INDIA BUDGET 2019

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FOREWORD

This budget has addressed the objective of laying the path for a $5-trillion economy by focusing on infrastructure spending, incentivising affordable housing, providing growth capital for PSU banks and signalling support for sound NBFCs. The Government has created additional areas of spending without increasing the fiscal deficit and keeping the borrowing at less than 5% of the GDP. The fiscal deficit is targeted to be reduced by 10 bps to 3.3% in FY20, which will keep the inflation under control. The Finance Minister's focus on agriculture and the rural sector is a welcome step. The proposal to make India an electric car manufacturing hub, a large investment in quality higher education, focus on building infrastructure, efforts to widen tax net, incentives for start-ups, etc. are big positives.

The increase in public shareholding from 25% to 35% in listed companies is a good step for the deepening of capital markets. It also means that many companies will need to increase their public shareholding, mostly by selling of promoter stake or additional equity issuance.

The Finance Minister has rightly focused on the youth of the country by keeping education as a tool for development. The commitment to bringing in the new education policy and make sweeping changes in how education is imparted with the focus on learning outcomes will play a big role in bettering the education level. The focus on research and innovation and the setting up of a National Research Foundation with access to research funds from all Government schemes will help fund and promote research in the country. Bringing in legislation for finally setting up the Higher Education Commission of India is a step in the right direction. The focus on the amplification of skills in new-age tech domains such as AI, IoT, Big Data and Robotics will also open newer avenues of career growth for Indian professionals.

The budget has proposed for specific emphasis on infrastructure development. As far as housing is concerned, the additional ₹ 1.5 lakhs deduction on interest on home loans will certainly trigger a strong demand from end-users in the affordable category. The move to bring regulation of HFCs under RBI will ensure consistency in the regulatory environment and a level playing field for both banks and HFCs in the area of housing.

The budget catalyses India's journey to electrification and will be beneficial for the e-mobility industry as well as consumers who are looking to make the shift to electric vehicles. Lowering GST rates on electric vehicles to 5% will make EVs more attractive to the buyer in future. In addition, incentives of income tax will also increase the momentum for the sector.

A great move has been done in the budget on the angel tax front. Startups can now focus on growth and innovation without having to worry about being dragged into tax complications. The abolishment of angel tax, one of the key concerns of startups, is a great step taken by the government. Furthermore, the introduction of the e-verification mechanism will exempt start-ups from any kind of tax scrutiny. Also, the Finance Minister has stated that special administrative arrangements by CBDT will be made for all the pending assessments of start-ups which will boost the start-up's ecosystem of the country. The exemption of capital gains from the sale of residential property for investment in start-ups until FY 21 is a welcome move.

The other direct tax changes which include the raising of turnover limit from ₹ 250 crores to ₹ 400 crores for companies to be eligible for 25% tax bracket, additional income tax deduction of ₹ 1.5 lakhs on the interest paid on loans taken to purchase e-vehicles, faceless income tax assessment in electronic mode involving no human interface, to reduce taxpayer trouble, tax incentives to be further provided to International Financial Services Centres (IFSCs) are all very encouraging steps. The levy of surcharge on individuals having taxable income from ₹ 2 to ₹ 5 crores and above ₹ 5 crores by increasing the effective tax rate by around 3% and 7% respectively may result in to flight of brain as well as capital of the HNIs to neighbouring jurisdictions which have lower tax rates.

The proposal to further relax foreign direct investment (FDI) norms in the single brand retail sector and permitting 100%

FDI for insurance intermediaries will attract more overseas investment. The announcement assumes significance as several foreign entities had raised issues related to mandatory local sourcing norms from India. Foreign investment flows eased after a lull of several years, both for portfolio investors and strategic investors. Gradual increase in FDI flow will definitely give a much-needed impetus to the economy and boost consumption. Merger of NRI and FPI route is a very progressive move and is the adoption of one of the key recommendations of The H. R. Khan committee. This should help bringing much larger NRI capital through pooled and professionally managed structures. The cap on NRI participation through the FPI route had received serious push back from domestic and global fund managers and this proposal should be received by them very positively. The key to this merger of PIS and FPI route will be how seamlessly this can be accomplished. The transition of control on PIS regime from RBI to SEBI would require the two regulators to work in tandem to ensure a smooth transition.

This budget is all about integration, ease of doing business, ease of raising capital, and government-driven infra-push. These will serve as the directional road map to be charted in the next few years. The government has announced big bang structural reforms at the macro level and the announcement of an annual global meet with National Investment and Infrastructure Fund (NIIF) as the anchor, will provide a collaborative platform to industrialists, corporate leaders, corporate sovereign and venture funds and will accelerate the economic growth. Overall, the budget is not only farmer and industry friendly but it also addresses the concerns of youth, women, middle class, poor and the common man with an aim to expedite India's forward march towards progress and prosperity by building a "New India".

Like every year we have created our budget analysis in the following pages from a macro and micro perspective. Hope you would find this booklet interesting and useful. Please send your suggestions / feedback to info@krestonsgco.com.

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BUDGET HIGHLIGHTS

Economy

- Fastest growing economy – from 11th largest in 2013-14 to 6th largest in current fiscal 2019-20
- Current account deficit (CAD) at 2.1% of GDP in 2018-19
- GDP growth rate at 6.8% in 2018-19. Vision to become $5 trillion economy driven by 'virtuous cycle' of investment
- FDI inflows worth $ 64.4 Bn in FY 2018-19 from $ 19.6 Bn in FY 2017-18
- India's external debt to GDP ratio amongst the lowest globally at less than 5%
- RE Fiscal deficit at 3.3% of GDP, estimated at 3.5% in next fiscal
- Public Sector Banks to be capitalised by ₹ 70,000 Crore
- Record recovery of ₹4 Lakh Crore in last 4 years due to IBC & other measures
- Interest subvention, overdraft of ₹5000 and loan upto ₹1 Lakh for women member of Self-Help Group.
- Minimum public share-holding proposed to be raised from 25% to 35% for all listed Companies
- Introduction of new Integrated Rupay Card that can be used for all modes of transportation of passengers across India, for retail shopping & for withdrawal of money
- 100 new clusters to be set up under SFURTI. 50000 artisans to be enabled to join the economic value chain

Budgetary Allocations

- ₹60,000 Crore allocation for MNREGA, up from ₹55,000 Crore
- ₹19,000 Crore allocation to Pradhan Mantri Awas Yojana, up from ₹15,500 Crore
- ₹19,000 Crore allocation to Pradhan Mantri Gram Sadak Yojna

- ₹100 Crores allocation to cybercrime coordination centre
- ₹1,19,025 Crore allocation to the ministry of home affairs
- ₹23,963 Crore allocation for CRPF Jawans engaged in anti-militancy operations in J&K and the northeastern region
- ₹94,853 Crores allocation to Education sector, an increase of ₹10,000 crore from previous fiscal year
- ₹62,659 Crores allocation to Healthcare sector, an increase of 15.40% from previous fiscal year
- Defence outlay raised to ₹3.19 lakh crore for FY 2019-20, up from ₹2.82 Lakh Crore in FY 2018-19

Direct Taxes

- Effective tax rate for super rich individuals having taxable income of ₹2 crores to ₹5 crores and more than ₹5 crores has been increased
- Lower Corporate tax rate of 25% applicable to entities having turnover up to ₹400 crores in FY 2017-18
- Additional deduction from taxable income upto ₹1.5 lakh with respect to interest paid on loan taken for purchase of affordable house
- Additional deduction from taxable income upto ₹1.5 lakh with respect to interest paid on loan taken for purchase of electric vehicle
- TDS of 2% on cash withdrawal exceeding ₹1 crore in a year from a bank account to promote less cash economy
- TDS of 5% on payment made to contractors and professionals exceeding ₹50 lakhs in a year by all individual / HUF except those covered u/s. 194C / 194J
- The term "Consideration for Immovable Property" u/s. 194IA for the purpose of TDS @ 1% now defined to include incidental charges
- Deposit taking NBFCs and Systematically Important Non-deposit taking NBFCs can now pay tax in the year in which interest is credited in P&L a/c or received, whichever is earlier, with respect to certain bad or doubtful debts

