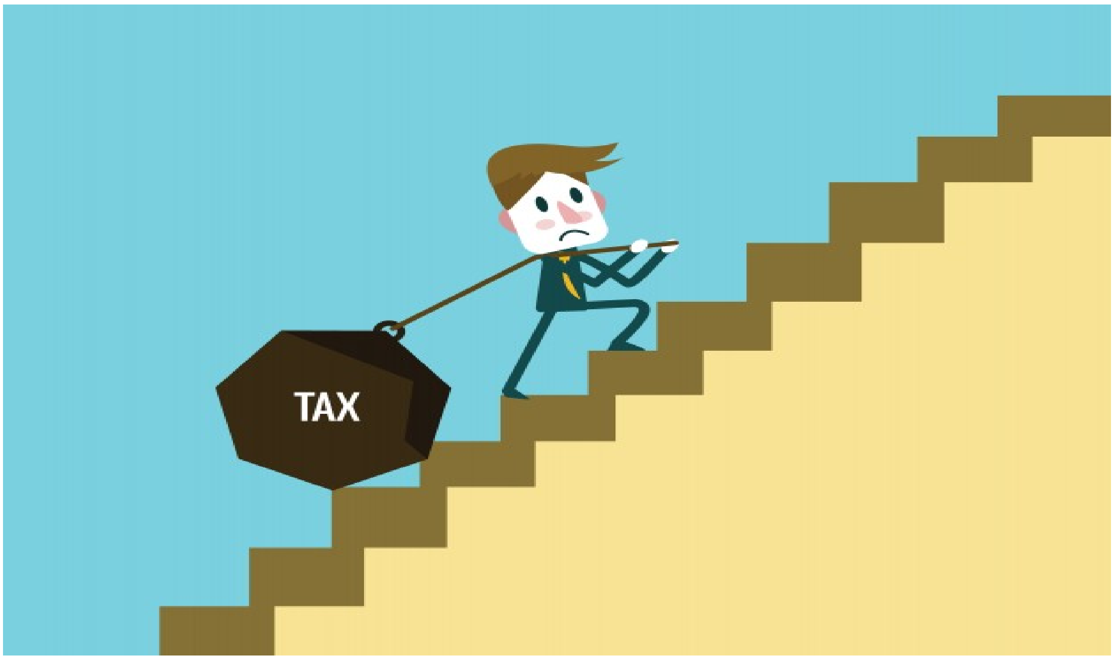
(iii) Figures in parenthesis are as a percentage of GDP

TAX RECEIPTS

The statement below summarized, by broad categories, the estimates of tax revenue receipt over a period. The estimates include the effect of budget proposals.

(Rs. in Crores)

	2017-18 Budget	2017-18 Revised	2018-19 Budget	2019-20 Budget
Gross Tax Revenue	**1919009**	**2271242**	**2248175**	**2461195**
Corporation Tax	571202	621000	671000	766000
Taxes on Income	430772	529000	529000	569000
Wealth Tax	63	---	---	---
Customs	129030	112500	130038	155904
Union Excise Duties	259431	259600	259612	300000
Service Tax	81228	---	9283	---
GST	442562	743900	643900	663343
- CGST	203262	603900	503900	526000
- IGST	176688	50000	50000	28000
- GST Compensation Cess	62612	90000	90000	109343
Taxes on Union Territories	4721	5242	5342	6948
Less: NCCD transferred to the NCCF/NDRF	**3515**	**2500**	**2315**	**2480**
Less: State's share	**673006**	**788093**	**761454**	**809133**
Centre's Net Tax Revenue	**1242488**	**1480649**	**1484406**	**1649582**



FINANCE (NO. 2) BILL, 2019 – AN INTRODUCTION

Finance Bill

The proposal of the government for levy of new taxes, modification of the existing tax structure or continuance of the existing tax structure beyond the period approved by the Parliament are submitted to the Parliament through this bill. It is the key document as far as taxes are concerned.

The provisions of Finance (No. 2) Bill, 2019 relating to direct taxes seek to amend the Income-tax Act, 1961 (hereafter referred to as 'the Act'), to continue to provide momentum to the buoyancy in direct taxes through deepening and widening of the tax base, promoting less cash economy, reducing the corporate tax rate for small enterprises, strengthening anti-abuse measures, providing tax incentives, removing difficulties of taxpayers and enhancing the effectiveness of the tax administration.

INCOME TAX PROVISIONS

In this chapter, we have dealt with the proposed amendments to Income Tax Act, 1961 (hereinafter referred to as "the Act") by Finance (No. 2) Bill, 2019 (hereinafter referred to as "Bill"). We have made references from Notes on Clauses and Memorandum explaining the provisions of the Bill.

In this study note, we have made an attempt to put related amendments under one topic head and reference of the same is given at appropriate places.

1. Effective Dates:

- The amendments in income tax provisions are proposed to be effective from 1st April, 2020 relevant to the Assessment Year 2020–2021 unless otherwise specified.
- The amendments proposed in procedural section are effective for the proceedings taken on or after the date as specified.
- The amendments made in substantive sections are effective from the first day of the Assessment Year from which it is proposed to be effective.

2. Rates of Taxes:

a) There is no change in basic limit and slab rates for the financial year 2019-20 relevant to Assessment Year 2020-21 for all categories of tax payers; however there is a change in the rate of surcharge in case of super rich individuals and others.

For Individual and HUF:-

Existing		Proposed	
Taxable income	**Rate of tax**	**Taxable income**	**Rate of tax**
Upto Rs. 2,50,000	NIL	**No Change**	
Rs. 2,50,001 to Rs. 5,00,000	5% on amount exceeding 2,50,000		
Rs. 5,00,001 to Rs. 10,00,000	Rs. 12,500/- + 20% on amount exceeding Rs. 5,00,000/-		
Above Rs. 10,00,000	Rs. 1,12,500/- + 30% on the amount exceeding Rs. 10,00,000/-		

Individual who is of the age of 60 years or more but less than 80 years:-

Existing		Proposed	
Taxable income	**Rate of tax**	**Taxable income**	**Rate of tax**
Upto Rs. 3,00,000	NIL	**No Change**	
Rs. 3,00,001 to Rs. 5,00,000	5% on amount exceeding 3,00,000		
Rs. 5,00,001 to Rs. 10,00,000	Rs. 10,000/- + 20% on amount exceeding Rs. 5,00,000/-		
Above Rs. 10,00,000	Rs. 1,10,000/- + 30% on the amount exceeding Rs. 10,00,000/-		

Individual who is of the age of 80 years or more:-

Existing		Proposed
Taxable income	**Rate of tax**	
Upto Rs. 5,00,000	NIL	**No Change**
Rs. 5,00,001 to Rs. 10,00,000	20% on amount exceeding Rs. 5,00,000/-	
Above Rs. 10,00,000	Rs. 1,00,000/- + 30% on the amount exceeding Rs. 10,00,000/-	

b) There is a change in rate of surcharge for the financial year 2019-20 relevant to Assessment Year 2020-21 in case of certain high income individuals, HUF, Association of Persons, Body of Individuals and Artificial Juridical person. The rates of surcharge are as under:

Existing			Proposed	
Type of Tax Payer	**Income at which surcharge is leviable**	**Rate of Surcharge**	**Income at which surcharge is leviable**	**Rate of Surcharge**
Individual, HUF, AOP, BOI	Above Rs. 50 Lakhs but upto Rs. 1 crore	10%	Above Rs. 50 Lakhs but upto Rs. 1 crore	10%
	Above Rs. 1 crore but upto Rs. 2 crore	15%	Above Rs. 1 crore but upto Rs. 2 crore	15%
	Above Rs. 2 crore but upto Rs. 5 crore	15%	Above Rs. 2 crore but upto Rs. 5 crore	25%
	Above Rs. 5 crore	15%	Above Rs. 5 crore	37%

Existing			Proposed
Firms	Above Rs. 1 crore	12%	**No Change**
Co-op Society	Above Rs. 1 crore	12%	
Local Authority	Above Rs. 1 crore	12%	

Existing			Proposed
Domestic Company:			**No change**
Income	Above Rs. 1 crore but upto Rs. 10 crore	7%	
Income	Above Rs. 10 crore	12%	
Foreign Company:			
Income	Above Rs. 1 crore but upto Rs. 10 crore	2%	
Income	Above Rs. 10 crore	5%	

The above rate of surcharge is applied on the tax amount. Provisions for marginal relief are provided. The surcharge is leviable on the total tax on crossing of the threshold of the total income provided. Thus, if an individual has a total income above Rs. 5 crores, surcharge at the rate of 37% is on the total tax on the income irrespective of different slabs of surcharge at different level.

c) Surcharge will also be levied at the appropriate rates in cases where the tax is payable u/s 115JC of the Act (Alternate Minimum Tax – AMT is applicable to non-corporate taxpayers).

d) The Health and Education Cess shall continue to be levied at the rate of 4% of income tax including surcharge wherever applicable.

e) **Effective rate of tax for Individuals: Tax liability computed as per the slabs above would be increased by the following surcharge and cess:**

Individuals having Total Income	F.Y. 2019-20		F.Y. 2018-19	
	Rate of Surcharge	Effective tax rate	Rate of Surcharge	Effective tax rate
Upto Rs. 50 lakhs	Nil	31.20%	Nil	31.20%
Above Rs. 50 lakhs upto Rs. 1 crore	10%	34.32%	10%	34.32%
Above Rs. 1 crore upto Rs. 2 crore	15%	35.88%	15%	35.88%
Above Rs. 2 crore upto Rs. 5 crore	25%	39.00%	15%	35.88%
Above Rs. 5 crore	37%	42.74%	15%	35.88%

TABLE FOR PERSONAL TAXATION

Income	All Individuals other than resident senior citizen			Resident senior citizen (Age 60 years or more but less than 80 years)		
Total Income	Tax Pre-Budget	Tax Post-Budget	Savings in Tax / (Additional Tax)	Tax Pre-Budget	Tax Post-Budget	Savings in Tax / (Additional Tax)
(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)
3,00,000	-	-	-	-	-	-
5,00,000	13,000	-	*13,000	10,400	-	*10,400
10,00,000	1,17,000	1,17,000	-	1,14,400	1,14,400	-
20,00,000	4,29,000	4,29,000	-	4,26,400	4,26,400	-
25,00,000	5,85,000	5,85,000	-	5,82,400	5,82,400	-
30,00,000	7,41,000	7,41,000	-	7,38,400	7,38,400	-
40,00,000	10,53,000	10,53,000	-	10,50,400	10,50,400	-
50,00,000	13,65,000	13,65,000	-	13,62,400	13,62,400	-
80,00,000	25,31,000	25,31,100	-	25,28,240	25,28,240	-
85,00,000	27,02,700	27,02,700	-	26,99,840	26,99,840	-
90,00,000	28,74,300	28,74,300	-	28,71,440	28,71,440	-
95,00,000	30,45,900	30,45,900	-	30,43,040	30,43,040	-
1,00,00,000	32,17,500	32,17,500	-	32,14,640	32,14,640	-
1,10,00,000	37,22,550	37,22,550	-	37,19,560	37,19,560	-
2,00,00,000	69,51,750	69,51,750	-	69,48,760	69,48,760	-
3,00,00,000	1,05,39,750	1,14,56,250	(9,16,500)	1,05,36,760	1,14,53,000	(9,16,240)
4,00,00,000	1,41,27,750	1,53,56,250	(12,28,500)	1,41,24,760	1,53,53,000	(12,28,240)
5,00,00,000	1,77,15,750	1,92,56,250	(15,40,500)	1,77,12,760	1,92,53,000	(15,40,240)
7,00,00,000	2,48,91,750	2,96,53,650	(47,61,900)	2,48,88,760	2,96,50,088	(47,61,328)
10,00,00,000	3,56,55,750	4,24,76,850	(68,21,100)	3,56,52,760	4,24,73,288	(68,20,528)
25,00,00,000	8,94,75,750	10,65,92,850	(1,71,17,100)	8,94,72,760	10,65,89,288	(1,71,16,528)

* As per Interim Budget 2019

f) **Rate of tax for Co-operative Societies continues to be same. There is no change in rate of surcharge. The effective rates for Financial Year 2019-20 (Assessment Year 2020-21) are as under:**

Total Income	**Income tax**	**Surcharge**	**Health Education cess**	**Proposed Effective Rate**	**Existing effective rate**
	%	**%**	**%**	**%**	**%**
For income upto Rs. 10,000/-	10	Nil	4	10.40	10.40
For income exceeding Rs. 10,000/- but does not exceeding Rs. 20,000/-	20	Nil	4	20.80	20.80
For income exceeding Rs. 20,000/- but not exceeding Rs. 1 crore	30	Nil	4	31.20	31.20
For income exceeding Rs. 1 crore	30	12	4	34.94	34.94

g) **Rate of tax for Firms, LLP, Local authorities, Company - domestic (except change in criteria for applicability for rate of tax) and Company - foreign continues to be the same. The effective rates for Financial Year 2019-20 (Assessment Year 2020-21) are as under:**

	Income tax **%**	**Surcharge** **%**	**Health and Education cess** **%**	**Proposed Effective Rate** **%**	**Existing effective rate** **%**
<u>Firm, LLP and Local authorities:</u>					
For income upto Rs. 1 crore	30	Nil	4	31.20	31.20
For income exceeding Rs. 1 crore	30	12	4	34.94	34.94
<u>Company – Domestic:</u>					
i. For Companies incorporated on or after 01.03.2016 subject to conditions by Finance Act, 2016 specified u/s 115BA					

	Income tax %	Surcharge %	Health and Education cess %	Proposed Effective Rate %	Existing effective rate %
a) For income upto Rs. 1 crore	25	Nil	4	26.00	26.00
b) For income exceeding Rs. 1 crore but not exceeding Rs. 10 crore	25	7	4	27.82	27.82
c) For income exceeding Rs. 10 crore	25	12	4	29.12	29.12

ii. For Companies where total turnover or gross receipts of the **previous year 2016-17** does not exceed Rs. 250 crore					
a) For income upto Rs. 1 crore	25	Nil	4	N.A.	26
b) For income exceeding Rs. 1 crore but not exceeding Rs. 10 crore	25	7	4	N.A.	27.82
c) For income exceeding Rs. 10 crore	25	12	4	N.A.	29.12
iii. For Companies where total turnover or gross receipts of the **previous year 2017-18 does not exceed Rs. 400 crore**					
a) For income upto Rs. 1 crore	25	Nil	4	26	N.A.
b) For income exceeding Rs. 1 crore but not exceeding Rs. 10 crore	25	7	4	27.82	N.A.

