India
Interim
Budget
2019-20

Stimulating Start-ups

Transformation through Technology

Labour welfare

Insolvency

Rural development

Measures for MSMEs

Data Privacy

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1 February 2019

The Finance Minister presented the Interim Budget 2019-20 in the Parliament today. The highlights of the Budget are summarised below:

State of the economy - Highlights

i. Debt to GDP ratio of 46.5% for Financial Year ('FY') 2017-18

ii. Total expenditure increased from INR 24.5 trillion (~USD 350 billion) to INR 28 trillion (~USD 400 billion)

iii. Disinvestment proceeds of INR 1 trillion (~USD 15 billion) realised

iv. Direct tax collection increased to INR 12 trillion (~USD 170 billion)

v. Average monthly Goods and Services Tax ('GST') collection is INR 970 billion (~USD 14 billion)

vi. Number of income-tax returns filed increased to 68 million

vii. Fiscal deficit of FY 2019-20 pegged at 3.4% of GDP

viii. Target of fiscal deficit of 3% by FY 2020-21 maintained

ix. Capital expenditure estimated to be INR 3.4 trillion (~USD 50 billion)

Key policy announcements

1. Agriculture and allied sectors

i. To provide assured income support to the small and marginal farmers, the Pradhan Mantri Kisan Samman Nidhi (‘PM-KISAN’) is proposed to be launched, under which vulnerable landholding farmer families having cultivable land upto 2 hectares, will be provided direct income support of INR 6,000 (~USD 85) per year. An outlay of INR 750 billion (~USD 10 billion) is proposed for FY 2019-20 and that of INR 200 billion (~USD 3 billion) is proposed to be provided in the revised estimates for FY 2018-19.

ii. To upscale sustainable genetic up-gradation of cow resources and to enhance production and productivity of cows, it is proposed to set up "Rashtriya Kamdhenu Aayog" which will also look after effective implementation of laws and welfare schemes for cows.

iii. To provide sustained and focused attention towards development of Fisheries sector, the Government has proposed to create a separate Department of Fisheries.

iv. It is proposed to provide interest subvention of 2% to the farmers pursuing the activities of animal husbandry and fisheries, who avail loans through Kisan Credit Card. An additional 3% interest subvention has also been proposed in case of timely repayment of loan.

v. In case of farmers affected by severe natural calamities, where assistance is provided from National Disaster Relief Fund (‘NDRF’), it is proposed to provide interest subvention of 2% and prompt repayment incentive of 3% for the entire period of reschedulement of loans.

2. Labour Welfare

i. It is proposed to launch a mega pension scheme 'Pradhan Mantri Shram-Yogi Maandhan' for the unorganised sector workers with a monthly income upto INR 15,000 (~USD 215) wherein an assured monthly pension of INR 3,000 (~USD 40) will be provided from the age of 60 years on a monthly contribution of a small affordable amount during their working age. The Government will deposit an equal contribution in the pension account of the worker every month. A sum of INR 5 billion (~USD 71 million) is proposed to be allocated for this scheme.

ii. A Welfare Development Board under the Ministry of Social Justice and Empowerment is proposed to be set up to ensure that special strategies are designed and implemented to serve the Nomadic and Semi-Nomadic communities.

3. Education and empowering youth

i. It is proposed to establish a National Centre on Artificial Intelligence as a hub along with other Centres of Excellence, under the National Programme on Artificial Intelligence.

ii. The setting up of a new AIIMS in Haryana is proposed, which will take the count of AIIMS to 22.

4. **Medium, Small and Micro Enterprises ('MSME')**

   i. It is proposed to provide a 2% interest rebate on incremental loans of upto INR 10 million (~USD 140,000) availed by SME units which have obtained GST registration.

   ii. Government e-Marketplace ('GeM') platform is proposed to be extended to all Central Public Sector Enterprises.

5. **Rural development**

   i. It is proposed to develop 100,000 villages into Digital Villages over the next five years.

6. **Infrastructure**

   i. The Railways' overall capital expenditure programme of INR 1,587 billion (~USD 23 billion) has been announced, of which INR 646 billion (~USD 9 billion) is proposed for FY 2019-20.

   ii. It is proposed to introduce container cargo movement to the North Eastern part of the country by improving the navigation capacity of the Brahmaputra river.

7. **Entertainment**

   i. To promote the entertainment industry, a single window clearance for ease of shooting films, presently available only to foreigners, is proposed to be made available to Indian filmmakers as well. It is also proposed to introduce anti-camcording provisions in the Cinematograph Act to control the menace of piracy.