- Certain conditions for claiming deduction u/s. 80-IBA with respect to affordable housing project modified
- Gifts made by residents to persons outside India shall be deemed to accrue or arise in India; DTAA shall continue to apply
- Mandatory filing of Income Tax returns for persons entering into certain specified transactions
- Aadhaar and PAN to be made interchangeable in specified circumstances
- A scheme of faceless electronic assessment involving no human interface to be launched in a phased manner
- Business establishments with annual turnover of more than ₹50 crores shall offer digital modes of payment; no bank charges to be imposed on customers or merchants for the same
- Provision for not treating a deductor as an assessee in default for non-deduction / payment of TDS on satisfaction of certain conditions, now extended with respect to payments made to non-residents

Goods and Service Tax

- Certain class of suppliers notified by government to mandatorily provide facility for electronic payment by recipient
- Interest on delayed payment of tax to be charged only on liability payable in cash
- Provision to transfer balance in electronic cash ledger from one head to another head
- Aadhaar submission or authentication mandatory for persons obtaining registration under GST laws
- Central Government to be single disbursement authority to grant refund also in respect of state taxes
- Creation of National Appellate Authority for Advance Ruling under GST
- Amendments to give legal force to notifications and orders issued earlier as per GST Council decisions

Customs and Excise

- Basic Customs Duty (BCD) rates changed on various items
- For modernization and upgradation of defense and armed forces, BCD exempted for 5 years on import of specified military equipment and their parts imported by Ministry of Defense or Armed forces
- BCD on gold, silver and platinum increased to 12.5%
- Increase in effective rate of Special Additional Excise Duty on petrol and diesel from ₹7 per ltr to ₹8 per ltr and ₹1 per ltr to ₹2 per ltr respectively
- Increase in effective rate of Road and Infrastructure Cess on both petrol and diesel from ₹8 per ltr to ₹9 per ltr
- Export duty rationalised on raw and semi-finished leather, EI tanned leather from 15% to NIL and Hide, skins and leathers, tanned and untanned, from 60% to 40%
- To promote electric mobility, BCD exempted on e-vehicle parts
- BCD increased on cashew kernels from 45% to 70%, PVC from 7.5% to 10%, Vinyl flooring, tiles, metal fittings, mountings for furniture from 10% to 15%
- BCD increased on auto parts, certain kinds of synthetic rubbers, marble slabs, optical fiber cable, CCTV camera, IP camera, digital and network video recorders etc.
- Exemption from BCD withdrawn on import of certain electronic items manufactured in India
- BCD exempted on specified Capital goods required for manufacture of specified electronic items viz. PCB, Charger of Cellular Mobile Phone, Display Panel etc. subject to actual user condition
- End-use based exemption withdrawn on import of various kinds of papers for use in newsprint

DIRECT TAX PROPOSALS

(Unless specified, proposals shall take effect from AY 2020-21)

RATES OF TAX / THRESHOLD LIMIT

a. Individual, HUF, AOP or BOI, Artificial Judicial Person

- No change in tax slabs, basic tax rates. Surcharge @10% is applicable where income exceeds ₹50 lakhs, @15% where income exceeds ₹1 crore, @ 25% where income exceeds ₹2 crores and @ 37% where income exceeds ₹5 crores
- No change in Health and Education Cess, which is @ 4%
- Tax rebate increased to ₹12,500 for taxpayer having taxable income not exceeding ₹5 lakhs [as per Interim Budget]. Only resident individuals having taxable income upto ₹5 lakhs to get full tax rebate
- Effective tax rate shall be as under (subject to AMT)

Taxable Income Slab (₹)	Tax Rates (including surcharge & cess)		
	General	Senior Citizen	Very Senior Citizen
Up to 2,50,000	NIL	NIL	NIL
2,50,001 to 3,00,000	5.20%	NIL	NIL
3,00,001 to 5,00,000	5.20%	5.20%	NIL
5,00,001 to 10,00,000	20.80%	20.80%	20.80%
10,00,001 to 50,00,000	31.20%	31.20%	31.20%
50,00,001 to 1,00,00,000	34.32%	34.32%	34.32%
1,00,00,001 to 2,00,00,000	35.88%	35.88%	35.88%
2,00,00,001 to 5,00,00,000	39.00%	39.00%	39.00%
5,00,00,001 and above	42.75%	42.75%	42.75%

b. Firm and LLP

- No change in basic tax rate of 30% and surcharge of 12% for income above ₹1 crore

- No change in Health and Education Cess, which is @ 4%
- Effective Tax rates shall be as under (subject to AMT)

Taxable Income	Tax Rates (including surcharge & cess)
Up to ₹1 Crore	31.20%
Above ₹1 Crore	34.94%

c. Companies:

- Tax rate of 25% for domestic companies, having total turnover or gross receipts not exceeding ₹400 crores in FY 2017-18 as against earlier ceiling of ₹250 crores turnover in FY 2016-17 which was applicable for AY 2019-20
- For domestic companies, surcharge of 7% is applicable where income exceeds ₹1 crore and 12% where income exceeds ₹10 crores
- For foreign companies, surcharge of 2% is applicable where income exceeds ₹1 crore and 5% where income exceeds ₹10 crores
- No change in Health and Education Cess, which is @ 4%
- Effective tax rates shall be as under (Subject to MAT):

Particulars	Tax Rates (including surcharge & cess)	
	Domestic Company	Foreign Company
Turnover/Gross Receipts up to ₹400 crores in FY 2017-18		
Taxable Income Upto ₹1 crore	26.00%	41.60%
Taxable Income above ₹1 crore to ₹10 crores	27.82%	42.43%
Taxable Income above ₹10 crores	29.12%	43.68%
Turnover/Gross Receipts above ₹400 Crores in FY 2017-18		
Taxable Income Upto ₹1 crore	31.20%	41.60%
Taxable Income above ₹1 crore to ₹10 crores	33.38%	42.43%
Taxable Income above ₹10 Crores	34.94%	43.68%

d. Dividend Distribution Tax (DDT)

- No change in basic tax rate, which is 15%
- No change in Health and Education Cess, which is @ 4%

e. Minimum Alternative Tax (MAT) & Alternate Minimum Tax (AMT)

- No change in the basic MAT & AMT rate and surcharge
- No change in Health and Education Cess, which is @ 4%

f. Tax on distributed income to shareholders in case of listed companies (w.e.f. 05-Jul-2019)

- In order to strengthen anti abuse measures, it is proposed to impose additional income tax @20% in case of buyback of shares by company listed on recognized stock exchange under the provisions of section 115QA
- Consequently, the said income shall be exempt in the hands of the shareholders u/s. 10(34A)

TDS PROVISIONS

a. TDS on payment by Individual/HUF to contractors and professionals - New Section 194M (w.e.f. 01-Sep-2019)

- It is proposed to provide for levy of TDS @5% on the amount or aggregate of amounts paid or credited in a year towards contractual work or professional fees by an individual or HUF not subject to tax audit, where such payments exceeds ₹50 lakhs in a year
- In order to reduce the compliance burden, it is proposed that such individuals or HUF shall be able to deposit the TDS using their PAN in place of TAN

b. Scope of "Consideration for Immovable Property" widened u/s 194IA (w.e.f. 01-Sep-2019)

- It is proposed to provide that the term "consideration for immovable property", for the purposes of TDS @ 1%, shall include all charges in the nature of club membership fee, car parking fee, electricity and water facility fee, maintenance fee, advance fee or any other charges of similar nature, which are incidental to transfer of the immovable property

c. TDS on cash withdrawals - New Section 194N of the Act (w.e.f. 01-Sep-2019)

- For discouraging cash transactions and moving towards digital India, it is proposed to levy TDS @ 2% on cash payments exceeding ₹1 crore in aggregate made during the year by a banking company, co-operative society or a post office to any account holder
- It is proposed to exempt payments made to certain account holders such as Government, banking company, post-office, co-operative society carrying on business of banking, banking correspondents and white label ATM operators, who are involved in handling substantial amount of cash as part of their business operation
- It is proposed that the Central Government may exempt other account holders, through a notification in the Official Gazette in consultation with the Reserve Bank of India

d. TDS on interest other than interest on securities u/s. 194A (as per Interim Budget)