	Income tax	Surcharge	Health and Education cess	Proposed Effective Rate	Existing effective rate
	%	%	%	%	%
c) For income exceeding Rs. 10 crore	25	12	4	29.12	N.A.
iv. Others					
a) For income upto Rs. 1 crore	30	Nil	4	31.20	31.20
b) For income exceeding Rs. 1 crore but does not exceeding Rs. 10 crore	30	7	4	33.38	33.38
c) For income exceeding Rs. 10 crore	30	12	4	34.94	34.94

	Income tax %	**Surcharge** %	**Health and Education cess** %	**Proposed Effective Rate** %	**Existing effective rate** %
Company – Foreign					
For income upto Rs. 1 crore	40	Nil	4	41.60	41.60
For income exceeding Rs. 1 crore but does not exceeding Rs. 10 crore	40	2	4	42.43	42.43
For income exceeding Rs. 10 crore	40	5	4	43.68	43.68

In case of Firm, LLP, Companies, applicable tax rate will be applied on total income and no slab wise calculation is required to be made.

h) **Rate of MAT / AMT**

The existing MAT and AMT of 18.5% continues to be same for Financial Year 2019-20. The effective rates under the MAT and AMT for the Financial Year 2019-20 relevant to Assessment Year 2020-21 would be as under:

Particulars	Basic Rate %	Sur-charge %	Cess %	Proposed Effective Rate %	Existing effective rate %
<u>Domestic Company (MAT)</u>					
For income upto Rs. 1 crore	18.5	Nil	4	19.24	19.24
For income exceeding Rs. 1 crore but does not exceeding Rs. 10 crore	18.5	7	4	20.59	20.59
For income exceeding Rs. 10 crore	18.5	12	4	21.55	21.55
<u>Company – Foreign (MAT)</u>					
For income upto Rs. 1 crore	18.5	Nil	4	19.24	19.24
For income exceeding Rs. 1 crore but does not exceeding Rs. 10 crore	18.5	2	4	19.63	19.63
For income exceeding Rs. 10 crore	18.5	5	4	20.20	20.20
<u>Firm, LLP, Local Authority (AMT)</u>					
For income upto Rs. 1 crore	18.5	Nil	4	19.24	19.24
For income exceeding Rs. 1 crore	18.5	12	4	21.55	21.55
<u>Individual, HUF, AOP, BOI, Artificial Juridical Person (AMT)</u>					
For income upto Rs. 50 lakhs	18.5	Nil	4	19.24	19.24
Above Rs. 50 Lakhs but upto Rs. 1 crore	18.5	10	4	21.16	21.16
Above Rs. 1 crore but upto Rs. 2 crore	18.5	15	4	22.12	22.12
Above Rs. 2 crore but upto Rs. 5 crore	18.5	25	4	24.05	22.12
Above Rs. 5 crore	18.5	37	4	26.36	22.12

i) **Rate of income / dividend distribution tax and other rate of tax:**

In other cases (including Sections 115-O, 115QA or 115R of the Act) the surcharge shall be levied at the rate of twelve percent and the effective rate for the Financial Year 2019-20 would be as under:

Particular	Section	Basic Rate %	Sur-charge %	Cess %	Proposed Effective Rate %	Existing effective rate %
Dividend Distribution Tax:						
On Shares:	115-O	17.65	12	4	20.56	20.56
On Mutual Funds:	115-R					
Equity Oriented Funds		11.11	12	4	12.94	12.94
Other Mutual Funds						
(i) Individual or HUF		33.33	12	4	38.82	38.82
(ii) Other Tax Payers		42.86	12	4	49.92	49.92

Under Section 115-R of the Act, tax on income distributed to non-resident or foreign company by Mutual Fund under an Infrastructure Debt scheme would be 6.13% (inclusive of applicable surcharge and cess).

j) **Rate of Tax Deduction at Source ('TDS'):**

Under the scheme of deduction of tax at source provided in the Act, every person responsible for payment of specified sum to any person is required to deduct tax at source at the prescribed rate and deposit it with the Central Government within specified time. However, no deduction is required to be made if the payments do not exceed prescribed threshold limit. Below are the sections under which there are amendments proposed or sections which are proposed to be newly inserted:

Section	Nature of Payment	Threshold above which TDS is applicable	Rate of Tax
194DA	TDS on non-exempt portion of life insurance pay-out (i.e. which is not exempt u/s 10(10D)) on a net basis.	Nil	5% (Existing 1% on Gross Amount)
194-IA	TDS at the time of purchase of immovable property – **Now it is amended to provide "Consideration for immovable property" shall include all charges of the nature of club membership fee, car parking fee, electricity or water facility fee, maintenance fee, advance fee, or other charges of similar nature, which are incidental to the transfer of immovable property**.	Rs. 50 Lakhs	1%

Section	Nature of Payment	Threshold above which TDS is applicable	Rate of Tax
194M (Proposed New Section)	TDS on payment by individual or HUF to contractors and professionals (other than those who are liable for tax audit) which will include both personal use as well as business purpose. **Note: Deductor is not required to obtain TAN and recipient can apply for lower deduction u/s 197 of the Act**	Rs. 50 Lakhs	5%
194N (Proposed New Section)	TDS on cash withdrawal from: • Banks • Co-op Society engaged in carrying out the business of banking • Post Office	Rs. 1 crore	2%

Also refer Para 31 below.

There is no other change in rate of TDS and threshold.

The surcharge and cess would continue to be payable on payments to the Non resident tax payers.

In the case of a resident taxpayers including domestic company, no surcharge and cess would be levied on the amount of tax deducted at source. However, surcharge and health and education cess would be applicable on tax deducted at source in the case of salary payments.

Effective Date:
These amendments will take effect from 1st September, 2019.

3. Surcharge on Super-rich
The Bill proposes to raise the effective tax rate for two categories – individuals (and also HUF, AOP, BOI and AJP) earning an annual income between Rs. 2 crore and Rs. 5 crore and those earning more than Rs. 5 crore [Refer para 2(b) and 2(e) above]. According to the data collated by the Business Standard Research Bureau, there were 366 executives in listed companies earning more than Rs. 5 crore in 2017-18 (FY 18), and another 588 with income between Rs. 2 crore and Rs. 5 crore.

Overall, 901 listed companies had 1,720 officials earning more than Rs. 1 crore in FY 18.

Justifying raising of tax incidence on super-rich, the finance ministry said the highest tax rate in India was still lower than many countries, including the US and China, and it was a worldwide phenomenon to ask the super-rich to pay extra tax. Revenue secretary, Shri Ajay Bhushan Pandey sought to justify the Budget proposal to increase surcharge on super-rich, saying the highest tax individual tax rate is 45 percent in China and South Africa, and 50.3 percent in the US.

Many foreign portfolio investors (FPI) in India are structured either as trusts or AOP and would be affected by the new surcharges. Industry estimates suggest that at least 1,500 to 2,000 actively trading FPIs will come under the purview of the new tax proposals.

HIT PAY DIRT

Top 10 execs on remuneration paid

Name/Designation/Firm	₹ crore
CP GURNANI MD & CEO, Tech Mahindra	146.2
A M NAIK Group Chairman, L&T	139.8
KALANITHI MARAN Executive Chairman, Sun TV	87.5
KAVERY KALANITHI Executive Director, Sun TV	87.0
PAWAN KANT MUNJAL CMD, Hero MotoCorp	75.4
SAJJAN JINDAL CMD, JSW Steel, JSW Energy	60.6
ONKAR S KANWAR CMD, Apollo Tyres	45.0
RAVI JHUNJHUNWALA CMD, HEG	43.3
NEERAJ KANWAR Vice-Chairman, Apollo Tyres	42.8
H M BANGUR MD, Shree Cement	42.6

Figures are for 2017-18 Source: Capitaline

The impact would be significant on FPIs that trade actively in the futures and options (F&O) markets. Gains made in derivative are considered as business income for tax purposes and are subject to income tax. The threshold of Rs. 5 crore is too small for FPIs since foreign institutions are known for taking large positions in the Indian markets.

4. Securities Transaction Tax ('STT'):

There is no change proposed in the rate of STT for the Financial Year 2019-20 relevant to Assessment Year 2020-21.

As per the existing provisions section 99 of the Finance (No.2) Act, 2004, the value of taxable securities transaction in respect of sale of an option in securities, where option is exercised, shall be, the settlement price.

It is proposed to amend the said section so as to provide that value of taxable securities transaction in respect of sale of an option in securities, where option is exercised, shall be the difference between the strike price and the settlement price.

This amendment will take effect from 1st September, 2019.

5. Facilitating demerger of Ind-AS compliant companies [Section 2(19AA)]:

One of the existing conditions for tax-neutral demergers is that the resulting company should record the property and the liabilities of the undertaking at the value appearing in the books of accounts of the demerged company.

However, in case of Ind AS compliant companies, such property and liabilities of the transferred undertaking are required to be recorded at a value different from the book value of the demerged company.

In order to facilitate this requirement of Ind-AS compliance, it is proposed to insert following proviso in section 2(19AA) of the Act.

Existing Provision	Proposed Amendment
	"Provided that the provisions of this sub-clause shall not apply where the resulting company records the value of the property and the liabilities of the undertaking or undertakings at a value different from the value appearing in the books of account of the demerged company, immediately before the demerger, in compliance to the Indian Accounting Standards specified in Annexure to the Companies (Indian Accounting Standards) Rules, 2015".

This will enable the transaction of demerger to be tax neutral.

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

6. Deemed accrual of gift made to a person outside India [Section 9]:

As per section 5 of the Act, non-residents are taxable in India in respect of income that accrues or arises in India or is received in India or is deemed to accrue or arise in India or is deemed to be received in India. Section 9 of the Act relates to Income deemed to accrue or arise in India. Under the existing provisions of the Act, a gift of money or property is taxed in the hands of donee, except for certain exemptions provided in clause (x) of sub-section (2) of section 56 of the Act. When an amount is received as a gift (gift of money or property) by a non-resident outside India from an Indian Resident, it does not fall within a scope of taxable income u/s 5 of the Act (as it is neither received in India nor accrues / arises or deemed to accrue / arises in India).

To ensure that such gifts made by residents to persons outside India are subject to tax, the following amendment is proposed:

Existing Provision	Proposed Amendment
	It is proposed to insert following clause in sub-section (1) of section 9: "(viii) income of the nature referred to in sub-clause (xviia) of clause (24) of section 2 of the Act, arising from any sum of money paid, or any property situate in India transferred, on or after the 5th day of July, 2019 by a person resident in India to a person outside India.".

However, the existing provision for exempting gifts as provided in proviso to clause (x) of sub-section (2) of section 56 of the Act will continue to apply for such gifts deemed to accrue or arise in India. In a treaty situation, the relevant article of applicable DTAA shall continue to apply for such gifts as well.

Thus, a gift from Resident father to a non-resident son/daughter will continue to be non-taxable but a gift outside India from a Resident to a non-resident friend will now be covered under taxable income in India of non-resident friend.

Effective Date:
This amendment will take effect from 1st April, 2020 and will accordingly apply in relation to assessment year 2020-21 and subsequent assessment years.

7. Relaxation in conditions of special taxation regime for offshore funds [Section 9A]:

Section 9A of the Act provides for a safe harbour in respect of offshore funds. It provides that in the case of an eligible investment fund, the fund management activity carried out through an eligible fund manager located in India and acting on behalf of such fund shall by itself not constitute business connection in India of the said fund. Further, an eligible investment fund shall not be said to be resident in India merely because the eligible fund manager undertaking fund management activities on its behalf is located in India. The benefit under section 9A of the Act is available subject to the conditions provided in sub-sections (3), (4) and (5) of the said section.

The benefit under section 9A(3) of the Act is available subject to certain conditions, which inter-alia, are related to residence of fund, corpus, size, investor broad basing, investment diversification, and payment of remuneration to fund manager at an arm's length.

To give an impetus to fund management activities in India, certain constraints are proposed to be removed by suitably amending section 9A of the Act, so as to provide that,-

i) the corpus of the fund shall not be less than one hundred crore rupees at the end of a period of six months from the end of the month of its establishment or incorporation or at the end of such previous year, whichever is later; and

ii) the remuneration paid by the fund to an eligible fund manager in respect of fund management activity undertaken by him on its behalf is not less than the amount calculated in such manner as may be prescribed.

Effective Date:
These amendments will take effect retrospectively from 1st April, 2019 and shall apply to the assessment year 2019-20 and subsequent assessment years.

8. Exemption of interest income of a non-resident arising from borrowings by way of issue of Rupee Denominated Bonds referred to under section 194LC [Section 10(4C)]:

The existing provisions of section 194LC of the Act provide TDS @ 5% on interest payable by Indian companies in respect of rupee denominated bond issued outside India before the 1st of July, 2020

By way of press release dated 17th September, 2018, CBDT had announced tax exemption for interest payable by an Indian company or a business trust to a non-resident / foreign company in respect of rupee denominated bond issued outside India during 17th September, 2018 to 31st March, 2019 with a view to augment the foreign exchange inflow. It is now proposed to insert the same in the Act by inserting new clause (4C) in section 10 of the Act which reads as under:

> "(4C) any income by way of interest payable to a non-resident, not being a company, or to a foreign company, by any Indian company or business trust in respect of monies borrowed from a source outside India by way of issue of rupee denominated bond, as referred to in clause (ia) of sub-section (2) of section 194LC of the Act, during the period beginning from the 17th day of September, 2018 and ending on the 31st day of March, 2019."

Effective Date:
This amendment will take effect from 1st April, 2019 and will, accordingly, apply in relation to the assessment year 2019-20 and subsequent assessment years.

9. Incentives to National Pension System (NPS) subscribers [Section 10(12A), 80C and 80CCD]:
Under the existing provisions of section 10 of the Act, any payment from the NPS Trust to a taxpayer on closure of his account or on his opting out of the pension scheme, to the extent it does not exceed forty per cent of the total amount payable to him at the time of such closure or on his opting out of the scheme, is exempt from tax.

It is now proposed to increase the said threshold to 60 percent without payment of tax.

Under the existing provisions of section 80CCD of the Income-tax Act, in respect of any contribution by the Central Government or any other employer to the account of the employee referred to in the section, the taxpayer shall be allowed a deduction in the computation of his total income, of the whole of the amount contributed by the Central Government or any other employer, as does not exceed ten per cent of his salary in the previous year. This is now sought to be increased to 14 percent.

It is also proposed to amend the section 80C of the Act so as to provide that any amount paid or deposited by a Central Government employee as a contribution to his Tier-II account of the pension scheme shall be eligible for deduction under the said section.

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

10. Incentives to International Financial Services Centre (IFSC) [Section 10(15), 47, 80LA, 115A, 115-O and 115R]:

In a bid to develop International Financial Services Centre (IFSC) in GIFT City at par with IFSCs of the world over, Finance Minister Madam Nirmala Sitharaman on Friday announced several direct tax incentives, including a 100 per cent profit-linked deduction under Section 80-LA of the Act, exemption from dividend distribution tax (DDT), exemptions on capital gain to Category-III AIFs and interest payment on loans taken from non-residents.

"The Union Budget presented lots of opportunities for IFSC. Extending income-tax exemption to 10 years from five years and exempting dividend distribution tax is very much welcome," said Mr. V Balasubramaniam, MD & CEO of India International Exchange IFSC (India INX).

The details of proposed incentives are as under:

a) Interest exemption to non-resident:

With a view to facilitate external borrowing by the units located in IFSC, it is proposed to amend the section 10(15) of the Act so as to provide that any income by way of interest payable to a non-resident by a unit located in IFSC in respect of monies borrowed by it on or after 1st day of September, 2019, shall be exempt.

Effective Date:

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

b) Transfer of Securities:

Under the existing provisions of the section 47 of the Act, any transfer of a capital asset, being bonds or Global Depository Receipts or rupee denominated bond of an Indian company or derivative, made by a non-resident through a recognized stock exchange located in any IFSC and where the consideration for such transaction is paid or payable in foreign currency shall not be regarded as transfer.

With a view to provide tax-neutral transfer of certain securities by Category III Alternative Investment Fund (AIF) in IFSC, it is proposed to amend the said section so as to provide that any transfer of a capital asset, specified in the said clause by such AIF, of which all the unit holders are non-resident, are not regarded as transfer subject to fulfillment of specified conditions.

It is also proposed to widen the types of securities listed in said clause by empowering the Central Government to notify other securities for the purposes of this clause.

Effective Date:

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.

c) Deduction of income of IFSC:

The existing provisions of the section 80LA of the Act, inter alia, provide profit linked deduction of an amount equal to one hundred per cent of income for the first five consecutive assessment years and fifty per cent of income for the next five consecutive assessment years, to units of an IFSC.

With a view to further incentivize operation of units in IFSC, it is proposed to amend the said section so as to provide that the deduction shall be increased to one hundred per cent for any ten consecutive years. The taxpayer, at his option, may claim the said deduction for any ten consecutive assessment years out of fifteen years beginning with the year in which the necessary permission was obtained.

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

d) Tax on dividend, royalty and FTS in case of Foreign Company:
Section 115A of the Act provides the method of calculation of income-tax payable by a non-resident (not being a company) or by a foreign company where the total income includes any income by way of dividend (other than referred in section 115-O of the Act), interest, royalty and fees for technical services; etc. Section 80LA of the Act, provides for deduction in respect of certain incomes to a unit located in an IFSC. However, sub-section (4) of section 115A of the Act prohibits any deduction under chapter VIA which includes section 80LA of the Act.

In order to ensure that units located in IFSC claim full deduction, it is proposed to amend section 115A of the Act so as to provide that the conditions contained in sub-section (4) of section 115A of the Act shall not apply to such units in IFSC.