8. **Simplification of direct tax system**

   i. It is proposed that in future, all income tax returns will be processed in twenty four hours and refunds will be issued simultaneously.

   ii. It is proposed that within the next two years, almost all scrutiny proceedings will be undertaken electronically through anonymised back office, manned by tax experts, without any personal interface between taxpayers and tax officers.

9. Ten dimensional vision for the next decade

i. To build a physical as well as social infrastructure for a ten trillion dollar economy and to provide ease of living.

ii. To create a Digital India reaching every sector of the economy, every corner of the country and impacting the life of all Indians.

iii. To make India a pollution free nation with green Mother Earth and blue skies.

iv. To expand rural industrialisation using modern digital technologies in order to generate massive employment.

v. To have clean rivers, to provide safe drinking water and make efficient use of water in irrigation using micro irrigation techniques.

vi. To develop the coastline and inland waterways powering India's development and growth.

vii. To make India the launch-pad of satellites for the world and placing an Indian astronaut into space by 2022.

viii. To make India self-sufficient in food, exporting to the world to meet their food needs and producing food in the most organic way.

ix. A healthy India with an environment of health assurance and the support of necessary health infrastructure.

x. To transform India into a Minimum Government, Maximum Governance nation.

Key tax proposals

Direct tax

The significant direct tax proposals announced in Interim Budget 2019-20 are summarised below. These proposals are subject to enactment of the Finance Bill, 2019. Further, the direct tax proposals in the Finance Bill, 2019 are effective from FY 2019-20 unless otherwise specifically stated. References to sections are to sections in the Income-tax Act, 1961 (‘the IT Act’) unless otherwise stated.

I. Tax rates *[Section 87A]*

i. There is no change proposed in the income slabs and tax rates. However, it is proposed that a full rebate of the tax payable shall be allowed to resident individuals subject to a limit of INR 12,500 (~USD 180) on total income upto INR 500,000 (~USD 7,100) as against the present limit of INR 350,000 (~USD 5,000).

II. Increase in standard deduction on salary Income *[Section 16]*

i. It is proposed to increase the limit of standard deduction from INR 40,000 (~USD 570) to INR 50,000 (~USD 710).

III. Relief from taxability of notional rent *[Sections 23 and 24]*

i. Where the taxpayer owns more than one self occupied house property, one property is considered as self occupied and the annual value of all the other properties is notionally taxed.

ii. Considering the difficulty of the middle class having to maintain families at two locations on account of their jobs, children’s education, care of parents, etc., it is proposed to exempt levy of income tax on notional rent on second self occupied property.

iii. Interest paid on loan taken for purchase of self occupied property is allowed as a deduction upto INR 200,000 (~USD 2,860). In case of two properties being considered as self occupied properties, the aggregate amount of deduction for housing interest shall not exceed INR 200,000 (~ USD 2,860).

IV. Relief from taxability of notional rent where the property is held as stock-in trade *[Section 23]*

i. Where the house property consisting of land and building is held as stock-in-trade, and is not let out during the whole or any part of the financial year, the annual value of such property is notionally taxed under the head 'Income from House Property'. The Finance Act, 2017 provided relief from such notional taxability for a period of one year from the end of the FY in which the certificate of construction of the property is obtained.

ii. It is proposed to extend this relief for two years from one year.

V. Deduction for reinvestment of Long Term Capital Gains in residential house property *[Section 54]*

i. Currently, taxpayers are allowed to claim deduction from Long Term Capital Gains ('LTCG') arising from transfer of a residential house, in proportion to reinvestment of such gains into purchase or construction of one residential house.

ii. It is proposed to offer one time option to taxpayers having capital gains upto INR 20 million (~USD 285000) to reinvest such gains for purchase or construction of two residential houses in India instead of one.

VI. Extension of sunset clause for claiming deduction in respect of profits and gains from affordable housing projects *[Section 80-IBA]*

i. It is proposed to extend the benefit of 100% deduction of profits and gains derived from the business of developing and building specified housing projects for one more year i.e. housing projects which are approved by the competent authority on or before 31 March 2020.

ii. Currently, this deduction is available for housing projects approved on or before 31 March 2019.

VII. Tax deducted at source on interest other than interest on securities *[Section 194A]*

i. The threshold limit for withholding tax on interest earned on bank deposits and postal deposits is proposed to be increased from INR 10,000 (~USD 140) to INR 40,000 (~USD 570).

VIII. Tax deducted at source on rent payments *[Section 194-I]*

i. The threshold limit for withholding tax on rent is proposed to be increased from INR 180,000 (~USD 2,600) to INR 240,000 (~USD 3,400).

Indirect Taxes

Goods and Services Tax ('GST')

i. High taxation levied on several commodities prior to introduction of GST has been rationalised. Several relaxations in rates have been provided and provisions have been simplified since the introduction of GST.

ii. In spite of rate reductions and relaxations, the state GST revenues are improving, with a guaranteed annual revenue increase of 14% for the first five years.