- The threshold limit for TDS on payment of interest on time deposits by a banking company, co-operative society or a post office is increased to ₹40,000 as against the earlier limit of ₹10,000

e. TDS on Rent u/s. 194I (as per Interim Budget)

- The threshold limit for TDS deduction in respect of rental income is increased to ₹2,40,000 as against the earlier limit of ₹1,80,000

f. TDS on payment made in respect of Life Insurance Policy – Section 194DA (w.e.f. 01 Sep-2019)

- It is proposed to provide that TDS @ 5% on the income component of the sum paid to a resident under a life insurance policy which is not exempt u/s. 10(10D) shall be deducted instead of 1% on the gross amount paid

SALARIES

a. Standard deduction on salary income (as per Interim Budget)

- Standard deduction increased from ₹40,000 to ₹50,000

b. Provision of credit of relief provided u/s. 89

- It is proposed to grant credit of relief u/s. 89 when salary etc. is paid in arrears or in advance in computing the tax and consequential interest liability

HOUSE PROPERTY INCOME

a. Self-occupied property (as per Interim Budget)

- Any 2 houses can be declared as self-occupied with an option to claim Nil annual value
- However, the aggregate deductions of both self-occupied houses u/s. 24 shall not exceed ₹200,000
- Notional rent on house property held as stock-in-trade (unsold inventory) to be considered as Nil for 2 years (earlier 1 year) from the end of the financial year in which construction completion certificate is obtained

BUSINESS INCOME

a. Taxability measures for promoting less cash economy

- In order to encourage other electronic modes of payment, it is proposed to amend sections 13A, 35AD, 40A, 43(1), 43CA, 44AD & 80JJAA so as to include other electronic mode of payment as may be prescribed by the CBDT, in addition to the already existing permissible modes of payment
- Similarly, it is proposed to amend section 269SS, 269ST & 269T so as to include other electronic mode of payment/ receipt as may be prescribed by the CBDT, in addition to the already existing permissible modes of payment / receipt (w.e.f. 01-Sep-2019)
- It is proposed to insert a new section 269SU so as to provide that every person, carrying on business and

having sales/turnover/gross receipts in excess of ₹50 crores during immediately preceding previous year, shall provide facility for accepting payment through the prescribed electronic modes in addition to the existing facility for electronic mode of payment (w.e.f. 01-Nov-2019)

- Further, in order to ensure compliance of the above provision, a new section 271IB is proposed to be introduced for levy of penalty of ₹5,000, for every day of failure to provide such facility unless good & sufficient reason for such failure is proved (w.e.f. 01-Nov-2019)

b. Inclusion of NBFCs in section 43D & 43B

- It is proposed to extend the benefit of section 43D (already available to banks, public financial institution, etc.) to deposit-taking NBFCs & systematically important non deposit–taking NBFCs. Accordingly, now even in case of above categories of NBFCs, the interest income in relation to certain categories of bad or doubtful debts shall be chargeable to tax in the previous year in which it is credited to P&L a/c or actually received, whichever is earlier

- Consequentially, it is also proposed to amend section 43B to provide that any sum payable by an assessee as interest on any loan or advances taken from the above categories of NBFCs shall be allowed as deduction only if it is actually paid on or before the due date u/s. 139(1)

c. Relaxing the provisions of section 201 and 40(a)(ia) in case of payments to non-residents

- It is proposed to amend proviso to sub-section (1) of section 201 to extend the benefit to a deductor to be not treated as an assessee-in-default, even in respect of failure to deduct tax on payment to non-resident (w.e.f 01-Sep-2019)

- Consequential relief in section 40(a)(ia) for not disallowing any such expense is also proposed

CAPITAL GAINS

a. Concessional rate of Short-Term Capital Gains (STCG) tax to certain equity-oriented fund of funds

- Earlier, a concessional rate of long-term capital gains tax was provided for transfer of units of fund of funds set up for disinvestment of Central Public Sector Enterprises (CPSEs). It is now proposed to extend the concessional rate of tax for short-term capital gains also u/s.111A in respect of transfer of units of such fund of funds

b. Benefit of exemption u/s.54 increased to investment in 2 residential houses in India (as per Interim Budget)

- The benefit of exemption u/s. 54 for investment in 1 residential house in India is increased to 2 residential houses where the amount of capital gain does not exceed ₹2 crores. This option can be exercised by assessee only once

OTHER SOURCES

a. Strict compliance with the notification of exemption issued u/s. 56(2)(viib)

- The Central Government has notified certain companies to be exempt from the provisions of section 56(2)(viib), subject to fulfillment of certain conditions. It is now proposed that on failure to comply thereto, the difference between the consideration received on issue of shares and the face value of such shares shall be deemed to be the income in the year in which such failure takes place

DEDUCTIONS

a. Deduction in respect of interest on loan taken for affordable housing – Section 80EEA

- It is proposed to insert a new section 80EEA to provide deduction up to ₹1.5 Lakh in a year in respect of interest on loan taken for purchase of affordable residential house property from any financial institution to an assessee being an individual, subject to the following conditions –

- o Loan has been sanctioned during the period between 01-Apr-2019 to 31-Mar-2020
- o Stamp duty valuation of the said property does not exceed ₹45 lakhs
- o On the date of sanction, the assessee does not own any other residential house property

- No deduction shall be allowed for the interest claimed under this section; under any other provisions of the Act for the same or any other AY

b. Deduction in respect of interest on loan taken for purchase of Electric Vehicle – Section 80EEB

- It is proposed to insert a new section 80EEB to provide deduction up to ₹1.5 Lakh in a year in respect of interest on loan taken for purchase of an electric vehicle from any financial institution to an assessee being an individual, where loan has been sanctioned during the period from01-Apr-2019 to 31-Mar-2023

- No deduction shall be allowed for the interest claimed under this section; under any other provisions of the Act for the same or any other AY

c. Deductions in respect of profits and gains from housing projects – Section 80-IBA

- Time limit for obtaining approval of housing project extended to 31-Mar-2020 (as per Interim Budget)
- To align the definition of affordable housing with GST Act, it is proposed to amend the following conditions for projects approved on or after 01-Sep-2019:
  - o Carpet area of a unit in the housing project should not exceed 60 sq. mts in metropolitan cities or 90 sq. mts in any other place
  - o Stamp duty valuation of the residential unit should not exceed ₹45 lakhs
  - o Metropolitan cities referred to in the conditions have been widened to include Bengaluru and Hyderabad in

addition to already existing cities viz. Chennai, Delhi, Kolkata and Mumbai

- The remaining conditions continue to be the same

EXEMPTIONS / INCENTIVES

a. Carry forward and Set-off of Losses in case of Start-ups

- In case of an eligible start-up, it is proposed to amend section 79 to provide that loss incurred in any year prior to the previous year, shall be allowed to be carried forward and set off against the income of the previous year on satisfaction of either of the two conditions:
    - Shares of the company carrying not less than 51% of voting power were beneficially held by persons who beneficially had held shares of the company carrying not less than 51% of voting power on the last day of the year or years in which the loss was incurred; or
    - 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

b. Capital gain arising from transfer of a long-term capital asset, being a residential property owned by the eligible assessee utilised for subscription in equity shares of an eligible Start-up – Section 54GB

- The said section is proposed to be amended as under:
    - Extension in date of transfer of residential property for investment in eligible start-ups from 31-Mar-2019 to 31-Mar-2021
    - Reduction of minimum shareholding criteria from 50% to 25%
    - Relaxation in condition restricting transfer of new asset being computer or computer software from 5 years to 3 years

c. **Exemption of Interest Income of Non-resident on issue of Rupee Denominated Bonds from Indian Company or Business Trust referred to in section 194LC (w.e.f. 01-Apr-2019)**

- It is proposed to insert sub-section (4C) in section 10 to provide for exemption of interest income of non-resident from Rupee denominated bonds issued during the period of 17-Sep-2018 to 31-Mar-2019

d. **Increase in exemption limit on payment by NPS to assessee – Section 10(12A)**