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

e) Dividend Distribution Tax
The existing provisions of the section 115-O of the Act, provide that no tax on distributed profits shall be chargeable in respect of the total income of a company, being a unit of an IFSC, deriving income solely in convertible foreign exchange, for any assessment year on any amount declared, distributed or paid by such company, by way of dividends (whether interim or otherwise) on or after the 1st day of April, 2017, out of its current income, either in the hands of the company or the person receiving such dividend.

To facilitate distribution of dividend by companies operating in IFSC, it is proposed to amend the provision of the said section to provide that any dividend paid out of accumulated income derived from operations in IFSC, after 1st April 2017 shall also not be liable for tax on distributed profits.

Effective Date:
This amendment will take effect from 1st September, 2019.

f) Tax on distributed income to unit holders
The existing provisions of the section 115R of the Act, provide that any amount of income distributed by the specified company or a Mutual Fund to its unit holders shall be chargeable to tax and such specified company or Mutual Fund shall be liable to pay additional income-tax on such distributed income.

In order to incentivize relocation of Mutual Fund in IFSC, it is proposed to amend the said section so as to provide that no additional income-tax shall be chargeable in respect of any amount of income distributed, on or after the 1st day of September, 2019, by a Mutual Fund of which all the unit holders are non-residents and which fulfills certain other specified conditions.

Effective Date:
This amendment will take effect, from 1st September, 2019.

11. Cancellation of registration of the Trust or Institution [Section 12AA]:

Section 12AA of the Act prescribes for manner of granting registration in case of trust or institution for the purpose of availing exemption in respect of its income under section 11 of the Act, subject to conditions contained under sections 11, 12, 12AA and 13 of the Act. Section 12AA of the Act also provides for manner of cancellation of said registration. This section provides that cancellation of registration can be on two grounds:

(a) the Principal Commissioner or the Commissioner is satisfied that activities of the exempt entity are not genuine or are not being carried out in accordance with its objects; and

(b) it is noticed that the activities of the exempt entity are being carried out in a manner that either whole or any part of its income would cease to be exempt.

The existing provision of section 12AA of the Act does not require the Principal CIT or CIT to satisfy himself about the compliance of trust or institution to requirements of any other law.

To ensure that the trust or institution do not deviate from their objects, it is proposed to amend section 12AA of the Act, to provide that:

(i) at the time of granting the registration to a trust or institution, the Principal Commissioner or the Commissioner shall, inter alia, also satisfy himself about the compliance of the trust or institution to requirements of any other law which is material for the purpose of achieving its objects;

(ii) where a trust or an institution has been granted registration under clause (b) of sub-section (1) or has obtained registration at any time under section 12A of the Act and subsequently it is noticed that the trust or institution has violated requirements of any other law which was material for the purpose of achieving its objects, and the order, direction or decree, by whatever name called, holding that such violation has occurred, has either not been disputed or has attained finality, the Principal Commissioner or Commissioner may, by an order in writing, cancel the registration of such trust or institution after affording a reasonable opportunity of being heard.

This is going to cause undue hardship to genuine charitable trusts. For example, a charitable trust is formed to carry on scientific research. It requires certain approvals. At the time of incorporation of the trust the approvals of various authorities will not be available. It will be available only when a requisite infrastructure is created and the appropriate authorities are satisfied with the compliance of basic condition by the trust. To create that infrastructure the trust will require funds and to get those funds the trust will need registration u/s 12AA of the Act as well as u/s 80G of the Act. Post amendment it will mean that the trust will be taxed on donations / voluntary contribution received to create a basic infrastructures and donors will not be eligible for deduction u/s 80G of the Act. The proposal therefore needs to be diluted to ensure that genuine charities does not face such hardship.

Effective Date:
These amendments shall be effective from 1st September, 2019.

12. Measures for promoting less cash economy [Sections 13A, 35AD, 40A(3), 43(1), 43CA, 50C, 56, 44AD, 80JJAA, 269SS, 269T, 269ST, 269SU and 271DB]:
There are various provisions in the Act that prohibit cash transactions and encourage payments or receipts only through proper banking channels. It is proposed to amend the below sections to include '**such other electronic mode as may be prescribed**,' in addition to the already existing permissible modes for payment or receipt:

Section	Description
13A	Special provision relating to incomes of political parties in respect of Donations received
35AD	Deduction in respect of Expenditure of capital nature on specified business
40A(3)	Expenses or payments not deductible in certain circumstances.
43 (1)	Expenditure for acquisition of any asset
43CA, 50C, 56	Full value of consideration for transfer of assets in certain cases
44AD	Special provision for computing profits and gains of business on presumptive basis
80JJAA	Deduction in respect of employment of new employees
269SS	Mode of taking or accepting certain loans, deposits and specified sum
269T	Mode of repayment of certain loans or deposits
269ST	Mode of undertaking transactions

This will encourage other electronic modes of payment such as mobile wallets smartphones, Bhim UPI etc.

Effective Date:
This amendment will take effect from 1st April, 2020 and will accordingly apply in relation to assessment year 2020-21 and subsequent assessment years (Except amendment in Sections 269SS, 269T and 269ST which will be effective from 1st September, 2019).

Mandating acceptance of payments through prescribed electronic modes [Sections 269SU and 271DB]:
In order to achieve the mission of the Government to move towards a less cash economy to reduce generation and circulation of black money and to promote digital economy, it is proposed to insert a new section 269SU in the Act so as to provide that every person, carrying on business, shall, provide facility for accepting payment through the prescribed electronic modes, in addition to the facility for other electronic modes of payment, if any, being provided by such person, if his total sales, turnover or gross receipts in business exceeds fifty crore rupees during the immediately preceding previous year.

In order to ensure compliance of the aforesaid provisions, it is further proposed to insert a new section 27IDB to provide that the failure to provide facility for electronic modes of payment prescribed under section 269SU shall attract penalty of a sum of five thousand rupees, for every day during which such failure continues. However, the penalty shall not be imposed if the person proves that there were good and sufficient reasons for such failure. Any such penalty shall be imposed by the Joint Commissioner.

Further, it is proposed to make a consequential amendment in the Payment and Settlement Systems Act, 2007 so as to provide that no bank or system provider shall impose any charge upon anyone, either directly or indirectly, for using the modes of electronic payment prescribed under section 269SU of the Income-tax Act.

Effective Date:
This amendment will take effect from 1st November, 2019.

13. **Consequences of failure to deduct or pay TDS in respect of payments to non-resident [Section 40(a)(i) and 201]:**
Section 201 of the Act provides that where any person, including the principal officer of a company or an employer (hereinafter called 'the deductor'), who is required to deduct tax at source on any sum in accordance with the provisions of the Act, does not deduct or does not pay such tax or fails to pay such tax after making the deduction, then such person shall be deemed to be an assessee in default in respect of such tax.

The first proviso to sub-section (1) of section 201 of the Act specifies that the deductor shall not be deemed to be an assessee in default if he fails to deduct tax on a payment made to a resident, if such ***resident***:

a) has furnished his return of income under section 139 of the Act,
b) disclosed such payment for computing his income in his return of income,
c) paid the tax due on the income declared by him in his return of income; and
d) furnished an accountant's certificate to this effect.

This relief in section 201 of the Act is available to the deductor, only in respect of payments made to a resident. In case of similar failure on payments made to a non-resident, such relief is not available to the deductor. To remove this anomaly, it is proposed to amend the proviso to sub-section (1) of section 201 of the Act to extend the benefit of this proviso to a deductor, even in respect of failure to deduct tax on payment to non-resident. For this it is proposed to substitute the word ***"resident"*** with the word ***"payee"***. The payee includes both the resident and the non-resident.

Consequent to this amendment, it is also proposed to amend the proviso to sub-section (1A) of section 201 of the Act to provide for levy of interest till the date of filing of return by the non-resident payee (as is the case at present with resident payee).

Effective Date:
These amendments will take effect from 1st September, 2019.

For the same reason, it is also proposed to amend clause (a) of section 40 of the Act to provide that where a taxpayer fails to deduct tax in accordance with the provisions of Chapter XVII-B on any sum paid to a non-resident, but is not deemed to be an assessee in default under the first proviso to sub-section (1) of section 201 of the Act, then it shall be deemed that the taxpayer has deducted and paid the tax on such sum on the date of furnishing of the return of income by the payee referred to in that proviso. Thus, there will be no disallowance under section 40 of the Act in respect of such payments.

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

14. Incentives to Non-Banking Finance Companies (NBFCs) [Section 43D and 43B]:
The existing provisions of section 43D of the Act, inter-alia provides that interest income in relation to certain categories of bad or doubtful debts received by certain institutions or banks or corporations or companies, shall be chargeable to tax in the previous year in which it is credited to its profit and loss account or actually received, whichever is earlier. This provision is an exception to the accrual system of accounting which is regularly followed by such taxpayers for computation of total income. The benefit of this provision is presently available to public financial institutions, scheduled banks, cooperative banks, State financial corporations, State industrial investment corporations and public companies like housing finance companies. With a view to provide a level playing field to certain categories of NBFCs who are adequately regulated, it is proposed to amend section 43D of the Act so as to include deposit-taking NBFCs and systemically important non deposit-taking NBFCs within the scope of this section.

Consequentially, as per matching principle in taxation, it is proposed to amend section 43B of the Act to provide that any sum payable by the taxpayer as interest on any loan or advances from a deposit-taking NBFCs and systemically important non deposit-taking NBFCs shall be allowed as deduction if it is actually paid on or before the due date of furnishing the return of income of the relevant previous year.

Thus, NBFC will be benefited by postponing the payment of tax on such interest while the payer of the interest will get deduction when it is actually paid. Also, interest converted into loan will not be deemed to have been paid and therefore, no deduction will be allowed.

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

15. Exemption from deeming of fair market value of shares for certain transactions [Section 50CA and 56(2)(x)]:
The existing provisions of the section 56(2)(x) of the Income-tax Act, inter alia, provide for chargeability of income in case of receipt of money or specified property for no or inadequate consideration. For determining the amount of income for receipt of certain shares, the fair market value of the shares is taken into account. Similarly, section 50CA of the Act provides for deeming of fair market value of unquoted shares for computing the capital gains from the transfer of such shares. For both these provisions, the fair market value is determined based on the prescribed method. Currently, the provisions of section 56(2)(x) of the Act are not applicable to certain specified transactions. However, no such exemption is available under section 50CA of the Act.

Determination of fair market value based on the prescribed rules may result into genuine hardship in certain cases where the consideration for transfer of shares is approved by certain authorities and the person transferring the share has no control over such determination. In order to provide relief to such types of transactions from the applicability of sections 56(2)(x) and 50CA of the Act, it is proposed to amend these sections to empower the Board to prescribe transactions undertaken by certain class of persons to which the provisions of section 56(2)(x) and 50CA of the Act shall not be applicable.

Effective Date:
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.

16. Valuation of Unquoted Shares for Category II Alternative Investment Fund (AIF) [Section 56(2)(viib)]:
The existing provisions of the said section 56 of the Act, inter alia, provide that where a company, not being a company in which the public are substantially interested, receives, in any previous year, from any person being a resident, any consideration for issue of shares that exceeds the face value of such shares, the aggregate consideration received for such shares as exceeds the fair market value of the shares shall be charged to tax. However, exemption from this provision has been provided for the consideration for issue of shares received by a venture capital undertaking from a venture capital company or a venture capital fund or by a company from a class or classes of persons as may be notified by the Central Government in this behalf. Currently the benefit of exemption is available to Category I AIF. With a view to facilitate venture capital undertakings to receive funds from Category II AIF, it is proposed to amend the said section to extend this exemption to fund received by venture capital undertakings from Category II AIF as well.

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

17. Interest on Compensation [Section 56(2)(viii)]:
The existing provisions of the section 56 of the Income-tax Act, inter alia, provide that income by way of interest received on compensation or on enhanced compensation referred to in section 145A(b) of the Act shall be chargeable to tax. The Finance Act, 2018 substituted the provisions of section 145A of the Act with sections 145A and section 145B of the Act. However, no consequential amendment is made in section 56 of the Act. It is proposed to amend section 56 of the Act to provide the correct reference of section 145B(1) in section 56 of the Act, in place of the existing reference of section 145A(b) of the Act.

Effective Date:
This amendment will take retrospective effect from 1st April, 2017 and will accordingly apply in relation to assessment year 2017-18 and subsequent assessment years.

18. Incentives for start-ups [Section 79, 54GBB and 56(2)(viib)]:
The word “Start-Ups” is talk of the town today. Everyday newspapers have something or other to talk about “start-ups”. Even the Budget Speech has a special space for incentivizing “start-ups”. What is the “start-ups”? Section 80-IAC of the Act has defined the words “eligible start ups” and “eligible business” as under:

> “"eligible business" means a business carried out by an eligible start-up engaged in innovation, development or improvement of products or processes or services or a scalable business model with a high potential of employment generation or wealth creation.”
>
> “"eligible start-up" means a company or a limited liability partnership engaged in eligible business which fulfils the following conditions, namely:—
>
> (a) it is incorporated on or after the 1st day of April, 2016 but before the 1st day of April, 2021;
>
> (b) the total turnover of its business does not exceed twenty-five crore rupees in the previous year relevant to the assessment year for which deduction under sub-section (1) is claimed; and
>
> (c) it holds a certificate of eligible business from the Inter-Ministerial Board of Certification as notified in the Official Gazette by the Central Government;”

A. Carry forward of loss:
Section 79 of the Income Tax Act provides conditions for carry forward and set off of losses in case of a company not being a company in which the public are substantially interested. Clause (a) of this section applies to all such companies, except an eligible start-up as referred to in section 80-IAC of the Act, while clause (b) applies only to such eligible start-up.

Under clause (a), no loss incurred in any year prior to the previous year shall be carried forward and set off against the income of the previous year, unless on the last day of the previous year, the shares of the company carrying not less than fifty-one per cent of the voting power were beneficially held by persons who beneficially held shares of the company carrying not less than fifty-one per cent of the voting power on the last day of the year or years in which the loss was incurred.

The Finance Act, 2017 substituted the then existing section 79 of the Act and inserted clause (b) to provide that the loss incurred in any year prior to the previous year shall be carried forward and set off against the income of the previous year, if, all the shareholders of such company who held shares carrying voting power on the last day of the year or years in which the loss was incurred, continue to hold those shares on the last day of such previous year and such loss has been incurred during the period of seven years beginning from the year in which such company is incorporated.

Thus, there are two conditions for carry forward of loss for two different types entities.

It is now proposed to provide that eligible start-ups will be allowed to carry forward and set off loss incurred in any year prior to the previous year on satisfaction of either the above provision, currently applicable to eligible start-ups or the conditions applicable to normal closely-held companies. For normal closely-held companies, where a change in shareholding has taken place during the previous year, no loss incurred in any year will be carried forward and set off, unless on the last day of the year of set-off the shares of the company carrying not less than 51 percent of the voting power were beneficially held by persons who beneficially held shares of the company carrying not less than 51 percent of the voting power on the last day of the year(s) in which the loss was incurred.

Thus, for start-up companies, it is proposed that the business loss of the companies would not lapse even if there is a dilution of more than 51% in the shareholding of the company by way of new issue of shares to other new investors / partners as long as all the equity shareholders of the company on the last day of the year in which loss is incurred continue to hold those shares on the last day of the previous year in which the loss is claimed for set-off.

It allows bringing in new investor in the Company but it does not allow encashing the value of original shares held by promoters beyond 49%.

B. <u>Rollover benefit for investment in start-ups:</u>

The existing provisions of the section 54GB of the Income-tax Act, inter alia, provide for roll over benefit in respect of capital gain arising from the transfer of a long-term capital asset, being a residential property owned by the eligible taxpayer. To be able to get benefit of this provision, the taxpayer is required to utilize the net consideration for subscription in the equity shares of an eligible company before the due date of filing of the return of income. The taxpayer is required to have more than fifty per cent share capital or more than fifty per cent voting rights after the subscription in shares in the eligible company. The said section, inter alia, puts restriction on transfer of assets acquired by the company for five years from the date of acquisition. Currently the benefit of this section was only available for investment in the equity shares of eligible start-ups and that period also got over on 31st March 2019. Thus, at present no benefit is available for residential property transferred after 31st March 2019.