Stamp duty

The significant stamp duty proposals announced in Interim Budget 2019-20 are summarised below:

i. In order to streamline the levy and collection of stamp duty, amendments are proposed to the Indian Stamp Act, 1899 relating to issue, sale and transfer of securities.

ii. For electronic or other instruments created for a transaction in a Stock exchange or Depository, it is proposed that stamp duty would be levied on the principal instrument relating to a transaction. Such stamp duty will be collected at one place through the stock exchanges and shall be shared with the State Governments where the buying client is domiciled.

iii. The exemption of stamp duty on transfer of dematerialized shares is proposed to be done away with.

iv. If the Stock exchange, Clearing corporation or the Depository, as the case may be, fails to collect or transfer the stamp duty to the State Government within 15 days of the specified date, it shall be punishable with a fine of 1% of the stamp duty subject to minimum of INR 100,000 (~USD 1,430).

v. The proposed amendments will be effective from the date they are notified by the Central Government.

The year gone by…

Some of the major events which shaped the course of the past year:

i. India has climbed 23 spots to rank 77th globally in the World Bank's Doing Business rankings for 2019

ii. Reservation of 10% in Government jobs announced for the economically backward sections in the general category

iii. Personal Data Protection Bill, 2018 introduced to regulate processing of personal data of individuals

iv. Insolvency and Bankruptcy Code endorsed in its entirety by the Supreme Court

v. Moratorium placed on payment of promoter company's debts by Special Purpose Vehicle as a result of an order of the National Company Law Tribunal ('NCLT')

vi. Consolidation of three public sector banks (Bank of Baroda, Vijaya Bank and Dena Bank) approved

vii. Expert committee constituted by RBI in consultation with the Government on Economic Capital Framework

viii. Guidelines on restructuring of advances to the MSME sector released by RBI

ix. The Fugitive Economic Offenders Act, 2018 introduced to help confiscate and dispose off assets of economic offenders

x. All payment system providers operating in India mandatorily required by RBI to store the entire data only in India

xi. FDI policy for e-commerce sector tightened

xii. Special courts notified for trial of benami transaction cases

xiii. Issue of NPAs looms large for banks/NBFCs

xiv. External Commercial Borrowings ('ECB') guidelines liberalised

xv. National Health Protection Scheme 'Ayushman Bharat' launched to cover 100 million poor and vulnerable families

xvi. Task force appointed to draft a new direct tax legislation to submit its report by end of February 2019

xvii. Panel to be set up to examine all taxation issues faced by Start ups and Angel investors

xviii. Rationalisation of GST provisions

Our comments

Speculation was rife from the outset whether Interim Budget 2019-20 would be a deviation from convention and would be more than a mere Vote on Account. Breaking with tradition, the Finance Minister announced various policy proposals as well as a few tax proposals.

The crucial challenge faced by the current Government was to keep its promise of providing employment and to this end, it has taken considerable efforts to encourage start ups including addressing their tax issues. Some of the significant concerns for the Government were facilitating ease of doing business, liberalisation of foreign investment in various sectors such as defence, railways, insurance and e-commerce, deregulation of pricing for diesel, kerosene and fertilisers, facilitating the bankruptcy process, using direct benefit transfer to deliver subsidies, need for bank recapitalisation, disinvestment, labour law reforms, reducing corruption and bringing back black money, affordable housing, introduction of a unified GST, addressing the issue of retrospective taxation for cross border investments, etc. The Government succeeded on several of these counts while a few of the issues have not been addressed at all.

As expected, the last Budget of the current Government comprised policy reforms for farmers, labourers and the rural and poor. The few tax proposals that have been announced are largely aimed at wooing the middle class. The Government has planned a comprehensive ten dimensional vision for the year 2030 spanning various facets of the economy including infrastructure, digitisation, self sufficiency in food, pollution control and rural industrialisation with a view to create a modern, technology driven, high growth, equitable and transparent society which is free from poverty, malnutrition, littering and illiteracy.

However, one must not lose sight of the fact that this is only an Interim Budget and the finality to these reforms will be achieved depending on the outcome of the elections. Therefore, we need to wait and watch how future events unfold.

It is expected that the Indian economy will continue to grow in the next several years due to various factors including a young demography and large consumer demand. It is important to have a stable government at the Centre which will be able to implement the much needed reforms for the Indian economy to keep growing at a fast pace.

The JMP Advisors Team
1 February 2019

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JMP Advisors Private Limited
12, Jolly Maker Chambers II, Nariman Point, Mumbai 400 021, India
T: +91 22 22041666, E: info@jmpadvisors.in, W: www.jmpadvisors.com