- It is proposed to increase the limit of exemption from 40% to 60% of total amount payable under NPS to assessee on closure of his account or opting out of scheme

PROCEDURAL AMENDMENTS

a. **Mandatory filing of return by persons entering into certain transactions – Section 139**

- It is proposed that a person entering into following transactions would mandatorily be required to file return of income:
  - o Depositing an amount exceeding ₹1 crore in aggregate, in one or more current account of a bank in a year; or
  - o Foreign travel expenditure for self or any other person exceeding ₹2,00,000 in aggregate in a year; or
  - o Electricity expenditure exceeding ₹1,00,000 in aggregate in a year
- It is also proposed that a return of income is compulsorily required to be filed, if the total income, before claiming exemption under various sections [54 to 54GB], exceeds the maximum amount not chargeable to tax

b. **Inter-changeability of PAN and Aadhaar (w.e.f. 01-Sep-2019)**

- It is proposed that Aadhaar may be furnished in lieu of PAN in certain circumstances
- It is clarified that penalty u/s. 272B, for failure to quote PAN or Aadhaar, may be levied at ₹10,000 for each default

c. Faceless e-assessment

- It is proposed that faceless e-assessment shall be carried out in a phased manner. To start with, such faceless e-assessments shall be carried out in cases requiring verification of certain specified transactions or discrepancies

d. Extending penalty provisions for under-reporting and misreporting of income – Section 270A (w.r.e.f. 01-Apr-2017)

- It is proposed that penalty provisions u/s. 270A of the Act for not furnishing the return of income, shall be extended to return of income furnished for the first-time u/s. 148

e. Clarifying the prosecution provisions for failure to furnish the return of income – Section 276CC

- As per the existing provisions, prosecution proceedings for failure to furnish return of income shall not be applicable, in case of a person other than a company, if the net tax payable on the returned income does not exceed ₹3,000. The said threshold limit is proposed to be increased to ₹10,000

f. Online filing of application to the AO for seeking determination of Tax to be deducted on payments made to Non-Residents [w.e.f 01-Nov-2019]

- It is proposed to amend the provisions of section 195(2) for making an online application to the AO for determination of tax to be deducted on payments made to Non-Residents. This is in lieu of manual application filed earlier

g. Electronic filing of statement of transactions on which TDS has not been deducted [w.e.f 01-Sep-2019]

- It is proposed to substitute section 206A to enable online filing of statement of transactions, on which TDS has not been deducted on payment of interest to residents, in prescribed form and manner

- It is also proposed to provide for correction of such statements for rectification of any mistake or to add, delete or update the information furnished

OTHER PROPOSALS

a. Amendment in Section 2(19AA) in case of Demerger of Ind-AS compliant companies

- As per the existing provisions, one of the conditions for tax-neutral demergers is that the resulting company should record the property and liabilities of the undertaking at value appearing in the books of accounts of the demerged company
- It is now proposed to amend this condition to provide that the requirement of recording property and liabilities at book value by the resulting company shall not be applicable in a case where the property and liabilities of the undertakings received by it are recorded at a value different from the value appearing in the books of account of the demerged company immediately before the demerger if the same is in compliance of Indian Accounting Standards (Ind-AS)

b. Extending the scope of furnishing Statement of Financial Transactions (SFT) – Section 285BA (w.e.f. 01-Sep-2019)

- It is proposed that all "specified financial transactions" are to be reported, by doing away with the current threshold limit of ₹50,000
- A defective statement, not rectified, would be deemed as inaccurate information furnished

c. Reducing the levy of STT on sale of options in securities (w.e.f. 01-Sep-2019)

- It is proposed that STT on sale of options in securities shall be levied on the difference between the strike price and the settlement price, instead of the settlement price

d. Cancellation of registration of the Trust or Institution (w.e.f. 01-Sep-2019)

- It is proposed to amend section 12AA, so as to provide that
  - o At the time of granting registration, the Pr. CIT / CIT shall also satisfy himself about the compliance by the Trust or Institution of any other law which is material for the purpose of achieving its objects

- o Where a registration has been granted and subsequently it is noticed that the Trust or Institution has not complied with the requirements of any other law which was material for the purpose of achieving its objects and any order, holding that such non-compliance has occurred, has either not been disputed or has attained finality, then the Pr. CIT / CIT may, by an order in writing cancel the registration after affording a reasonable opportunity of being heard

INTERNATIONAL TAXATION

a. Deemed accrual of income in case of person outside India

- In relation to a non-resident receiving gift from a person resident in India shall be deemed to be accrue or arise in India
- Accordingly, it is proposed to widen the definition of the term 'income' referred to in section 2(24) to include income of a non-resident in relation to any sum of money received, or any property situated in India transferred without or inadequate consideration, on or after 05-Jul-2019 by a person resident in India
- Existing provision for exempting gifts as provided in proviso to Sec 56(2)(x) 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

TRANSFER PRICING AMENDMENTS

a. 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 Arrangement (APA) (w.e.f. 01-Sep-2019)

- It is proposed to amend Sec 92CD (3) to clarify that in cases where assessment or reassessment has already been completed and modified return of income has been filed by the tax payer under sub-section (1) of said section, the Assessing Officers shall pass an order modifying the total income of the relevant assessment year determined in such assessment or reassessment, having regard to and in accordance with the APA and not start fresh assessment or reassessment in respect of completed assessments or reassessments of the assessees

b. Secondary adjustment clarifications and option for one-time tax payment – Section 92CE (w.r.e.f. 01-Apr-2018)

Under section 92CE it is proposed to be clarified as under:

- Secondary adjustment provisions are to apply to primary adjustment determined by APA's entered into on or after 01-Apr-2017
- Threshold condition of ₹1 Crore and that of the primary adjustment made upto AY 2016-17 are alternate conditions
- No refund of the taxes already paid till date under the pre-amended section would be allowed
- Interest to be calculated on the excess money or part thereof
- Excess money or part thereof may be repatriated from any of the Associated Enterprise of the assessee which is not a resident in India
- Option for assessee to pay additional income-tax at the rate of 18% (plus surcharge of 12%) on such excess money or part thereof besides the existing requirement of calculation of interest till the date of payment of this additional tax
- Tax so paid shall be the final payment of tax and no credit shall be allowed in respect of the amount of tax so paid
- Deduction in respect of the amount on which such tax has been paid, shall not be allowed under any other provision of the Act
- No requirement to make secondary adjustment or compute interest from the date of payment of such tax after payment of additional income-tax

c. Clarification regarding definition of the term "accounting year" in section 286 (w.r.e.f. 01-Apr-2017)

- It is proposed to amend section 286 to provide that the accounting year in case of the Alternate Reporting Entity (ARE) of an international group, the parent entity of which is not resident in India, the reporting accounting year shall be the one applicable to such parent entity

d. Master File to be maintained by constituent entity irrespective of international transactions undertaken or not

- It is proposed to substitute section 92D, 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

ALLIED LAWS

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

- It is proposed to clarify that the definition of "assessee" would cover a person being a non-resident or not ordinarily resident in India who was resident in India in the year in which undisclosed foreign income relates to or the year in which foreign asset was acquired. (w.r.e.f. 01-Jul-2015)

- It is proposed to clarify that Commissioner (Appeals) may also vary the penalty order to enhance or reduce the penalty (w.e.f. 01-Sep-2019)

b. Income Declaration Scheme, 2016 (IDS) [w.r.e.f. 01-Jun-2016]

- In order to address genuine concern of declarants having not paid the tax, surcharge and penalty on their undisclosed income declared in IDS within the due date, it is proposed that the Central Government may notify the class of persons who may make such payment on or before a notified date along with interest @ 1% for every month or part thereof from the date immediately following the due date till date of such payment

- It is also proposed to provide that the Central Government may notify the class of persons to whom the excess amount, if any, paid under the Scheme shall be refundable

c. Prohibition of Benami Property Transactions Act, (PBPT)

- It is proposed to clarify that no prior approval of the Approving Authority is required to conduct inquiry or investigation where the Initiating Officer (IO) has already initiated the proceedings in PBPT Act (w.r.e.f. 01-Nov-2016)