In order to incentivize investment in eligible start-ups, it is proposed to amend the said section so as to-

(i) extend the sun set date of transfer of residential property for investment in eligible start-ups from 31st March 2019 to 31st March 2021;

(ii) relax the condition of minimum shareholding of fifty per cent of share capital or voting rights to twenty five per cent.

(iii) relax the condition restricting transfer of new asset being computer or computer software from the current five years to three years.

C. <u>Valuation of Unquoted Shares: Compliance with the notification of exemption issued under section 56(2)(viib) of the Act</u>

The provisions of section 56(2)(viib) of the Act provides for charging of the consideration received for issue of shares by certain companies, where such consideration exceeds the fair market value of such shares. However, the Central Government is empowered to notify that the provisions of this section shall not be applicable to consideration received by a notified company. Certain notifications issued under this sub-clause by the Central Government provide for exemption, subject to the fulfillment of certain conditions. With a view to ensure compliance to the conditions specified in the notification, it is proposed to provide that in case of failure to comply with the conditions, the consideration received for issue of shares which exceeds the face value of such shares shall be deemed to be the income of the company chargeable to income-tax for the previous year in which the failure to comply with any of the said conditions has taken place.

By Notification No. 45/2016 dated 14th June, 2016, the Central Government has notified that the ‘classes of persons’ for the purposes of the said clause as being the ‘person’ defined under sub-section (31) of section 2 of the said Act, being resident, who make any consideration exceeding the fact value for issue of shares of a ‘startup’ company.

The objective of this sub-section (viib) of section 56(2) of the Act was to tax the excess premium over the fair market value of shares. While making the proposal it says in case any of the condition of the notification is violated, the amount in excess of face value will be taxable. What is to taxable is the amount in excess of FMV and not in excess of face value. This needs to be considered while finalizing the proposals.

Effective Date:
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.

The Hon'ble Finance Minister in her Budget Speech has further assured the start ups as under:

> "It is proposed to start a television programme exclusively for start-ups, which will be designed and executed by start-ups, as a platform for promoting start-ups, discussing issues affecting their growth, matchmaking with venture capitalist, and for funding and tax planning.
>
> To resolve the 'angel tax' issue, the start-ups and their investors who file requisite declarations and provide information in their return will not be subjected to any kind of scrutiny in respect of valuation of share premiums. The issue of establishing the identity of the investor and source of his funds will be resolved by putting in place an e-verification mechanism. In addition, special administrative arrangement will be made by CBDT for pending assessments and redressal of their grievances."

There could be more measures in the offing for startups following the budget announcements. The government is working on another set of measures that could be rolled out soon to make it easier for them to do business in the country.

A new set of tax return forms, aimed at saving angel investors and startups are expected to be rolled out by September 2019. A senior government official has stated to a newspaper -

> "We would be modifying the return forms, which will allow the system to check if the investment made in the startup is genuinely made by someone capable of making that kind of investment."

The move is in line with the announcement on everification for angel investors in the budget. The official said this will totally cut down any physical interface of startups and angel investors with tax authorities in the future. Tax experts said that collecting information via returns to establish the genuineness of the investment as well as the investor is the right approach.

These proposals/wishes will have to be introduced by way of amendment to Rules, Circulars or Notifications.

19. Measures for resolution of distressed companies [Section 79 and 115JB]:
The existing provisions of section 79 of the Act are not applicable to a company where any change in shareholding takes place in a previous year pursuant to a resolution plan approved under the Insolvency and Bankruptcy Code, 2016 (IBC) subject to the condition that jurisdictional Principal Commissioner or Commissioner is provided a reasonable opportunity of being heard. It is proposed to provide in the newly substituted section 79 of the Act that the provision of this section shall not apply to those companies, and their subsidiary and the subsidiary of such subsidiary, where-

(i) the National Company Law Tribunal (NCLT) on a petition moved by the Central Government under section 241 of the Companies Act, 2013 has suspended the Board of Directors of such company and has appointed new directors, who are nominated by the Central Government, under section 242 of the Companies Act, 2013: and

(ii) a change in shareholding of such company, and its subsidiaries and the subsidiary of such subsidiary, has taken place in a previous year pursuant to a resolution plan approved by NCLT under section 242 of the Companies Act, 2013, after affording a reasonable opportunity of being heard to the jurisdictional Principal Commissioner or Commissioner.

Thus, in respect of the above companies, it is proposed that:

a) The restriction on carry forward of loss on change in shareholding will not apply if the change in shareholding of such company, and its subsidiary and the subsidiary of such subsidiary has taken place pursuant to resolution plan approved by the Tribunal.

b) The aggregate amount of unabsorbed depreciation and brought forward loss will be allowed to be reduced while computing the book profit for MAT purposes.

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

20. Tax incentive for affordable housing [Section 80EEA and 80-IBA]:
It is proposed to insert a new section 80EEA in the Act so as to provide a deduction in respect of interest up to one lakh fifty thousand rupees on loan taken for residential house property (affordable housing) from any financial institution subject to the following conditions:

(i) loan has been sanctioned by a financial institution during the period beginning on the 1st April, 2019 to 31st March 2020.

(ii) the stamp duty value of house property does not exceed forty-five lakh rupees;

(iii) taxpayer does not own any residential house property on the date of sanction of loan.

It is also proposed that where a deduction under this section is allowed for any interest, deduction shall not be allowed in respect of such interest under any other provisions of the Act for the same or any other assessment year.

The section provides that the stamp duty value of house property shall not exceed Rs. 45 lakhs, thus it suggests that this benefit will be mainly to the tax payer outside the big metros, as in metros like Mumbai getting a residential premises upto Rs. 45 lakhs is a dream come true.

One needs to consider whether the deduction for interest of Rs. 1,50,000/- under this section is over and above the limit of Rs. 2,00,000/- provided for a self occupied property u/s 24 of the Act. The answer is ‘Yes’ as it is clearly stated in the Budget Speech by the Hon’ble Finance Minister that:

> “For realization of the goal of ‘Housing for All’ and affordable housing, a tax holiday has already been provided on the profits earned by developers of affordable housing. Also, interest paid on housing loans is allowed as a deduction to the extent of Rs. 2 lakh in respect of self occupied property. In order to provide a further impetus, I propose to allow an additional deduction of up to Rs. 1,50,000/- for interest paid on loans borrowed up to 31st March, 2020 for purchase of an affordable house valued up to Rs. 45 lakh. Therefore, a person purchasing an affordable house will now get an enhanced interest deduction up to Rs. 3.5 lakh. This will translate into a benefit of around Rs. 7 lakh to the middle class home-buyers over their loan period of 15 years.”

The existing provisions of the section 80-IBA of the Act, inter alia, provide that where the gross total income of a taxpayer includes any profits and gains derived from the business of developing and building housing projects, there shall, subject to certain conditions, be allowed, a deduction of an amount equal to hundred per cent of the profits and gains derived from such business.

With a view to align the definition of "affordable housing" under section 80-IBA of the Act with the definition under GST Act, it is proposed to amend the said section so as to modify certain conditions regarding the housing project approved on or after 1st day of September, 2019. The modified conditions are as under:

(i) the taxpayer shall be eligible for deduction under the section, in respect of a housing project if a residential unit in the housing project have carpet area not exceeding 60 square meter in metropolitan cities or 90 square meter in cities or towns other than metropolitan cities of Bengaluru, Chennai, Delhi National Capital Region (limited to Delhi, Noida, Greater Noida, Ghaziabad, Gurgaon, Faridabad), Hyderabad, Kolkata and Mumbai (whole of Mumbai Metropolitan Region); and

(ii) the stamp duty value of such residential unit in the housing project shall not exceed forty five lakh rupees;

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

21. Tax incentive for electric vehicles [Section 80EEB]:
A new section 80EEB in the Act is proposed to be inserted to provide for a deduction in respect of interest on loan taken for purchase of an electric vehicle from any financial institution up to one lakh fifty thousand rupees subject to the following conditions:

(i) the loan has been sanctioned by a financial institution including a non-banking financial company during the period beginning on the 1st April, 2019 to 31st March, 2023;

(ii) the taxpayer does not own any other electric vehicle on the date of sanction of loan (This condition of owning one vehicle is mentioned only in the Memorandum explaining the provision. In the text of the Finance Bill this condition is not there. A clarification in this regard is expected.)

It is also proposed that where a deduction under this section is allowed for any interest, deduction shall not be allowed in respect of such interest under any other provisions of the Act for the same or any other assessment year.

It is stated that this is proposed to improve environment and to reduce vehicular pollution.

Effective Date:
This amendment will take effect from 1st April, 2020 and will, accordingly, apply in relation to assessment year 2020-2021 and subsequent assessment years.

22. Provision of credit of relief provided under section 89 [Section 89, 140A, 143, 234A, 234B and 234C]:

Section 89 of the Income-tax Act contains provisions for providing tax relief where salary, etc. is paid in arrears or in advance.

The existing provisions of section 140A, section 143, section 234A, section 234B and section 234C of the Act contain provisions relating to computation of tax liability after allowing credit for prepaid taxes and certain admissible reliefs, credits etc. However, the relief under section 89 of the Act is not specifically mentioned in these sections, which is resulting into genuine hardship in the case of taxpayers who are eligible for this relief.

In view of the above, it is proposed to amend section 140A, section 143, section 234A, section 234B and section 234C of the Act so as to provide that computation of tax liability shall be made after allowing relief under section 89 of the Act.

Effective Date:
These amendments will take effect retrospectively from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-08 and subsequent assessment years.

23. Clarification with regard to power of the Assessing Officer in respect of modified return of income filed in pursuance to signing of the Advance Pricing Agreement (APA) [Section 92CD]:

Section 92CC of the Act empowers the Central Board of Direct Taxes (CBDT) to enter into an APA, with the approval of the Central Government, with any person for determining the Arm's Length Price (ALP) or specifying the manner in which ALP is to be determined in relation to an international transaction which is to be entered into by that person. The APA is valid for a period, not exceeding five previous years, as may be specified therein. This section also provides for rollback of the APA for four years. Thus, once the APA is entered into, the ALP of the international transaction, which is subject matter of the APA, would be determined in accordance with such APA.

In order to give effect to the APA, section 92CD of the Act also provides for mechanism, including filing of modified return of income by the taxpayer and manner of completion of assessments by the Assessing Officer having regard to terms of the APA.

Sub-section (3) of this section deals with a situation where assessment or re-assessment has already been completed, before expiry of the time allowed for filing of modified return. Apprehensions have been expressed stating that due to the use of words "assess or reassess or recompute", the Assessing Officer may start fresh assessment or reassessment in respect of completed assessments or reassessments of the taxpayers who have modified their returns of income in accordance with the APA entered into by them, while the intention of the legislature is for Assessing Officer to merely modify the total income consequent to modification of return of income in pursuance to APA.

It is, therefore, proposed to amend sub-section (3) of section 92CD of the Act as under:

Existing Provision	**Proposed Amendment**
If the assessment or reassessment proceedings for an assessment year relevant to a previous year to which the agreement applies have been completed before the expiry of period allowed for furnishing of modified return under sub-section (1), the Assessing Officer shall, in a case where modified return is filed in accordance with the provisions of sub-section (1), *proceed to assess or reassess or recompute the total income of the relevant assessment year* having regard to and in accordance with the agreement.	It is proposed to reword the underline words in existing provision and the proposed sub-section will read as under: If the assessment or reassessment proceedings for an assessment year relevant to a previous year to which the agreement applies have been completed before the expiry of period allowed for furnishing of modified return under sub-section (1), the Assessing Officer shall, in a case where modified return is filed in accordance with the provisions of sub-section (1), ~~*proceed to assess or reassess or recompute the total income of the relevant assessment year*~~ *pass an order modifying the total income of the relevant assessment year determined in such assessment or reassessment, as the case may be,* having regard to and in accordance with the agreement.

It is proposed to restrict the powers of the assessing officer to modify the assessment order only to give effect to the terms of the APA.

Effective Date:
This amendment will take effect from 1st September, 2019.

24. Clarification with regard to provisions of secondary adjustment and giving an option to taxpayer to make one-time payment [Section 92CE]:

In order to align the transfer pricing provisions with international best practices, section 92CE of the Act provides for secondary adjustments in certain cases.

It, inter alia, provides that the taxpayer shall be required to carry out secondary adjustment where the primary adjustment to transfer price, has been made suo motu, or made by the Assessing Officer and accepted by him; or is determined by an advance pricing agreement entered into by him under section 92CC of the Act; or is made as per safe harbour rules prescribed under section 92CB of the Act; or is arising as a result of resolution of an assessment through mutual agreement procedure under an agreement entered into under section 90 or 90A of the Act.

The proviso to said sub-section provides exemption in cases where the amount of primary adjustment made in any previous year does not exceed one crore rupees; and the primary adjustment is made in respect of an assessment year commencing on or before 1st April, 2016.

Several concerns have been expressed regarding effective implementation of secondary adjustments regime and seeking clarity in law.

In order to address such concerns and to make the secondary adjustment regime more effective and easy to comply with, the following amendments are proposed:

Existing Provision	Proposed Amendment
	Number of amendments are proposed in this section. Post amendment the section will read as under:
(1) Where a primary adjustment to transfer price,—	(1) Where a primary adjustment to transfer price,—
(i) has been made suo motu by the assessee in his return of income;	(i) has been made suo motu by the assessee in his return of income;
(ii) made by the Assessing Officer has been accepted by the assessee;	(ii) made by the Assessing Officer has been accepted by the assessee;
(iii) is determined by an advance pricing agreement entered into by the assessee under section 92CC;	(iii) is determined by an advance pricing agreement entered into by the assessee under section 92CC, *on or after the 1st day of April, 2017*;
(iv) is made as per the safe harbour rules framed under section 92CB; or	(iv) is made as per the safe harbour rules framed under section 92CB; or

(v) is arising as a result of resolution of an assessment by way of the mutual agreement procedure under an agreement entered into under section 90 or section 90A for avoidance of double taxation, the assessee shall make a secondary adjustment: Provided that nothing contained in this section shall apply, if,— (i) the amount of primary adjustment made in any previous year does not exceed one crore rupees; and (ii) the primary adjustment is made in respect of an assessment year commencing on or before the 1st day of April, 2016.	(v) is arising as a result of resolution of an assessment by way of the mutual agreement procedure under an agreement entered into under section 90 or section 90A for avoidance of double taxation, the assessee shall make a secondary adjustment: Provided that nothing contained in this section shall apply, if,— (i) the amount of primary adjustment made in any previous year does not exceed one crore rupees; ~~and~~ *or* (ii) the primary adjustment is made in respect of an assessment year commencing on or before the 1st day of April, 2016. *"Provided further that no refund of taxes paid, if any, by virtue of provisions of this sub-section as they stood immediately before their amendment by the Finance (No.2) Act, 2019 shall be claimed and allowed."*
(2) Where, as a result of primary adjustment to the transfer price, there is an increase in the total income or reduction in the loss, as the case may be, of the assessee, the <u>excess money which</u> is available with its associated enterprise, if not repatriated to India within the time as may be prescribed, shall be deemed to be an advance made by the assessee to such associated enterprise and the interest on such advance, shall be computed in such manner as may be prescribed.	(2) Where, as a result of primary adjustment to the transfer price, there is an increase in the total income or reduction in the loss, as the case may be, of the assessee, the excess money *or part thereof, as the case may be*, which is available with its associated enterprise, if not repatriated to India within the time as may be prescribed, shall be deemed to be an advance made by the assessee to such associated enterprise and the interest on such advance, shall be computed in such manner as may be prescribed. *"Explanation.—For the removal of doubts, it is hereby clarified that the excess money or part thereof may be repatriated from any of the associated enterprises of the assessee which is not a resident in India."* *"(2A) Without prejudice to the provisions of sub-section (2), where the excess money*

	or part thereof has not been repatriated within the prescribed time, the assessee may, at his option, pay additional income-tax at the rate of eighteen per cent. on such excess money or part thereof, as the case may be. *(2B) The tax on the excess money or part thereof so paid by the assessee under sub-section (2A) shall be treated as the final payment of tax in respect of the excess money or part thereof not repatriated and no further credit therefor shall be claimed by the assessee or by any other person in respect of the amount of tax so paid.* *(2C) No deduction under any other provision of this Act shall be allowed to the assessee in respect of the amount on which tax has been paid in accordance with the provisions of sub-section (2A).* *(2D) Where the additional income-tax referred to in sub-section (2A) is paid by the assessee, he shall not be required to make secondary adjustment under sub-section (1) and compute interest under sub-section (2) from the date of payment of such tax."*

Sub-section (3) of section 92CE of the Act defines certain terms. There is no change proposed in the definition of these terms. Therefore, it is not added in the table above and reproduced hereinbelow for the sake of completeness of the section:

(i) "associated enterprise" shall have the meaning assigned to it in sub-section (1) and sub-section (2) of section 92A of the Act;

(ii) "arm's length price" shall have the meaning assigned to it in clause (ii) of section 92F of the Act;

(iii) "excess money" means the difference between the arm's length price determined in primary adjustment and the price at which the international transaction has actually been undertaken;

(iv) "primary adjustment" to a transfer price, means the determination of transfer price in accordance with the arm's length principle resulting in an increase in the total income or reduction in the loss, as the case may be, of the assessee;

(v) "secondary adjustment" means an adjustment in the books of account of the assessee and its associated enterprise to reflect that the actual allocation of profits between the assessee and its associated enterprise are consistent with the transfer price determined as a result of primary adjustment, thereby removing the imbalance between cash account and actual profit of the assessee.]

The amendments are proposed both retrospectively and prospectively and the details are as under:

A. Retrospective amendments proposed from A.Y. 2018-19:

i) The secondary adjustment will apply only when the amount of adjustment is Rs. 1 crore or above.

ii) The provisions of secondary adjustment will apply only on those APAs that are signed on or after 1st April 2017. However, if any tax refund arises on giving effect to the proposed retrospective amendment, such refund will not be granted.

iii) Cash repatriation can be made either in full or in part.

iv) Cash repatriation can be made from any AE that is a non-resident in India.

B. The prospective amendments proposed from 1st September 2019 are as follows:

i) Taxpayers have been given an option to pay a one-time additional tax of 18 percent on the excess money or part thereof, in case cash is not repatriated in India within the prescribed time limit.

ii) No tax credit or tax deduction for such additional tax will be available to the taxpayer or any other person.

iii) Notional interest under the secondary adjustment will not apply from the date of payment of additional tax.

The proposed amended provision provides an option to the taxpayer to pay additional tax (which is one time levy) in case where it is impracticable or impermissible to repatriate the excess money. It enables the taxpayer to bring certainty to pending tax matters.

Effective Date:
The amendments proposed will apply as above.

25. Rationalizations of provisions relating to maintenance, keeping and furnishing of information and documents by certain persons [Section 92D]:

Section 92D of the Act inter alia, provides for maintenance and keeping of information and document by persons entering into an international transaction or specified domestic transaction in the prescribed manner.

Sub-section (1) of section 92D of the Act provides that every person who has entered into an international transaction or specified domestic transaction shall keep and maintain the prescribed information and document in respect thereof.

Proviso to said section inserted through the Finance Act, 2016 provides that the person, being a constituent entity of an international group, shall also keep and maintain such information and document in respect of an international group as may be prescribed. Accordingly, Rule 10DA, prescribed for this purpose, provides the requisite information to be furnished in prescribed form, subject to the thresholds of the consolidated group revenue and the international transaction.

It is proposed to substitute section 92D of the Act, in order to provide that the information and document to be kept and maintained by a constituent entity of an international group, and filing of required form, shall be applicable even when there is no international transaction undertaken by such constituent entity.

It is also proposed to provide that information shall be furnished by the constituent entity of an international group to the prescribed authority.

Currently, it is interpreted that constituent entity is required to keep and maintain information or document i.e. to furnish master file, only when the constituent entity enters into an International Transaction. It is now clarified that Master File needs to be maintained even if there is no International Transaction undertaken during the previous year. Currently, the Form 3CEAA for Master File has two parts, Part A contents very general information which is being filed by all the companies having International Transaction and Part B of the Form is filed when the threshold given under Rule 10DA is met. May be a clarification or amendment in Rules will come to clarify whether this proposed amendment in the section applies for filling Part A only or to both Part A and Part B.

Also, earlier sub-section (3) of the section 92D of the Act empowered AO and CIT(A) to call for information from the persons referred to in sub-section (1), which included both i.e. persons entering into International Transaction and Constituent Entity of International Group. The amended sub-section (3) now only refers to resident entities who has entered into International Transaction with AE. The reference to Constituent Entity of International Group is missing. Does it mean the Assessing Officer and/or Commissioner of Income Tax (Appeals) is not empowered to call details from Constituent Entity in respect of Master File. It is better this aspect is clarified.

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

26. Concessional rate of Short-term Capital Gains (STCG) tax to certain equity-oriented fund of funds [Section 111A]:

Finance Act, 2018 has provided concessional rate of long-term capital gains tax under section 112A of the Act for the transfer of units of fund of funds set up for disinvestment of Central Public Sector Enterprises (CPSEs).

In order to further incentivize these funds of funds, it is proposed to amend section 111A of the Act so as to extend the concessional rate of tax of 15% for short-term capital gains in respect of transfer of units of such fund of funds.

Effective Date:
This amendment will take effect from 1st April, 2020 and will, accordingly, apply in relation to assessment year 2020-21 and subsequent assessment years.

27. Buyback of Shares by Listed Companies [Section 115QA and 10(34A)]:
Section 115QA of the Act provides for the levy of additional Income-tax at the rate of twenty per cent of the distributed income on account of buy-back of unlisted shares by the company. As additional income-tax has been levied at the level of company, the consequential income arising in the hands of shareholders has been exempted from tax under clause (34A) of section 10 of the Act. These amendments in respect of unlisted companies were introduced by Finance Act, 2013 with effect from 1st June, 2013. Initially, the section was made applicable only to unlisted companies.

The reasons given in the Memorandum explaining the provisions of Finance Bill 2013 stated as under:

> "A company, having distributable reserves, has two options to distribute the same to its shareholders either by declaration and payment of dividends to the shareholders, or by way of purchase of its own shares (i.e. buy back of shares) at a consideration fixed by it. In the first case, the payment by company is subject to DDT and income in the hands of shareholders is exempt. In the second case the income is taxed in the hands of shareholder as capital gains.
>
> Unlisted Companies, as part of tax avoidance scheme, are resorting to buy back of shares instead of payment of dividends in order to avoid payment of tax by way of DDT particularly where the capital gains arising to the shareholders are either not chargeable to tax or are taxable at a lower rate. In order to curb such practice these provisions are proposed."

Now, the Memorandum explains that instances of similar tax arbitrage have now come to notice in case of listed shares as well, whereby the listed companies are also indulging in such practice of resorting to buy-back of shares, instead of payment of dividends.

It is further stated that therefore in order to curb such tax avoidance practice adopted by the listed companies, the existing anti abuse provision under Section 115QA of the Act, pertaining to buy-back of shares from shareholders by companies not listed on a recognized stock exchange, is proposed to be extended to all companies including companies listed on recognized stock exchange.

Existing Provision	Proposed Amendment
	It is proposed to omit the words underlined in the existing provision and it will now read as under:

Notwithstanding anything contained in any other provision of this Act, in addition to the income-tax chargeable in respect of the total income of a domestic company for any assessment year, any amount of distributed income by the company on buy-back of shares (not being shares listed on a recognized stock exchange) from a shareholder shall be charged to tax and such company shall be liable to pay additional income-tax at the rate of twenty per cent on the distributed income.	Notwithstanding anything contained in any other provision of this Act, in addition to the income-tax chargeable in respect of the total income of a domestic company for any assessment year, any amount of distributed income by the company on buy-back of shares ~~(not being shares listed on a recognized stock exchange)~~ from a shareholder shall be charged to tax and such company shall be liable to pay additional income-tax at the rate of twenty per cent on the distributed income.

Under the existing provisions, proceeds from the buyback of shares by listed companies are taxable in the hands of shareholders as capital gains at applicable tax rates depending on period of holding. Now as per proposed amendment any buy back of shares from a shareholder by a company listed on recognized stock exchange, on or after 5th July 2019, shall also be covered by the provision of section 115QA of the Act.

Accordingly, listed companies undertaking the buyback of shares will now have to pay 20 percent tax plus applicable surcharge and cess on “distributed income”.

“Distributed income” has been defined to mean consideration paid by the company as reduced by the amount that was received by the company for issuing such shares, determined in the manner as prescribed under Income Tax Rules.

Consequently, it is also proposed to extend exemption under clause (34A) of section 10 of the Act to shareholders of the listed company on account of buy-back of shares on which additional income-tax has been paid by the company.

Such provisions are mainly introduced considering non-resident shareholders in mind. The buyback tax is paid by the company as additional tax and the non-resident tax payer may or may not get credit for tax so paid in its resident country under DTAA.

Effective Date:
These amendments will take effect from 5th July, 2019.

Cash-rich Indian IT services companies may now offer more dividends to return cash to shareholders, against the recent norm of share buybacks that have become less attractive with the budget proposing to introduce a new tax.

“Buyback is the most efficient way to return capital in India because it was not taxed earlier. It also helps companies improve the value when they think the market is not fairly pricing the stock”, said Mr. V Balakrishnan, a former finance chief of Infosys. “Suddenly you tax buyback, companies will shift to dividend because buyback comes with its own hassles.”

Technology services companies have been rewarding shareholders by buying back shares and issuing dividends. As per newspaper report, top companies such as Tata Consultancy Services, Infosys, HCL Technologies and Wipro returned more than Rs. 40,725 crore to stock holders through share buyback in the past one year.

Infosys has a stated strategy of returning 70% of free cash flow to shareholders, while TCS returns most of the cash flow to its shareholders. The most aggressive in using the buyback route in recent years has been Wipro, as it repurchased 14% of shares with three buybacks done over the past four years.

28. Provide for pass through of losses in cases of Category I and Category II Alternative Investment Fund (AIF) [Section 115UB]:

Section 115UB of the Act, inter alia, provides for pass through of income earned by the Category I and II AIF, except for business income which is taxed at AIF level. Pass through of profits (other than profit & gains from business) has been allowed to individual investors so as to give them benefit of lower rate of tax, if applicable. Pass through of losses are not provided under the existing regime and are retained at AIF level to be carried forward and set off in accordance with Chapter VI.

In order to remove the difficulty faced by Category I and II AIFs, it is proposed to amend section 115UB of the Act to provide that

(i) the business loss of the investment fund, if any, shall be allowed to be carried forward and it shall be set-off by it in accordance with the provisions of Chapter VI and it shall not be passed onto the unit holder;

(ii) the loss other than business loss, if any, shall also be ignored for the purposes of pass through to its unit holders, if such loss has arisen in respect of a unit which has not been held by the unit holder for a period of atleast twelve months;

(iii) the loss other than business loss, if any, accumulated at the level of investment fund as on 31st March, 2019, shall be deemed to be the loss of a unit holder who held the unit on 31st March, 2019 in respect of the investments made by him in the investment fund and allowed to be carried forward by him for the remaining period calculated from the year in which the loss had occurred for the first time taking that year as the first year and it shall be set-off by him in accordance with the provisions of Chapter VI;

(iv) the loss so deemed in the hands of unit holders shall not be available to the investment fund for the purposes of chapter VI.

Effective Date:

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

29. Mandatory furnishing of return of income by certain person [Section 139]:

Currently, a person other than a company or a firm is required to furnish the return of income only if his total income exceeds the maximum amount not chargeable to tax, subject to certain exceptions, such as:

In case of resident tax payer he/she/it holds as a beneficial owner or otherwise, any asset (including any financial interest in any entity) located outside India or has signing authority in any account located outside India; or is a beneficiary of any asset (including any financial interest in any entity) located outside India.

The Tax Department has developed/developing an e-platform [Project Insight] to collate information from various sources for the investments made and expenditure incurred by a tax payer. This information will be correlated with the return of income filed by the tax payer. To ensure that the income returned in the return of income commensurate with the investment made and/or expenditure incurred. This is possible only when tax payer files the return of income. At present a person entering into certain high value transactions is not necessarily required to furnish his return of income, if his/her/its income is not taxable.

In order to ensure that persons who enter into certain high value transactions do furnish their return of income, it is proposed to amend section 139 of the Act so as to provide that a person shall be mandatorily required to file his return of income if during the previous year he/she/it has carried out any of the following transaction:

(i) has deposited an amount or aggregate of the amounts exceeding one crore rupees in one or more current account maintained with a banking company or a co-operative bank; *(it talks about only current account)* or

(ii) has incurred expenditure of an amount or aggregate of the amounts exceeding two lakh rupees for himself or any other person for travel to a foreign country; or

(iii) has incurred expenditure of an amount or aggregate of the amounts exceeding one lakh rupees towards consumption of electricity; or

(iv) fulfils such other prescribed conditions, as may be prescribed.

Thus, through clause (iv), enabling powers are proposed to be given to the Board to notify more transactions as high value transaction and the mode of disclosure for the same.

Further, currently, a person claiming rollover benefit of exemption from capital gains tax on investment in specified assets like house, bonds etc., is not required to furnish a return of income, if after claim of such rollover benefits, his/her/its total income is not more than the maximum amount not chargeable to tax . In order to make furnishing of return compulsory for such persons, it is proposed to amend the sixth proviso to section 139 of the Act to provide that a person who is claiming such rollover benefits on investment in a house or a bond or other assets, under sections 54, 54B, 54D, 54EC, 54F, 54G, 54GA and 54GB of the Act, shall necessarily be required to furnish a return, if before claim of the rollover benefits, his total income is more than the maximum amount not chargeable to tax. No monitory threshold limit for such rollover benefit has been provided. If the total income including the amount of exemption claimed exceeds the maximum amount not chargeable to tax, the return of income is required to be filed.

Also refer Para 35 below.

Effective Date:
This amendment will take effect from 1st April, 2020 and will accordingly apply in relation to assessment year 2020-21 and subsequent assessment years.

30. Obtaining PAN, Inter-changeability of PAN & Aadhaar and mandatory quoting in prescribed transactions [Section 139A, 139AA and 272B]:

PAN for certain transactions
Existing sub-section (1) of section 139A of the Act, *inter alia*, provides that every person specified therein, who has not been allotted a PAN, shall apply to the Assessing Officer for allotment of PAN.

Certain persons entering into high-value transactions, such as purchase of foreign currency or huge withdrawal from the banks, do not possess a PAN.

To keep an audit trail of such transactions, it is proposed that every person who intends to enter into certain prescribed transactions and has not been allotted a PAN, shall also apply for allotment of a PAN.

Quoting of PAN or Aadhaar number
It is proposed to insert new sub-section (6A) and (6B) to section 139A of the Act to ensure quoting of PAN or Aadhaar number for entering into prescribed transactions and authentication thereof in the prescribed manner. Duty is also proposed to be cast on the person receiving any document relating to such transactions.

In this proposed amendments enabling power is proposed to be taken by the board to notify the transaction, threshold and details.

The term "authentication" is proposed to be defined as under:

> "(ab) "authentication" means the process by which the permanent account number or Aadhaar number along with demographic information or biometric information of an individual is submitted to the income-tax authority or such other authority or agency as may be prescribed for its verification and such authority or agency verifies the correctness, or the lack thereof, on the basis of information available with it;'."

Inter-changeability of PAN with the Aadhaar number:
To ensure ease of compliance, it is also proposed to provide for inter-changeability of PAN with the Aadhaar number. Accordingly the provisions of section 139A of the Act are proposed to be amended by inserting sub-section (5E) in section 139A of the Act so as to provide that,-

(i) every person who is required to furnish or intimate or quote his PAN under the Act, and who, has not been allotted a PAN but possesses the Aadhaar number, may furnish or intimate or quote his Aadhaar number in lieu of PAN, and such person shall be allotted a PAN in the prescribed manner;

(ii) every person who has been allotted a PAN, and who has linked his Aadhaar number under section 139AA of the Act, may furnish or intimate or quote his Aadhaar number in lieu of a PAN. (Please note this inter changeability is available only when the PAN is linked with Aadhaar).