- It is proposed to insert new section 54A to provide for penalty of ₹25,000 for failure to comply with summons issued or furnish information sought. (w.e.f. 01-Sep-2019)

- It is proposed to insert new section 54B to provide that entries in records or other documents in the custody of an authority shall be admissible evidence for the prosecution of any person for an offence under PBPT Act. (w.e.f. 01-Sep-2019)

- It is proposed to provide that no prosecution shall be instituted against any person for any offence without prior sanction of competent authority (w.e.f. 01-Sep-2019)

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INDIRECT TAX PROPOSALS

Customs

a. Rate related changes

(Changes to come into effect immediately from 6-Jul-2019)

Sr	CTH	Description of Goods	Old Rate	New Rate
I	**Customs duty increased to protect domestic industry**			
A.	**Construction Industry**			
1	3918	Floor covering of plastics, Wall or ceiling coverings of plastics	10%	15%
2	6905 6907	Ceramic roofing tiles and ceramic flags and pavings, hearth or wall tiles	10%	15%
3	8302	Base metal fittings, mountings and similar articles suitable for furniture, doors, staircases, windows, blinds, hinge for auto mobiles	10%	15%
4	2515 1220, 6802 (1000, 2110, 2120, 2190, 9100, 9200)	Marble Slabs	20%	40%
	84742010	Stone crushing (cone type) plants for the construction of roads	Nil	7.5%
B.	**Automobile Industry**			
1	85124000 85391000 85392120 85392940	Windscreen wipers, defrosters and demisters, Sealed beam lamp units and other lamps for automobiles	10%	15%
2	8706	Chassis fitted with engines for motor vehicles of headings 8701 to 8705	10%	15%
3	8707	Bodies (including cabs) for the motor vehicles of headings 8701 to 8705	10%	15%

Sr	CTH	Description of Goods	Old Rate	New Rate
4	8702, 8704	Completely Built Unit (CBU) of vehicles falling under heading 8702, 8704	25%	30%
C.	**Publishing and Printing Industries**			
1	48	Newsprint, uncoated paper used for printing of newspapers, Lightweight coated paper used for printing of magazines	Nil	10%
2	49011010 49019100 49019900	Printed books (including covers for printed books) and printed manuals, in bound form or in loose-leaf form with binder, executed on paper or any other material including transparencies	Nil	5%
D.	**Plastic and Rubber**			
1	3904	Poly Vinyl Chloride	7.5%	10%
2	39269091, 9099	Articles of plastics	10%	15%
3	40023100, 3900	All goods i.e. Butyl rubber, Chlorobutyl rubber or bromobutyl rubber	5%	10%
E.	**Precious Metals**			
1	7106	Silver (including silver plated with gold or platinum), unwrought or in semi- manufactured or in powdered form	10%	12.5%
2	71070000	Base metals clad with silver, not further worked than semi-manufactured	10%	12.5%
3	7108	Gold (including gold plated with platinum), unwrought or in semi-manufactured or in powder form	10%	12.5%
4	71090000	Base metals or silver, clad with gold, not further worked than semi- manufactured	10%	12.5%
5	7110	Platinum, unwrought or in semi-manufactured form, or in powder form	10%	12.5%

Sr	CTH	Description of Goods	Old Rate	New Rate
6	71110000	Base metals, silver or gold, clad with platinum, not further worked than semi- manufactured	10%	12.5%
7	7112	Waste and scrap of precious metals or of metal clad with precious metals; other waste and scrap containing precious metal compounds, of a kind used principally for recovery of precious metal	10%	12.5%
8	7106	Silver dore bar, having silver content not exceeding 95%	8.5%	11%
9	7108	Gold dore bar, having gold content not exceeding 95%	9.35%	11.85%
10	71 or 98	(a) Gold (excluding ornaments studded with stones or pearls) imported by an eligible passenger as baggage (b) Silver (excluding ornaments studded with stones or pearls) imported by an eligible passenger as baggage	10%	12.5%
II	**Reduction in Custom Duties for Specified Sector**			
A.	**Textiles**			
1	5101	Wool Fibre	5%	2.5%
2	5105	Wool Tops	5%	2.5%
B.	**Export Promotion for Sports goods**			
1	39, 4407	Foam/EVA foam (39) and Pine Wood (4407) are being included in the list of items allowed duty free import upto 3% of FOB value of sports goods exported in the preceding financial year subject to specified conditions	Applicable rate	Nil

Sr	CTH	Description of Goods	Old Rate	New Rate
III	**Customs duty changes to address problem of duty inversions**			
	Medical Devices			
2	Any Chapter	Raw material, parts or accessories for use manufacture of artificial kidneys, disposable sterilized dialyzer and micro-barrier of artificial kidney	Applicable rate	Nil
IV	**Rationalization Measures**			
A.	**Oils and associated chemicals**			
1	Chapter 15, 29157, 38231100, 38231200, 38231300, 38231900	Palm stearin and other oils, having 20% or more free fatty acid, Palm Fatty Acid Distillate and other industrial monocarboxylic fatty acids, acid oils from refining, for use in manufacture of soap and oleochemicals	Nil	7.5%
B.	**Petroleum and Petrochemicals**			
1	27090000	Petroleum Crude	Nil	₹1 per tonne
2	2710	Naphtha	5%	4%
3	29031500	Ethylene dichloride (EDC)	2%	Nil
4	29102000	Methyloxirane (Propylene Oxide)	7.5%	5%
C.	**Iron and Steel, Other base metals**			
1	7218	Stainless steel in ingots or other primary forms; semi-finished products of stainless less	5%	7.5%
2	7224	Other alloy steel in ingots or other primary forms; semi-finished products of other alloy steel	5%	7.5%
3	7225, 72251990	Inputs -manufacture of CRGO steel: a. Mgo coated cold rolled steel coils b. Hot rolled coils c. Cold-rolled Mgo coated and annealed steel d. Hot rolled annealed and pickled coils e. Cold rolled full hard	5%	2.5%

Sr	CTH	Description of Goods	Old Rate	New Rate
4	72269930	Amorphous alloy ribbon	10%	5%
5	7229	Wire of other alloy steel (other than INVAR)	5%	7.5%
6	81052010	Cobalt mattes and other intermediate products of cobalt metallurgy	5%	2.5%
D.	**Oil rigs and other goods used for oil exploration**			
	84 or any other chapter	Providing option to pay BCD at transaction value on the disposal of goods, imported without payment of customs duty for petroleum operations / coal bed Methane operations where such disposal is made in unserviceable and mutilated condition	Applicable rate on depre-ciated value	7.5% on transac-tion value

b. Others

- To curb unfair practices, to avail undue concessions and export incentives, amendments and provisions are being incorporated into Customs Act for enhanced penalty and prosecution for such offences
- Misuse of duty-free scrips and drawback facility involving more than ₹50 lakhs will be a cognizable and non-bailable offence
- Amendment proposed in Customs Act, 1962 to introduce a provision for verification of Aadhaar or any other identity to prevent smuggling
- Amendments have been made to empower Customs authorities to arrest a person who has committed an offence outside India

Goods and Services Tax (GST)

(To be effective by way of issuance of notification by the Government)

- Composition Scheme:
    - o Scheme extended to supplier of services or mixed suppliers having turnover upto ₹50 lakhs in previous

financial year where GST payable not to exceed 6% of turnover

  - o Scheme now not applicable to casual or non-resident taxable person
  - o To determine person eligible for scheme – "Aggregate Turnover" to include turnover from 01-April of the year till date when person becomes liable for registration but excludes interest / discount income earned from loans, deposit or advances
  - o For determining tax payable – "Aggregate Turnover" to exclude turnover from 01-April of the year till date when person becomes liable for registration and interest / discount income earned from loans, deposit or advances