Consequences of not linking PAN with Aadhaar:
The existing proviso to the sub-section (2) of section 139AA of the Act, provides that the PAN allotted to a person shall be deemed to be invalid, in case the person fails to intimate the Aadhaar number, on or before the notified date.

In order to protect validity of transactions previously carried out through such PAN, it is proposed to amend the said proviso so as to provide that if a person fails to intimate the Aadhaar number, the PAN allotted to such person shall be made inoperative in the prescribed manner.

Penalty for non-compliance:
In order to ensure proper compliance of the provisions relating to quoting and authentication of PAN or Aadhaar, the penalty provision contained in section 272B of the Act is proposed to be amended suitably.

Current provision u/s 139A of the Act requires every specified person therein to apply for/quote PAN in specified transactions. Failure to comply with the provisions will attract a penalty of Rs. 10,000 under Section 272B of the Act.

To ensure proper quoting and authentication of PAN or Aadhaar number under section 139A of the Act, penalty provision under section 272B of the Act is proposed to be amended.

The penalty is applicable on failure to furnish PAN or Aadhaar number and also if the person receiving the prescribed documents fails to ensure that PAN or Aadhar has been duly quoted or authenticated.

The penalty of Rs. 10,000 under this section has been proposed for each such default.

Effective Date:
All these amendments will take effect from 1st September, 2019.

31. Amendments related to Tax Deduction at Source[Section 194DA, 194-IA, 194M and 194N]:

a) TDS on non exempt portion of life insurance pay-out on net basis. [Section 194DA]:

Under section 194DA of the Act, a person is obliged to deduct tax at source, if it pays any sum to a resident under a life insurance policy, which is not exempt under sub-section (10D) of section 10. The present requirement is to deduct tax at the rate of one per cent of such sum at the time of payment. Several concerns have been expressed that deducting tax on gross amount creates difficulties to an assessee who otherwise has to pay tax on net income (i.e after deducting the amount of insurance premium paid by him from the total sum received). From the point of views of tax administration as well, it is preferable to deduct tax on net income so that the income as per TDS return of the deductor can be matched automatically with the return of income filed by the assessee. The person who is paying a sum to a resident under a life insurance policy is aware of the amount of insurance premium paid by the assessee. Hence, it is proposed to provide for tax deduction at source at the rate of five per cent on income component of the sum paid by the person.

Thus, the base amount on which tax has to be deducted is reduced from gross amount to income and rate of TDS is increased from 1% to 5%.

b) TDS at the time of purchase of immovable property [Section 194-IA]:

Section 194-IA of the Act relates to payment on transfer of certain immovable property other than agricultural land and provides for levy of TDS at the rate of one per cent on the amount of consideration paid or credited for transfer of such property.

It is proposed to amend the Explanation to said section and provide that the term "consideration for immovable property" shall include all charges of the nature of club membership fee, car parking fee, electricity and water facility fees, maintenance fee, advance fee or any other charges of similar nature, which are incidental to transfer of the immovable property.

c) TDS on payment by Individual/HUF to contractors and professionals [Section 194M]:

Presently, there is no requirement for an individual or HUF to deduct tax at source on payments made to a resident contractor or professional when it is for personal use, or if the individual or HUF is not subjected to audit for his business or profession.

It is proposed to insert a new section 194M making it obligatory for such individual or HUF to deduct tax at source at the rate of five per cent if the annual payment made to a contractor or professional exceeds Rs. 50 lakh.

It is also proposed that a person deducting tax under this section shall be able to deposit TDS on the basis of the Permanent Account Number (PAN) only.

It is also proposed to enable filing of application u/s 197 of the Act for issue of certificate for nil or lower rate of TDS.

d) TDS on cash withdrawal from banks [Section 194N]:

In order to discourage large amount of cash withdrawal from bank accounts, it is proposed to provide for tax deduction at source at the rate of 2% on cash withdrawal by a person in excess of Rs. 1 crore in a year from his bank account.

Some business models, where large cash withdrawal is a necessity, are proposed to be exempted.

It is also proposed that the Central Government may notify the persons to whom these provisions shall not be applicable in consultation with the Reserve Bank of India.

Simultaneously, a proposal ought to have been made for providing a mechanism to claim the TDS by the taxpayers by suitable amendment in the Act. Also, currently Form 26AS captures income and corresponding TDS. This section requires TDS on withdrawals. That amount of withdrawal and corresponding TDS should also be reflected in Form 26AS, so that a credit for the same can be claimed by the taxpayer. However, reconciliation of such amount with the books of account may be a challenge at the time of assessment.

Effective Date:
This amendment will take effect from 1st September, 2019.

32. Online filing of application seeking determination of tax to be deducted at source on payment to non-residents [Section 195]:

Under sub-section (2) of section 195 of the Act, if a person who is responsible for paying any sum to a non-resident which is chargeable to tax under the Act (other than salary) considers that the whole of such sum would not be income chargeable in the case of the recipient, he can make an application to the Assessing Officer to determine the appropriate proportion of such sum chargeable. This provision is used by a person making payment to a non-resident to obtain certificate/order from the Assessing Officer for lower or nil withholding-tax. However, the process is currently manual. In order to use technology to streamline the process, which will not only reduce the time for processing of such applications, but shall also help tax administration in monitoring such payments, it is proposed to amend the provisions of this section to allow for prescribing the form and manner of application to the Assessing Officer and also for the manner of determination of appropriate portion of sum chargeable to tax by the Assessing Officer.

Similar amendment is also proposed to be made in sub-section (7) of section 195 of the Act which is applicable to specified class of persons or cases.

Effective Date:
These amendments will take effect from 1st November, 2019.

33. Electronic filing of statement of transactions on which tax has not been deducted [Section 206A]:

Section 206A of the Act relates to furnishing of statement in respect of payment of certain income by way of interest to residents [Section 194A(3) of the Act] where no tax has been deducted at source.

At present, the section provides for filing of such statements on a floppy, diskette, magnetic tape, CD-ROM, or any other computer readable media.

To enable online filing of such statements, it is now proposed that the above-mentioned statements need to be filed online in the prescribed form and in the prescribed manner. It has been further proposed that such statement may also be corrected for rectification of any mistake or to add, delete, or update the information furnished.

It is also proposed to make a consequential amendment arising out of amendment carried out by Finance Act, 2019 whereby threshold for TDS on payment of interest by a banking company or cooperative society or public company was raised to forty thousand rupees.

Effective Date:
These amendments will take effect from 1st September, 2019.

34. Rationalization of provision relating recovery of tax in pursuance of agreements with foreign countries [Section 228A]:

The existing provisions of section 228A of the Act provide inter alia that where an agreement is entered into by the Central Government with the Government of any foreign country for recovery of income-tax under the Income-tax Act and the corresponding law in force in that country and where such foreign country sends a certificate for the recovery of any tax due under such corresponding law from a person having any property in India, the Board, on receipt of such certificate may, forward it to the Tax Recovery Officer within whose jurisdiction such property is situated for the recovery of tax in pursuance of agreement with such foreign country.

Proposed amendment is as under:

Existing Provision	Proposed Amendment
	Post amendment, the clause will read as under:
(1) Where an agreement is entered into by the Central Government with the Government of any country outside India for recovery of income-tax under this Act and the corresponding law in force in that country and the Government of that country or any authority under that Government which is specified in this behalf in such agreement sends to the Board a certificate for the recovery of any tax due under such corresponding law from a person having any property in India, the Board may forward such certificate to any Tax Recovery Officer within whose jurisdiction such property is situated and thereupon such Tax Recovery Officer shall—	(1) Where an agreement is entered into by the Central Government with the Government of any country outside India for recovery of income-tax under this Act and the corresponding law in force in that country and the Government of that country or any authority under that Government which is specified in this behalf in such agreement sends to the Board a certificate for the recovery of any tax due under such corresponding law from *a resident or* a person having any property in India, the Board may forward such certificate to any Tax Recovery Officer *having jurisdiction over the resident or* within whose jurisdiction such property is situated and thereupon such Tax Recovery Officer shall—
(a) proceed to recover the amount	(a) proceed to recover the amount

specified in the certificate in the manner in which he would proceed to recover the amount specified in a certificate drawn up by him under section 222; and (b) remit any sum so recovered by him to the Board after deducting his expenses in connection with the recovery proceedings. (2) Where an assessee is in default or is deemed to be in default in making a payment of tax, the Tax Recovery Officer may, if the assessee *has property in a country outside India* (being a country with which the Central Government has entered into an agreement for the recovery of income-tax under this Act and the corresponding law in force in that country), forward to the Board a certificate drawn up by him under section 222 and the Board may take such action thereon as it may deem appropriate having regard to the terms of the agreement with such country.	specified in the certificate in the manner in which he would proceed to recover the amount specified in a certificate drawn up by him under section 222; and (b) remit any sum so recovered by him to the Board after deducting his expenses in connection with the recovery proceedings. (2) Where an assessee is in default or is deemed to be in default in making a payment of tax, the Tax Recovery Officer may, if the assessee ~~has property in a country outside India~~ *is a resident of a country* (being a country with which the Central Government has entered into an agreement for the recovery of income-tax under this Act and the corresponding law in force in that country), *or has any property in that country,* forward to the Board a certificate drawn up by him under section 222 and the Board may take such action thereon as it may deem appropriate having regard to the terms of the agreement with such country.

Thus, post amendment it provides that when a person is a resident of India even if the details of the property of such person is not available, recovery needs to be attempted by the Tax Recovery Officer.

Similarly, post amendment it is provided for recovery of taxes even where details of property of an assessee in default under the Act are not available but the said taxpayer is a resident in a foreign country.

Effective Date:
These amendments will take effect from 1st September, 2019.

35. Rationalization of provisions relating to claim of refund [Section 239]:
The existing provisions of section 239 of the Act provide inter alia that every claim of refund under Chapter XIX of the Act shall be made in the prescribed form and verified in the prescribed manner. The proposed amendment is as under:

Existing Provision	Proposed Amendment
	Post amendment, the clause will read as under:
(1) Every claim for refund under this Chapter shall be made in the prescribed form and verified in the prescribed	(1) Every claim for refund under this Chapter shall be made ~~in the prescribed form and verified in the prescribed~~

manner.	~~manner~~ *by furnishing return in accordance with the provisions of section 139*.
(2) No such claim shall be allowed, unless it is made within the period specified hereunder, namely :—	~~(2) No such claim shall be allowed, unless it is made within the period specified hereunder, namely :—~~
(a) where the claim is in respect of income which is assessable for any assessment year commencing on or before the 1st day of April, 1967, four years from the last day of such assessment year;	~~(a) where the claim is in respect of income which is assessable for any assessment year commencing on or before the 1st day of April, 1967, four years from the last day of such assessment year;~~
(b) where the claim is in respect of income which is assessable for the assessment year commencing on the first day of April, 1968, three years from the last day of the assessment year;	~~(b) where the claim is in respect of income which is assessable for the assessment year commencing on the first day of April, 1968, three years from the last day of the assessment year;~~
(c) where the claim is in respect of income which is assessable for any other assessment year, one year from the last day of such assessment year;	~~(c) where the claim is in respect of income which is assessable for any other assessment year, one year from the last day of such assessment year;~~
(d) where the claim is in respect of fringe benefits which are assessable for any assessment year commencing on or after the first day of April, 2006, one year from the last day of such assessment year.	~~(d) where the claim is in respect of fringe benefits which are assessable for any assessment year commencing on or after the first day of April, 2006, one year from the last day of such assessment year.~~

It is stated that it is proposed to amend the section so as to provide that every claim for refund under Chapter XIX of the Act shall be made by furnishing return in accordance with the provisions of section 139 of the Act.

This will give one more reason to mandatorily file return of income u/s 139 of the Act.

Effective Date:
This amendment will take effect from 1st September, 2019.

36. Rationalization of penalty provisions relating to under-reported income [Section 270A]:

Section 270A of the Act contains provisions relating to penalty for under-reporting and misreporting of income. The existing provisions provide for various situations for the purposes of levy of penalty under this section. However, these provisions do not contain the mechanism for determining under-reporting of income and quantum of penalty to be levied in the case where the person has under-reported income and furnished the return of income for the first time under section 148 of the Act.

In order to provide for manner of computing the quantum of penalty in a case where the person has under-reported income and furnished his return for the first time under section 148 of the Act, it is proposed to suitably amend the provisions of section 270A of the Act.

Effective Date:
These amendments will take effect retrospectively from 1st April, 2017 and will, accordingly, apply in relation to assessment year 2017-2018 and subsequent assessment years.

37. Prosecution Provisions [Section 276CC]:
The existing provisions of section 276CC of the Act, inter alia, provide that prosecution proceedings for failure to furnish returns of income against a person shall not proceeded against, for failure to furnish the return of income in due time, if the tax payable by such person, not being a company, on the total income determined on regular assessment does not exceed three thousand rupees. The existing provisions do not provide for taking into account tax collected at source and self-assessment tax for the purposes of determining the tax liability.

Since the intent of said provision has always been to take into account pre-paid taxes, while determining the tax payable, it is proposed to amend the said section so as to make the legislative intention clear and to include the self-assessment tax, if any, paid before the expiry of the assessment year, and tax collected at source for the purpose of determining tax liability.

Further, in order to rationalize the existing threshold limit of tax payable under said section, it is further proposed to amend the said section so as to increase the threshold of tax payable from the existing rupees three thousand to rupees ten thousand. The proposed amendment is sending an alert indirectly that all the taxpayers should file their return of income in due time and comply with the provisions. If not done, then for a meager amount of tax of Rs. 3,000/- plus (post amendment Rs. 10,000/- plus), a prosecution proceedings can be initiated. Also, one should keep in mind that from assessment year 2017-18 onwards the return of income has to be filed within the same assessment year itself. Thus, the return of income for assessment year 2019-20 cannot be filed after 31st March, 2020 and the same time limit applies for the subsequent period.

Please note that for corporate taxpayers even this threshold of small amount of Rs. 3,000/- (post amendment Rs. 10,000/-) is not provided. Thus, if a corporate fails to file the return in time, it is a reasonable cause to initiate prosecution proceedings against the principal officers of the company.

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

38. Widening the scope of Statement of Financial Transactions (SFT) [Section 285BA and 271FAA]:

Existing provisions of section 285BA of the Act, inter alia, provide for furnishing of statement of financial transaction (SFT) or reportable account by person specified therein. Presently, the threshold limit specified for the aggregate value of transactions to be reported during the financial year is Rs. 50,000/-.

In order to enable pre-filling of return of income, it is proposed to obtain information by widening the scope of furnishing of statement of financial transactions by mandating furnishing of statement by certain prescribed persons other than those who are currently furnishing the same. It is also proposed to remove the current threshold of rupees fifty thousand on aggregate value of transactions during a financial year, for furnishing of information, with a view to ensure pre-filling of information relating to small amount of transactions as well.

In order to ensure proper compliance, it is also proposed to amend the provisions of sub-section (4) of aforesaid section so as provide that if the defect in the statement is not rectified within the time specified therein, the provisions of the Act shall apply as if such person had furnished inaccurate information in the statement.

Penalty provisions:

It is also proposed to amend the penalty provisions contained in section 271FAA of the Act so as to ensure correct furnishing of information in the SFT and widen the scope of penalty to cover all the reporting entities under section 285BA of the Act.

Section 271FAA of the Act imposes a penalty of Rs. 50,000 on filing inaccurate details in the statement, by prescribed reporting financial institution.

It is proposed to amend the penalty provisions to extend it to all persons responsible for filing the said statement under Section 285BA of the Act.

Effective Date:

All these amendments will take effect from 1st September, 2019.

39. Clarification regarding definition of the “accounting year” for CbCR [Section 286]:

Section 286 of the Act contains provisions relating to specific reporting regime in the form of Country-by-Country Report (CbCR) in respect of an international group. It provides that every parent entity or the alternate reporting entity, resident in India, shall, for every reporting accounting year, in respect of the international group of which it is a constituent, furnish a report, to the prescribed authority within a period of twelve months from the end of the said reporting accounting year, in the form and manner as may be prescribed.

Concerns have been expressed that in case of an alternate reporting entity resident in India whose ultimate parent entity is not resident in India, the accounting year would be the accounting year applicable in the country where such ultimate parent entity is resident or the previous year of the entity resident in India. The issue is now clarified by proposing to amend definition of “accounting year” in section 286 of the Act.

Existing Provision	Proposed Amendment
"Accounting year" means,— (i) a previous year, in a case where the parent entity *or alternate reporting entity* is resident in India; or (ii) an annual accounting period, with respect to which the parent entity of the international group prepares its financial statements under any law for the time being in force or the applicable accounting standards of the country or territory of which such entity is resident, in any other case;	It is proposed to omit the words "or alternative reporting entity" from clause (i). Post amendment, the clause will read as under: "Accounting year" means,— (i) a previous year, in a case where the parent entity ~~*or alternate reporting entity*~~ is resident in India; or (ii) an annual accounting period, with respect to which the parent entity of the international group prepares its financial statements under any law for the time being in force or the applicable accounting standards of the country or territory of which such entity is resident, in any other case;

The accounting year would always be the accounting year of the ultimate parent entity where it resides, not the previous year of the entity resident in India.

This amendment is clarificatory in nature.

Effective Date:
The amendment will take effect retrospectively from the 1st April, 2017 and will, accordingly, apply in relation to the assessment year 2017-18 and subsequent assessment years.

40. Enhancing time limitation for sale of attached property [Rule 68B of Second Schedule of the Act]:

The existing provisions of rule 68B of the Second Schedule of the Act provide that no sale of immovable property attached towards the recovery of tax, penalty etc. shall be made after the expiry of three years from the end of the financial year in which the order in consequence of which any tax, penalty etc. becomes final.

In order to protect the interest of the revenue, especially in those cases where demand has been crystallized on conclusion of the proceedings, it is proposed to amend the aforesaid sub-rule so as to extend the period of limitation from three years to seven years

In order to ensure that the limitation of time period for sale of attached property may not be an impediment in recovery of tax dues and may not lead to permanent loss of revenue to the exchequer, it is further proposed to insert a new proviso in the said sub-rule so as to provide that the Board may, for reasons to be recorded in writing, extend the aforesaid period of limitation by a further period of three years.

Effective Date:
These amendments will take effect from 1st September, 2019.

41. The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015:

The above Act was introduced by Finance Act, 2015 as separate Act. It provides for separate taxation of any undisclosed income in relation to foreign income and assets.

The existing provisions of section 2 of the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 (the BM Act) provide inter alia that the "assessee" means a person who is resident in India within the meaning of section 6 of the Income-tax Act. The proposed amendment is as under:

Existing Provision	Proposed Amendment
(2) "assessee" means a person, being a resident other than not ordinarily resident in India within the meaning of clause (6) of section 6 of the Income Tax Act, by whom tax in respect of undisclosed foreign income and assets, or any other sum of money, is payable under this Act and includes every person who is deemed to be an assessee in default under this Act.	(2) "assessee" means a person,— (a) being a resident in India within the meaning of section 6 of the Income-tax Act, 1961 in the previous year; or (b) being a non-resident or not ordinarily resident in India within the meaning of clause (6) of section 6 of the Income-tax Act 1961 in the previous year, who was resident in India either in the previous year to which the income referred to in section 4 relates; or in the previous year in which the undisclosed asset located outside India was acquired: Provided that the previous year, in case of acquisition of undisclosed asset outside India, shall be determined without giving effect to the provisions of clause (c) of section 72.

In order to clarify the legislative intent behind enacting the BM Act, which was to tax such foreign income and assets, which were not charged to tax under the Income-tax Act, it is proposed to amend the said section so as to provide that the "assessee" shall mean a person being a resident in India within the meaning of section 6 of the Income-tax Act, in the previous year, or a person being a non-resident or not ordinarily resident in India within the meaning of clause (6) of section 6 of the Income-tax Act, in the previous year, who was resident in India either in the previous year to which the income referred to in section 4 of the Act relates, or in the previous year in which the undisclosed asset located outside India was acquired. It is also proposed to provide that the previous year of acquisition of the undisclosed asset located outside India shall be determined without giving effect to the provisions of section 72(c) of the BM Act.

Further, a clarificatory amendment is also proposed to be made to section 10 of the BM Act so as to include the expressions "re-assess" and "reassessment" in sub-section (3) and (4) of the said section.

Effective Date:
These amendments will take effect retrospectively from 1st July, 2015.

The existing provisions of the section 84 of the BM Act provide, inter alia, for application of certain provisions of the Income-tax Act to the BM Act with necessary modifications.

Considering the significance of cases assessed under the BM Act, it is proposed to amend the said section so as to provide that the provisions of section 144A of the Income-tax Act shall be applicable to the BM Act with necessary modifications.

Further, a clarificatory amendment is also proposed to be made in section 17 of the BM Act to clarify that the Commissioner (Appeals) may also vary the penalty order so as to enhance or reduce the penalty.

Effective Date:
This amendment will take effect from 1st September, 2019.

Post this amendment being enacted, Tax authorities would start targeting undisclosed overseas assets of individuals, who had acquired those assets when they were residents in India but had since become non-residents.

The move comes amid reports of many high-net-worth individuals moving out of India and changing their residency status.

The black money law covers the direct owner of an asset as well as a beneficial owner.

It had offered an amnesty scheme, giving one last opportunity to people to come clean and declare their overseas assets with a 30% tax and 30% penalty.

Under the law, tax evaders will have to pay 30% tax plus a penalty of 90%. They could also face upto 10 years of rigorous imprisonment.

The changes to the Act had become imperative to give more teeth to the authorities to go after tax evaders, who may have changed their residency status. India is now receiving information on assets held overseas by Indians under various global treaties, making it easier for authorities to identify and locate tax evaders.

42. The Income Declaration Scheme, 2016 [Section 187 of Finance Act, 2016]:
Income Declaration Scheme was introduced by the Finance Act, 2016 with a view to provide an opportunity to persons who have not paid full taxes in the past to come forward and declare the undisclosed income and pay tax, surcharge and penalty totaling in all to 45% of such undisclosed income declared.

The existing provisions of section 187 of the Finance Act, 2016 provide, inter alia, that the tax, surcharge and penalty in respect of the undisclosed income, declared under the Income Declaration Scheme, 2016 (the Scheme) shall be paid on or before a notified due date.

In order to address concern of the declarants, it is proposed to amend the said section so as to provide that where the amount of tax, surcharge and penalty, has not been paid within the due date, the Central Government may notify the class of persons who may make the payment of such amount on or before a notified date, along with the interest on such amount, at the rate of one per cent of every month or part of a month, comprised in the period, commencing on the date immediately following the due date and ending on the date of such payment.

The amendment is proposed in line of decision of Hon'ble Supreme Court in the case of Dal Chandra Rastogi wherein Hon'ble Court has set aside High Court order denying to grant extension of time for payment of third installment under the Income Tax Declaration Scheme, 2016 (IDS, 2016). High Court had held that "the petitioners-assessees have not made out an extraordinary case which would have justified invoking writ jurisdiction and grant of further time beyond the time, even assuming that the time stipulated under the Scheme could be extended by the Board u/s 119(2)."

Further, the existing section 191 of the Finance Act, 2016 provides, inter alia, that any amount of tax, surcharge or penalty paid in pursuance of a declaration made under the Scheme shall not be refundable.

In order to address concern of the declarants, it is proposed to amend the said section so as to provide that the Central Government may notify the class of persons to whom the amount of tax, surcharge and penalty, paid in excess of the amount payable under the Scheme shall be refundable.

Effective Date:
This amendment will take effect retrospectively from 1st June, 2016.

43. Rationalizing the provisions of the Prohibition of Benami Property Transactions Act:
Mainly procedural changes have been proposed.

Note: The words in *italics* in the column of Proposed Amendments in above notes represent the proposed amendments.

Notes on Interim FINANCE BILL, 2019 - INCOME TAX PROVISIONS

The proposal of government for levy of new taxes, modification of the existing tax structure or continuance of the existing tax structure beyond the period approved by the Parliament are submitted to the Parliament through this bill. It is the key document as far as taxes are concerned.

The Hon'ble Finance Minister has proposed very few changes in this Interim Budget to Income Tax Act, 1961.

In this Study Note, we have dealt with the proposed amendments to Income Tax Act, 1961 (hereinafter referred to as "the Act") by Finance Bill, 2019 (hereinafter referred to as Bill).

1. Effective Date:

The amendments in income tax provisions are proposed to be effective from 1st April, 2020 relevant to the Assessment Year 2020–2021 (financial year 2019-20) unless otherwise specified.

2. Rate of Tax:

There is no change in basic exemption limit, slab rate and rate of tax for the Financial Year 2019-20 relevant to A.Y. 2020-21 for all categories of Taxpayers. Even the rate of surcharge and cess remains constant.

Similarly, there is no change in the rate of MAT, AMT, Dividend Distribution Tax and Tax on Buyback and Security Transaction Tax.

There is a rebate given for individual assessees earning income upto Rs. 5,00,000/- which has been dealt with in Para 9 below.

3. Increase in Standard Deduction on Salary Income [Section 16]:

Section 16, provides for certain deductions in computing income chargeable under the head "Salaries". The Finance Act, 2018 inserted a provision to allow a standard deduction upto Rs 40,000/- or the amount of salary received, whichever is less.

It is now proposed to increase the standard deduction to Rs. 50,000/- from earlier Rs. 40,000/-.

The following persons would continue to be benefited by this:

- Persons receiving pension income;

- Employees whose salary package does not include items like transport allowance and medical expenses reimbursement.

Effective Date:

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.

4. Annual Value of House Property in respect of stock in trade [Section 23]:

Section 23 of the Act provides for the manner of determination of annual value of house property.

Finance Act, 2017, amended this section to provide that where the house property consisting of any building and land appurtenant thereto is held as stock-in-trade and the property or any part of the property is not let during the whole or any part of the previous year, the annual value of such property or part of the property, for the period upto one year from the end of the financial year in which the certificate of completion of construction of the property is obtained from the competent authority, shall be taken to be nil.

During interim period of completion of construction and sale, sometime the premises are given on rent and in most of the cases such stock-in-trade is lying idle and no actual rent is received. In such cases, the Finance Act, 2017 indirectly provided that notional rent on property lying in stock in trade is chargeable to tax after completion of one year from the end of the financial year in which the certificate of completion of construction of the property is obtained from the competent authority.

It is now proposed to extend the period of non-taxability to two years from the end of the financial year in which the certificate of completion of construction of the property is obtained from the competent authority.

Effective Date:

This amendment will take effect from 1st April, 2020 and shall apply to the assessment year 2020-21 and subsequent years.

5. Notional Rent on Second Self Occupied Property [Section 23]:

Under section 23(2) read with section 23(4) of the Act, a Taxpayer is not liable to notional rent in respect of one housing property. In case he/she has more than one house, the second house is subject to tax on notional rent.

Finance Bill, 2019, now proposes that the annual value of second self occupied house property shall also be computed as Nil and consequently no notional rent is taxable in the hands of the Taxpayer in respect of two residential houses.

The rational for this proposed amendment has been well explained by Hon'ble FM in his speech.

6. Deduction for Housing Loan Interest [Section 24]:

Under section 24(b) of the Act, interest upto Rs. 2,00,000/- on housing loan, is allowed as a deduction in respect of self occupied property on which annual value is taken as Rs. Nil.

The Finance Bill, 2019 has proposed non taxability on second residential house owned by the Taxpayer. Accordingly, it is now proposed that interest upto Rs. 2,00,000/- will be allowed on housing loans in respect of both the residential houses taken together (on which annual value is calculated at Rs. Nil). Thus, the total deduction for interest on housing loans is restricted up to Rs. 2,00,000/- in relation to both the residential houses, annual value in respect of which is taken as Rs. Nil.

When the notional income is offered to tax, the interest thereon was claimed as a deduction separately. Now, since no income is being offered, no interest, over and above the threshold will be allowed. Logically it may sound correct, since there is no additional income offered, no additional expenses are allowed. However, in some cases it may be of disadvantage to a Taxpayer.

Effective Date:

This amendment will take effect from 1st April, 2020 and shall apply to the assessment year 2020-21 and subsequent years.

7. Exemption from Sale of Residential House [Section 54]:

Section 54 of the Act provides exemption to capital gains arising from the transfer of a residential house property (being building or land appurtenant thereto, the income from which is chargeable under the head income from house property).

Finance Bill, 2019 proposes to widen the relief whereby the Taxpayer at his option purchase or construct two residential houses in India instead of one.

The other terms and conditions of the Act will continue to apply.

Thus, to claim the benefit, a Taxpayer has to fulfill following conditions:

i) The benefit is available only to individual or HUF. In other words, no other person is eligible for claiming exemption under this section.

ii) This can be claimed only in respect of capital gains arising out of sale of a residential property, income of which is chargeable under the head "income from house property". The exemption is available whether the residential house property is self occupied or let out. Even when two house properties are taken as self occupied under the proposed amendment to section 23 of the Act, the benefit exemption u/s 54 of the Act will be available. The residential premises held as stock in trade will continue to be not eligible to claim this exemption.

iii) It should be a long term capital asset. The house property should be held for a period of more than 24 months (till 31st March, 2017 the period was 36 months).

iv) To avail the exemption, the Taxpayer has to purchase or construct one or two residential houses.

- For purchasing a new residential property – It should be purchased within one year before, or within 2 years after, the date of transfer of the residential house property;

- For constructing a new residential property – The construction should be completed within 3 years from the date of transfer of residential house property;

v) The new house property should be situated in India.

vi) Amount of capital gains:

When the amount of capital gain does not exceed Rupees two crores	A Taxpayer has an option to buy one or two residential house properties
When the amount of capital gain exceeds Rupees two crores	A Taxpayer can buy only one residential house property to claim the exemption under this section.

A question arises whether a Taxpayer can claim proportionate exemption or exemption upto Rupees two crores, out of capital gains where the capital gains is more than Rupees two crores and the Taxpayer acquires two residential houses.

From the wordings of the proposed amendment, it is clear that if the amount of capital gains is more than Rupees two crores, the benefit of constructing or acquiring two house properties is not available to a

Taxpayer and a Taxpayer can opt only for one house. However, to avoid any confusion / litigation, it is better this issue is clarified.

Please note that the option of buying two residential premises is available only in respect of capital gains arising out of sale of a residential house (roll over) u/s 54 of the Act. This option is **not** available u/s 54F of the Act wherein the exemption is available when a capital asset other than residential house is sold and a Taxpayer acquires / constructs a residential premise.

vii) In the interim period the amount has to be deposited in special capital gain account with the bank.

Effective Date:

This amendment will take effect from 1st April, 2020 and shall apply to the assessment year 2020-21 and subsequent years.

Earlier One House was allowed

Two Houses are allowed now

8. Deduction in respect of profits and gains from housing projects [Section 80-IBA]:

Section 80-IBA of the Act provides 100% deduction for profits and gains derived from the business of developing and building housing projects approved by the competent authority after 1st June, 2016, but on or before 31st March, 2019. Finance Bill 2019 proposes to extend it to projects approved till 1st April, 2020.

9. Rebate of income tax in case of certain individuals [Section 87A]:

This section provides rebate of income tax in case of resident individual Taxpayer.

Existing Provision	Proposed Amendment
The section provides for allowing rebate from tax amount to an individual resident in India, whose total income does not exceed Rs. 3,50,000/-, upto hundred percent of tax chargeable for any assessment year or Rs. 2,500/-, whichever is less.	It is now proposed to increase the threshold to Rs. 5,00,000/- and amount of rebate to hundred percent of tax chargeable or Rs. 12,500/-, whichever is less.

Thus, as per proposed amendment, an individual having taxable income upto Rs. 5,00,000/- will not be subject to any income tax.

However, if the income exceeds Rs. 5,00,000/-, no rebate is allowed and on full amount tax is payable. This is explained by way of table below:

	Taxable income of Rs. 5 lakhs		**Taxable income of Rs. 6 lakhs**	
	Pre Budget (Rs.)	**Post Budget (Rs.)**	**Pre Budget (Rs.)**	**Post Budget (Rs.)**
Tax chargeable	12,500/-	12,500/-	32,500/-	32,500/-
Less: Rebate u/s 87A	Nil	12,500/-	Nil	Nil
Net Tax payable	12,500/-	Nil	32,500/-	32,500/-

(The above tax is calculated without surcharge and cess)

Thus, income of a salaried employee upto Rs. 5,50,000/- per annum will not be subjected to tax (considering standard deduction of Rs. 50,000/-), which is about Rs. 45,000/- per month. A monthly tax free income of Rs. 45,000/-, even if not more, it is not less also. This is without considering deduction / investments in respect of provident fund, LIC, etc.