- Provision inserted to allow Government to enhance threshold exemption limit from ₹20 lakhs to ₹40 lakhs in case of supplier who is engaged exclusively in supply of goods
- Now Aadhaar submission or authentication mandatory for persons obtaining registration under GST laws
- Government may specify supplier who shall mandatorily offer facility for digital payments to its recipient
- Provision facilitating taxpayer to transfer tax, interest or penalty from one head to another in electronic cash ledger of integrated tax, central tax, state tax, union territory tax or cess proposed to be introduced
- Provision made for allowing interest to be paid only on net cash tax liability (putting rest to the matters where department was demanding interest on gross liability)
- National Appellate Authority for Advance Ruling (NAA):
  - o Government seeks power to form NAA for hearing appeals where, conflicting advance ruling are given by advance ruling appellate authorities of two or more state or union territories or both

- o Such application to be made by department or applicant (including distinct person) within 30 days from date when ruling is communicated
- o Provision made for qualification, appointment, tenure, conditions of services and manner of removal of President and Members of NAA including provisions for filing of appeals and other procedure

- Government empowers Anti Profiteering Authority to impose penalty equivalent to 10% of profiteered amount where profiteered amount is not deposited within 30 days from date of order

Excise

(Changes to come into effect immediately from 6-Jul-2019)

- Excise Duty imposed for products falling under entries 2402 20 10 to 50 2402 20 90 and specific products of 2403 at ₹5 per thousand, ₹10 per thousand and 0.5% respectively
- Tariff rate of excise duty on crude petroleum falling under tariff item 2709 20 00 is increased from Nil to ₹ 1 per ltr. However, exemption is granted to New Exploration Licensing Policy (NELP) through international competitive bidding
- Road and Infrastructure Cess levied on Motor Spirit (Petrol) and High Speed Diesel Oil increased from ₹8 per ltr to ₹9 per ltr.
- Special Additional Excise Duty (SAED) on Motor Spirit (Petrol) and High Speed Diesel Oil increased from ₹7 per ltr to ₹8 per ltr and ₹1 per ltr to ₹2 per ltr respectively

Service Tax

- Exemptions is granted on following service for specified period:
  - o Service provided by State Government by way of grant of liquor license (Period 01-Apr-2016 to 30-Jun-2017)
  - o Services provided by Indian Institutes of Management to the students (Period 01-Jul-2003 to 31-Mar-2016)

- o Earlier exemption on long term lease of thirty years or more of plots for development of infrastructure now extended to undertakings or by any other entity controlled or owned by Central Government or State Government or Union territory, to the developers in any industrial or financial business area (Period 01-Oct-2013 to 30-Jun-2017)

- Refund application for service tax paid above to be filed within six months

Others

Sabka Vishwas (Legacy Dispute Resolution) Scheme, 2019

(To be effective from the date to be notified by Central Government)

- A dispute resolution cum amnesty scheme called "DRS 2019" is being introduced for resolution and settlement of cases of Central Excise, Service Tax and related laws

- Relief available under scheme is tabulated below:

Sr.	Matter	Tax Dues	Relief in% of tax dues
1	Show Cause Notice or Appeals arising out of such notice	₹50 lakh or less	70%
		More than 50 lakhs	50%
2	Show Cause Notice for late fees and penalty only, and where amount of duty in the said notice is paid or nil	Late fee or penalty	100%
3	Duty which is recoverable as arrears	₹50 Lakh or less	60%
		More than 50 lakhs	40%
4	Amount quantified during enquiry, investigation or audit	₹50 lakh or Less	70%
		More than ₹50 lakhs	50%
5	Voluntary disclosure of tax dues		No relief in respect to tax dues

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KEY POLICY CHANGES – 2018-19

FEMA / RBI

- New framework of External Commercial Borrowings (ECB) policy introduced by RBI. Salient features of the new policy are as follows:
  - o Merging of Track-I and II as "Foreign Currency denominated ECB" and merging of Track III and Rupee Denominated Bonds as "Rupee Denominated ECB"
  - o Meaning of eligible borrowers expanded to include all entities eligible to receive FDI
  - o Recognised lender – the lender should be resident of FATF or IOSCO compliant country
  - o Minimum Average Maturity Period (MAMP) will be 3 years for all ECBs
  - o Introduction of Late Submission Fee (LSF) to regularize the delay in reporting

  [A.P. (DIR Series) Circular No. 17 dated 16-Jan-2019]
- In view of the New ECB policy as mentioned above, RBI also revised the trade credit policy vide A.P. (DIR Series) Circular No. 23 dated 13-Mar-2019
- RBI introduced Single Master Form (SMF) which provides facility for reporting total foreign investment in an Indian entity. SMF has subsumed all the existing forms for reporting

  [A.P (DIR Series) Circular No. 30 dated 7-Jun-2018]
- Furnishing of PAN has been made mandatory for all remittances (without any monetary limit) under Liberalised Remittance Scheme (LRS)
- For opening of a Liaison Office/ Branch Office/Project Office or any other place of business in India, where the principal business of the applicant falls in the Defence, Telecom, Private Security and Information and

Broadcasting sector, no prior approval of the RBI shall be required, if Government approval or license/permission by the concerned Ministry/ Regulator has already been granted

Key Proposal in Budget for Policy Changes

- It is proposed to permit transfer/sale of investments made by FIIs/FPIs in debt securities issued by Infrastructure Debt Fund–NBFCs to any domestic investor within the specified lock-in period
- To deepen the corporate tri-party repo market in Corporate Debt securities, Government will work with regulators RBI/SEBI to enable stock exchanges to allow AA rated bonds as collaterals
- It is proposed to rationalize and streamline the existing Know Your Customer (KYC) norms for FPIs to make it more investor friendly without compromising the integrity of cross-border capital flows
- In order to make India a more attractive FDI destination:
  - o The Government will examine suggestions of further opening up of FDI in aviation, media (animation, AVGC) and insurance sectors in consultation with all stakeholders
  - o 100% FDI will be permitted for insurance intermediaries
  - o Local sourcing norms will be eased for FDI in Single Brand Retail sector
- It is proposed to increase the statutory limit for FPI investment in a company from 24% to sectoral foreign investment limit with option given to the concerned corporates to limit it to a lower threshold. FPIs will be permitted to subscribe to listed debt securities issued by ReITs and InvITs
- It is proposed to merge the NRI-Portfolio Investment Scheme Route with the Foreign Portfolio Investment Route

CAPITAL MARKET

The year 2018-19 has witnessed a significant decline in resource mobilisation through capital market instruments such as initial public offers, rights issue and public issue (debt), according to the Economic Survey.

Mobilisation of resources through the public issuance of equity has decreased 81% in 2018-19 over 2017-18.

Around 123 companies mobilised ₹ 16,087 crore through public equity issuance during 2018-19 compared to 202 companies amounting ₹ 83,696 crore in the previous year. Further, there were 21 rights issues which raised ₹ 2,149 crore in 2018-19 compared to 21 rights issues amounting to ₹ 21,400 crore in 2017-18, a drop of 90%.

Resource mobilisation through issuance of debt public issue and private placement route, however, rose significantly during 2018-19. There were 25 debt public issues which raised ₹ 36,679 crore in 2018-19 compared to eight issues raising ₹ 5,173 crore in 2017-18. But the total public issue declined by 50% to ₹ 54,915 crore in 2018-19 from ₹ 1,10,269 crore in 2017-18, the data pointed out.

During 2018-19, Indian corporate preferred private placement route to gear up the capital requirement. There were 416 issues which raised ₹ 2,17,632 crore in 2018-19 compared to 460 issues which raised ₹ 1,26,711 crore during 2017-18.

For the mutual fund industry, 2018-19 was a difficult year. While the cumulative net assets under management of all mutual funds increased 11.4% to ₹ 23,79,584 crore in March 2019 from ₹ 21,36,036 crore in March 2018, the net inflow in the mutual fund industry declined about 60% to ₹ 1,09,701 crore in 2018-19 compared to net inflow of ₹ 2,71,797 crore during 2017-18.

The data also pointed out to the challenges faced by the non-banking financial companies (NBFCs) in 2018-19 in the aftermath of the ratings downgrades and default of IL&FS

Group. NBFCs depend largely on public funds which account for 70% of total liabilities of the sector.

Bank borrowings, debentures and commercial paper are the major sources of funding for NBFCs. Immediately after the IL&FS crisis, NBFCs faced a severe liquidity crunch as mutual funds stopped refinancing their loans.

Issue Type	**No of Issues**	**₹ in Crore**
Public Issue (Equity)	123	16087
Right Issue (Equity)	21	2149
Public Issue (Debt)	25	36679
Total	**169**	**54915**

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ECONOMIC OUTLOOK

OVERVIEW

Despite a moderation in real GDP growth by 40 basis points in 2018-19 over 2017-18, Indian economy remained the fastest growing major economy along with macroeconomic stability. There was a pickup in fixed investment rate in 2018-19. Fiscal situation remained comfortable and the consolidation process continues to bring down the elevated level of public debt. Consumer price inflation was within the targeted limits set by the monetary policy committee of RBI. Current Account Deficit increased from 1.9% of GDP in 2017-18 to 2.4% in April-December 2018-19. Global confidence on the Indian economy has improved as seen from indicators like improvement in ease of doing business and gross FDI inflows. According to World Bank's Ease of Doing Business 2019 Report, India's ranking improved by 23 positions to 77th rank in 2018

India has emerged as an important player in the world and the medium term growth prospects of the economy are bright mainly on the back of the important structural reforms initiated in the last few years

Various measures have been undertaken by the Government which, inter-alia, include: hike in Minimum Support Price of agricultural crops for 2018-19, policy initiatives for development of textiles and handicrafts, outreach programme for growth, expansion and facilitation of Micro, Small and Medium Enterprises, incentives for Startup India, lower effective GST rate for affordable houses, measures to promote hydro power sector, support to sugar sector and sugarcane farmers by means of enhancement and augmentation of ethanol production capacity, and Unnat Bharat Programme. Apart from this, various steps were taken to boost manufacturing, employment generation, financial inclusion, improving ease of doing business via schemes such as Make in India, Skill India, and direct benefit transfer. There has been consistent focus on improvement and development of infrastructure in the country

Economic Growth:

As per the provisional estimates of annual national income, the real growth of the economy was 6.8% in 2018-19, as compared to 7.2% in 2017-18. This moderation in GDP growth momentum is mainly attributed to the lower growth in ‘agriculture & allied’ sector, and in services sector (except financial, real estate and professional services). The growth of gross value added (GVA) at constant (2011-12) basic prices was 6.6% in 2018-19, as compared to the growth of 6.9% achieved in 2017-18. The growth in agriculture, industry and services was 2.9%, 6.9% and 7.5% respectively in 2018-19, as compared to 5%, 5.9% and 8.1% respectively in 2017-18. From the demand side, private final consumption expenditure is an important driver of growth and has a major share (close to 60%) in the economy’s GDP, with its growth rate mostly being higher than the overall GDP growth rate. The growth of fixed investment at constant prices increased from 9.3% in 2017-18 to 10.0% in 2018-19. Exports and imports of goods and services grew at 12.5% and 15.4% (at constant prices) respectively in 2018-19, as compared to 4.7% and 17.6% respectively in 2017-18.

Fiscal Developments

The fiscal deficit target for 2017-18 was budgeted at 3.2% of GDP, but there was a bump of 0.3% and the Fiscal Deficit was 3.5% of GDP. Fiscal deficit and revenue deficit were budgeted at higher level in 2018-19 i.e. ₹ 6,24,276 crore (3.3% of GDP) and ₹ 4,16,034 crore (2.2% of GDP) respectively. As per the Provisional Actuals (PA), Fiscal deficit was 3.4% of GDP and revenue deficit was 2.3% of GDP in 2018-19.

The budget estimates (BE) for 2018-19 envisaged a growth for gross tax revenue (GTR) of 16.7% over RE of 2017-18. The total expenditure in 2018-19 BE was estimated to increase by 10.1% over RE of 2017-18. As per the PA data on Union Government finances for 2018-19 released by Controller General of Accounts, the GTR increased by 8.4% over 2017-18 (actuals) and was at 91.6% of BE of 2018-19. The non-tax revenue registered an increase of 27.7% over 2017-18 actuals. Major subsidies increased by 3.1% (PA) during 2018-19 over 2017-18 actual numbers. Food subsidy increased by ₹ 1,622 crore, petroleum subsidy increased by ₹ 104 crore while fertilizer subsidy increased by ₹ 4157 crore during 2018-19 over the actual numbers of 2017-18. Fiscal deficit and revenue deficit are at 103% of BE and 107% of the BE respectively in the year 2018-19. The revised estimates place fiscal and revenue deficits at 3.3% of GDP and 2.3% of GDP respectively in 2019-20.

Prices

Inflation based on Consumer Price Index (Combined) declined to 3.4% in 2018-19 from 3.6% in 2017-18. CPI inflation stood at 3% in May 2019. In terms of food inflation, average consumer food price index (CFPI) declined to 0.1% in 2018-19 from 1.8% in 2017-18, 4.2% in 2016-17 and 4.9% in 2015-16. Inflation based on CFPI stood at 1.8% in May 2019.

The average inflation measured in terms of Wholesale Price Index (WPI) stood at 4.3% in 2018-19, as compared to 3.0% in 2017-18. WPI Inflation stood at 2.5% in May 2019. WPI food inflation declined to 0.6% in 2018-19 from 1.9% in 2017-18. WPI food inflation stood at 5.1% in May 2019.

Monetary Management and Financial Intermediation

In its first Bi-monthly Statement, the Monetary Policy Committee (MPC) decided to change the stance of monetary policy from calibrated tightening to neutral and reduced the policy repo rate by 25 basis points to 6.0% in April 2019. The policy rate was further cut by 25 bps in the Second Bi-monthly Monetary Policy Statement for 2019-20 in June 2019, consequently policy repo rate stood at 5.75%. The monetary policy stance was also changed from neutral to accommodative.

During 2018-19, the growth rate of monetary aggregates reverted to their long-term trend after experiencing an unprecedented behaviour in 2016-17 led by demonetisation and again in 2017-18 due to the process of remonetisation.

Reserve Money (M0) as on March 31, 2019, recorded a growth of 14.5% over the previous year. The source of expansion in M0 was mainly driven by Currency in Circulation.

Broad money growth (M3) has been on declining trend since 2009. However, in 2018-19, growth in M3 improved marginally driven mainly by aggregate deposits. From the component side, the expansion in M3 during the year was broad-based, contributed by both currency and deposits. Amongst sources, credit from scheduled commercial banks to the commercial sector primarily contributed to an increase in M3 during the year.

Growth of both demand and time deposits increased during 2018-19. Growth of aggregate deposits was 9.6% at the end of 2018-19 vis-à-vis 5.8% at the end of 2017-18.

Foreign Exchange Reserves

Trade deficit increased to US$ 183.5 Bn during 2018-19, from US$ 162.1 Bn in the previous year.

The value of India's merchandise exports (customs basis) increased by 8.6% to US$ 329.5 Bn in 2018-19 from US$ 303.5 Bn in the previous year. Imports also increased by 10.2% in 2018-19 to US$ 513.1 Bn from US$ 465.6 Bn in the previous year. Imports of petroleum, oil and lubricants (POL) increased by 29.7% in 2018-19 to US$ 140.9 Bn from US$ 108.7 Bn in the previous year, mainly on account of the increase in international crude oil prices. Non-POL imports for 2018-19 increased by 4.3% to US$ 372.2 Bn from US$ 356.9 Bn in the previous year. The growth of merchandise exports and imports both slowed down in 2018-19 as compared to 2017-18, however the decline in growth in imports was much sharper than that of exports.

Based on the Balance of Payments (BoP) data available for the first three quarters of 2018-19, the trade deficit on BoP basis increased to US$ 145.3 Bn in April-December 2018 from US$ 118.4 Bn in April-December 2017. Net invisibles surplus in April December 2018 increased to US$ 93.4 Bn from US$ 82.8 Bn in April-December 2017, with increase observed in net services and net private transfers. Net services receipts increased by 5.0% in April December 2018 over the corresponding period of the previous year.

During April-December 2018-19, net FDI was US$ 24.8 Bn as compared to US$ 23.9 Bn in April-December 2017-18. In case of net portfolio there was an outflow of US$ 10.1 Bn in April-December 2018-19, as against net inflow of US$ 19.8 Bn in the corresponding period of the previous year.