The deduction under section 80C of the Act is available upto Rs. 1,50,000/- and assuming the cash flow of the Taxpayer permits him/her to invest u/s 80C of the Act, the tax consequences will be as under:

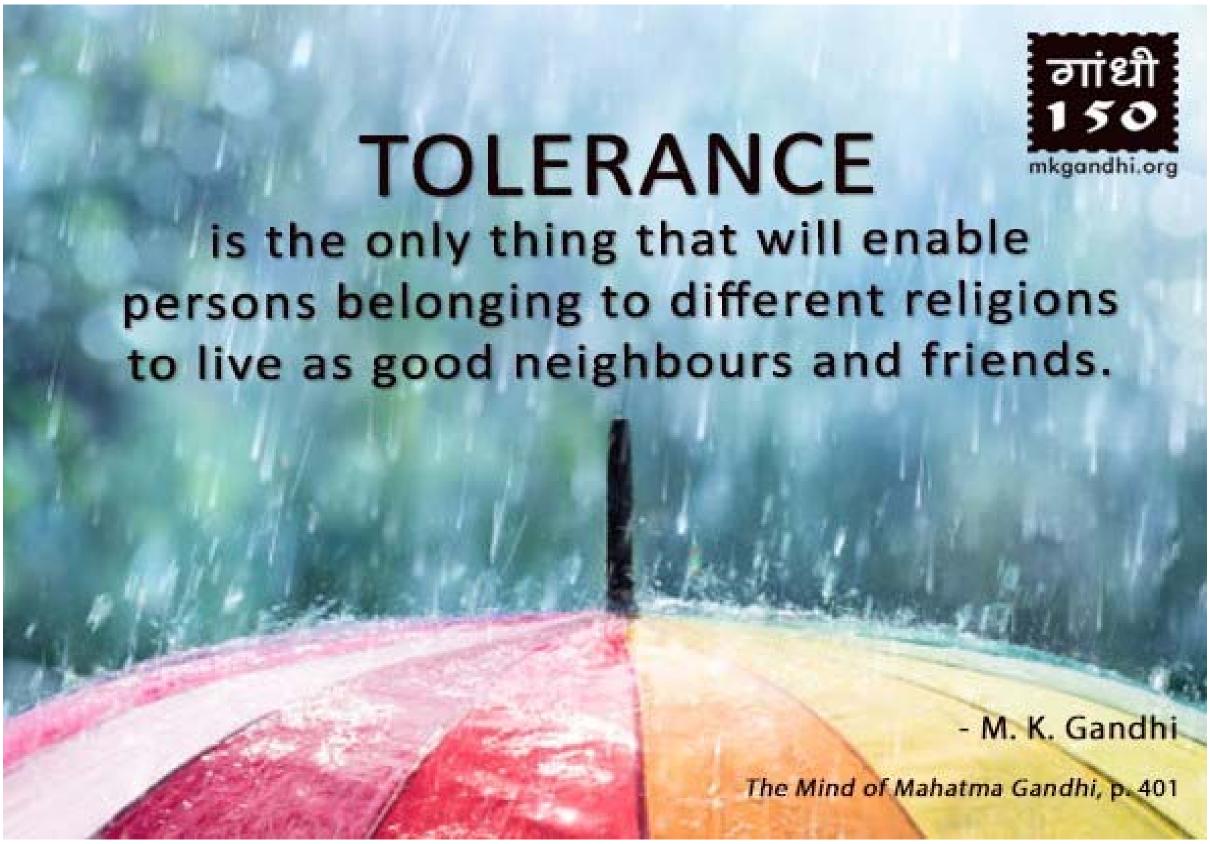
Income upto which **Nil** tax is chargeable→	**Gross level of annual income (Rs.)**	**Amount (Rs.)**	**Standard Deduction (Rs.)**	**Deduction under 80C (Rs.)**
Salaried Individual	7,00,000	5,00,000	50,000	1,50,000
Non Salaried Individual	6,50,000	5,00,000	Nil	1,50,000

Please note, the moment the income is more than Rs. 5,00,000/- no rebate u/s 87A of the Act will be available.

10. TDS [Section 194A & 194I]:

The threshold limits for deduction of tax at source are proposed to be raised in following cases:

Particulars	Existing Threshold Limit (Rs.)	Proposed Threshold Limit (Rs.)
Under section 194A: TDS on Interest on bank deposits / co-operative society / any deposit with post office	10,000/-	40,000/-
Under section 194-I: TDS on Rent for the use of any machinery or plant or equipment / for the use of any land or building (including factory building) or land appurtenant to a building / Furniture and fittings	1,80,000/-	2,40,000/-



Story to remember

Economics of taxation

Suppose that every day, ten men go out for beer and the bill for all ten comes to $100. If they paid their bill the way we pay our taxes (slab wise), it would go something like this...

The first four men (the poorest) would pay nothing.
The fifth would pay $1.
The sixth would pay $3.
The seventh would pay $7.
The eighth would pay $12.
The ninth would pay $18.
The tenth man (the richest) would pay $59.
So, that's what they decided to do.

The ten men drank in the bar every day and seemed quite happy with the arrangement, until one day, the owner threw them a curve ball. "Since you are all such good customers," he said, "I'm going to reduce the cost of your daily beer by $20." Drinks for the ten men would now cost just $80.

The group still wanted to pay their bill the way we pay our taxes. So the first four men were unaffected. They would still drink for free. But what about the other six men? The paying customers? How could they divide the $20 windfall so that everyone would get his fair share?

They realized that $20 divided by six is $3.33. But if they subtracted that from everybody's share, then the fifth man and the sixth man would each end up being paid to drink his beer.

So, the bar owner suggested that it would be fair to reduce each man's bill by a higher percentage the poorer he was, to follow the principle of the tax system they had been using, and he proceeded to work out the amounts he suggested that each should now pay.

And so the fifth man, like the first four, now paid nothing (100% saving).

The sixth now paid \$2 instead of \$3 (33% saving).
The seventh now paid \$5 instead of \$7 (28% saving).
The eighth now paid \$9 instead of \$12 (25% saving).
The ninth now paid \$14 instead of \$18 (22% saving).
The tenth now paid \$49 instead of \$59 (16% saving).

Each of the six was better off than before. And the first four continued to drink for free. But, once outside the bar, the men began to compare their savings.

"I only got a dollar out of the \$20 saving," declared the sixth man. He pointed to the tenth man,"but he got \$10!"

"Yeah, that's right," exclaimed the fifth man. "I only saved a dollar too. It's unfair that he got ten times more benefit than me!"

"That's true!" shouted the seventh man. "Why should he get \$10 back, when I got only \$2? The wealthy get all the breaks!"

"Wait a minute," yelled the first four men in unison, "we didn't get anything at all. This new tax system exploits the poor!" The nine men surrounded the tenth and beat him up.

The next night the tenth man didn't show up for drinks, so the nine sat down and had their beers without him. But when it came time to pay the bill, they discovered something important. They didn't have enough money between all of them for even half of the bill!

And that is how our tax system works. The people who already pay the highest taxes will naturally get the most benefit from a tax reduction. Tax them too much, attack them for being wealthy, and they just may not show up anymore. In fact, they might start drinking at places where the atmosphere is somewhat friendlier.

David R. Kamerschen, Ph.D.

Professor of Economics.

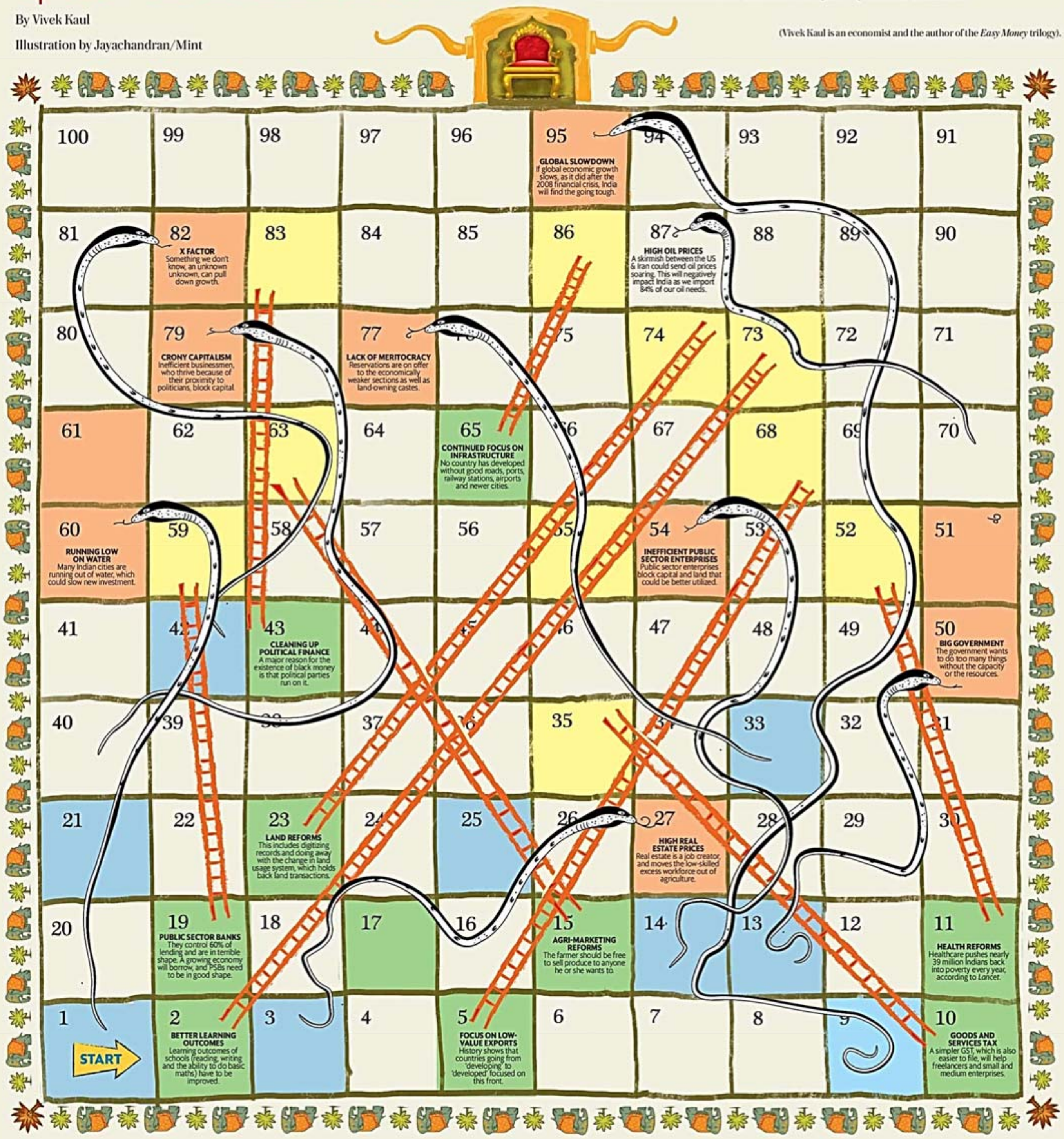
The Game of $5 Trillion

A $5 trillion economy by 2024 is Prime Minister Narendra Modi's target, one he considers challenging but achievable. But getting to $5 trillion will be like a game of snakes and ladders. There will be a few things that will push us up in our journey towards $5 trillion (the ladders) and there will be a few things that will pull us down (the snakes). In FY19, the gross domestic product (GDP)—a measure of economic size—of India stood at around $2.7 trillion. If India needs to grow to an economic size of $5 trillion over the next five years, it needs to grow at around 13% (nominal growth) per year, which is indeed a stretch from the current growth levels.
Mint looks at the snakes and ladders on that journey towards $5 trillion.

By Vivek Kaul

Illustration by Jayachandran/Mint

(Vivek Kaul is an economist and the author of the *Easy Money* trilogy).



LADDERS

BETTER LEARNING OUTCOMES
While India has a jobs problem, businesses don't find the right candidates for a position. This is because reading, writing and the ability to do basic maths have declined. This can be fixed only by setting right poor school and teacher accountability in government schools.

LAND REFORMS
Clear titles would lead to the unlocking of what the Peruvian economist Hernando de Soto calls 'dead capital'. De Soto points out that in Western countries, land and buildings are also used as capital because land titles are clear. This is not the case in developing countries like India. Clear land titles can help people raise money for small businesses.

FOCUS ON LOW-VALUE EXPORTS
Economic history tells us that countries that go from being developing to becoming developed, do very well when it comes to low-value, low-skill exports like toys, textiles, readymade garments, agriculture and allied products, and leather goods. As the latest RBI Monetary Policy Report points out: "In recent years (there) has been a shift away from primary and traditional low value-added exports to higher value-added manufacturing and technology-driven items."

SNAKES

GLOBAL SLOWDOWN
In the aftermath of 2008 Lehman Brothers crisis, the global economy entered an economic recession. The Western world tackled this by printing money, driving down interest rates and running an easy-money policy. The positive effects of this easy-money policy on economic growth have slowed down in the recent past. This could lead to a global economic slowdown, which could have an impact on India's ambitions.

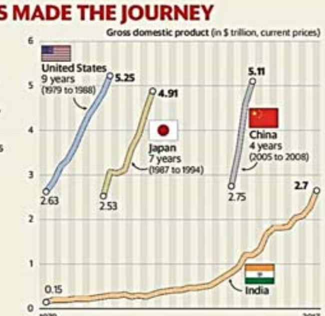
HIGH REAL ESTATE PRICES
India's real estate industry is down in the dumps. Trust between builder and prospective buyer has broken down and very few people are comfortable buying under-construction property. This trust needs to be rebuilt. Real estate and construction are a huge employment generator for people with low skills, especially the excess workforce that needs to be moved away from agriculture.

BIG GOVERNMENT
An Economic Survey a few years ago revealed that "950 central sector and centrally sponsored sub-schemes (were run) in India". By running so many schemes, the government is spreading itself too thin both money wise and capacity wise. It should focus on defence, railways, education, health, agriculture, economic policy and external affairs, and leave the rest to state governments.

MINT GRAPHITI

HOW OTHER COUNTRIES MADE THE JOURNEY

TIME TAKEN FROM $2.6 TRILLION TO $5 TRILLION
This government wants the Indian economy to gallop from $2.7 trillion to $5 trillion in five years. Three countries have hit $5 trillion so far, at different points in time, taking a varying number of years to achieve this. The US took nine years (1979 to 1988), Japan took eight years (1987 to 1994) and China a speedy three years (2005 to 2008). India, to do so, has to move at a speed close to China's.



Data compiled by
HowINDIALives

GRAPHIC BY NAVEEN SAINI/MINT

GUPSHUP

Rasmalai What is the difference between Tax and Fine?

Khush FINE is a tax for doing Wrong.
And TAX is a fine for doing Right.
Ha Ha Ha.....

Barbie But fine is paid only by Taxpayers.
Are only tax payers accountable?

Rasgulla Why do you say so?

Taniji There are provisions for penalty for almost every small and big faults and prosecution proceedings initiated even for minor default of delay in filing return with tax effect of Rs. 10,000/- and more and more power are being given to AOs proceedings, all against the tax payers only.

Barbie Central Action Plan notified on 8th July, 2019 has special focus on prosecution proceedings.

Rasgulla Is the administration also accountable?

Anay Till now not much, but now the Government has assured taking steps towards corrupt officials. In 2018 itself, 1441 complaints against officials of the department were received and were acted upon.

In some of the cases, the information were sought from the officials, while prosecution were also launched against some of these officials. Also other steps are being taken.

Rasmalai It seems " मेरा भारत बदल रहा है ..", but how much only time will tell.
Like Chanakya Said "कार्य पुरुषा करेन लक्ष्यम सम्पद्यते", meaning "with determined human efforts, the task will surely be completed."

All Lets hope for the best!!

Jai Ho!!