India's current account deficit (CAD) increased from US$ 35.7 Bn (1.8% of GDP) in April December 2017 to US$ 51.9 Bn (2.6% of GDP) in April-December 2018. On BoP basis, there was net depletion to India's foreign exchange reserves by US$ 17.5 Bn in April-December 2018, which including the valuation changes stood at US$ 29.0 Bn. The stock of foreign exchange reserves was US$ 395.6 Bn at end-December 2018. While trade deficit widened in April-December 2018 as compared to April-December 2017, the improvement in invisibles balance and banking capital were not sufficient to finance the CAD, leading to depletion in foreign exchange reserves in April-December 2018. In 2018-19, the average monthly exchange rate of rupee (RBI's reference rate) was ₹ 68.62 per US$. The rupee had depreciated by 5.2% from ₹ 65.04 per US dollar in 2017-18.

SECTORAL DEVELOPEMENTS

Banking Sector

The performance of the banking sector (domestic operations), Public Sector Banks (PSBs) in particular, improved in 2018-19. The Gross Nonperforming Advances (GNPA) ratio of Scheduled Commercial Banks (SCBs) decreased from 11.5% to 10.1% between March 2018 and December 2018, as also, their Restructured Standard Advances (RSA) ratio declined from 0.7% to 0.4%. The Stressed Advances (SA) ratio decreased from 12.1% to 10.5% during the same period. GNPA ratio of PSBs decreased from 15.5% to 13.9% between March

2018 and December 2018. Stressed advances ratio of PSBs decreased from 16.3% to 14.4% during the same period.

Growth in non-food bank credit (NFC), which remained sluggish in the last few years, showed improvement in 2018-19. The average NFC growth in 2018-19 improved to 11.2% vis-à-vis 7.7% in 2017-18. Bank credit to large industry and services segments were the main drivers of overall NFC growth in 2018-19. However, the pace of credit growth has moderated since November 2018. Credit growth has come down from 13.8 per cent in November 2018 to 11.9 per cent in April 2019. The main contributor to this moderation has been the services sector which has decelerated from 28.1 per cent to 16.8 per cent between November 2018 and April 2019. The growth in bank credit to medium, micro and small industries have decelerated since October 2018.

Agriculture

Total food-grain production in the country is estimated at 283.4 Mn tonnes (3rd Advance Estimates) in 2018-19, as compared to the final estimate of 285 Mn tonnes of production in 2017-18. The total production of rice during 2018-19 is estimated at record 115.6 Mn tonnes. The production of rice has increased by 2.8 Mn tonnes than the previous year's production of 112.8 Mn tonnes. It is also higher by 7.8 Mn tonnes than the five years' average production of 107.8 Mn tonnes. The production of wheat, estimated at record 101.2 Mn tonnes, is higher by 1.3 Mn tonnes as compared to wheat production of 99.9 Mn tonnes achieved during 2017-18. Moreover, the production of wheat during 2018-19 is higher by 6.6 Mn tonnes than the five year's average wheat production of 94.6 Mn tonnes.

India ranks first in milk production, accounting for 20% of world production. Milk production in India has been increasing steadily over the years and has increased from 55.6 Mn tonnes in 1991-92 to 176.3 Mn tonnes in 2017-18, at an average annual growth rate of 4.5%. India is the third largest fish producer in the world with a total production of 12.6

Mn metric tonnes in 2017-18 of which 65% was from inland sector. Almost 50% of inland fish production is from culture fisheries, which constitutes 6.5% of global fish production. The sector has been registering a steady growth in the total gross value added and accounts for 5.23 per cent share of agricultural GDP. Fish and fish product exports emerged as the largest group in agricultural exports and in value terms accounted for ₹ 45,107 crore in 2017-18.

The agriculture credit flow target for 2018-19 was fixed at ₹ 11,00,000 crore and against this target, as reported by NABARD, the disbursement by banks till September, 2018 is ₹ 6,45,205 crore.

Industry

The performance of the industrial sectors based on the Index of Industrial Production (IIP) comprising mining, manufacturing and electricity registered a growth of 3.6% in 2018-19, as compared to 4.4% in 2017-18. As per the sectoral classification, mining, manufacturing and electricity sectors registered 2.9%, 3.6% and 5.2% growth during 2018-19 respectively. Among the use-based categories, primary goods, capital goods, intermediate goods, infrastructure/construction goods, consumer durables goods and consumer nondurables goods have attained 3.5%, 2.8%, (-)0.5%, 7.5%, 5.5% and 3.9% growth respectively in 2018-19.

The eight core infrastructure supportive industries, viz. coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity that have a total weight of nearly 40% in the Index of Industrial Production (IIP) grew by 4.3% in 2018-19 at the same level of growth at 4.3% in 2017-18. The production of coal, natural gas, refinery products, fertilizers, steel, cement and electricity increased by 7.4%, 0.8%, 3.1%, 0.3%, 4.7%, 13.3% and 5.2% respectively during 2018-19 while the production of crude oil fell during the same period.

Prospects

The growth momentum of the economy is expected to strengthen in 2019-20. The prospects for Indian economy for the year 2019-20 need to be assessed in the light of emerging global and domestic developments. Global economic growth is expected to slow down in 2019 which could limit India's export growth. However, growth of the Indian economy is expected to pick up. There are signs of revival of investment activity in the economy and the recent pick up in the growth of fixed investment can be expected to maintain momentum in the coming year. In line with the projections for strengthening of India's growth by international institutions, the nominal growth of the economy is expected to be 11.0% in the financial year 2019-20.

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SECTORAL ANALYSIS

Financial Services Sector — Positive

Budget Proposal

- Government will infuse ₹ 70,000 crore for recapitalization in public sector banks (PSB)
- They will look to allow NBFCs to directly participate in Trade Receivables Discounting System (TReDS)
- Government will give a one-time 6-month partial credit guarantee limited to first loss of 10% to buy pooled assets of sound NBFCs by public sector banks

Impact

- Recapitalization of PSB will enable them to grow their lending at a faster pace
- The one time policy for NBFC's will enable them to solve their liquidity crisis and enable them to raise funds in an efficient manner
- This also clarifies the intent of the government towards the financial space and their willingness to solve the issue

Infrastructure and Real Estate — Positive

Budget Proposal

- Setting up of Credit Guarantee Enhancement Corporation to enhance sources of capital for infrastructure financing.
- Government will spend ₹100 Lakh crores over the next five years on infrastructure sector
- Government talked about construction of 1.95 crore rural houses in phase-2 of PMAY in rural areas by FY 2022
- Additional exemption of ₹1.5 Lakh on interest paid (over and above ₹2 Lakh) on house below ₹45 Lakhs
- Model Tenancy law to be finalised

Impact

- Along with recapitalisation of banks and additional funding lines for NBFC, the corporation will help improve credit flow to companies
- Big positive for Affordable house offtake as developers also have been given tax exemption
- Help create standard operating environment and balance of rights and responsibilities between lessor and lessee
- Housing and real estate sector accounts for 65% of overall cement consumption in India and this will increase the overall cement demand
- Housing demand will have spill-over effect on building materials demand as well
- There has been a reduction in time for construction of rural house to 114 days from 314 days, however outlay for PMAY remains flat compared to interim budget

Agriculture — Positive

Budget Proposal

- Announced in the interim budget, PM-KISAN scheme to provide an assured income support to the small and marginal farmers of ₹6,000 per year.
- Fertilizer subsidy - Total fertilizer subsidy allocated is ₹80,000(66% Urea and 34% complex fertilizers) crore vs ₹75,000 crore in FY20 Vote on Account.
- National Rural Drinking Water Mission has been increased by 82% to ₹10,000.
- Crop Insurance - Pradhan Mantri Fasal Bima Yojna (PMFBY) budget provision of ₹14,000 crore in FY20 vs revised estimate of ₹13,000 crore in FY19
- The government has set a target to augment fish production to achieve its target of 15 Mn tonne by 2020 under the Blue Revolution, and raise it thereafter about 20 Mn tonnes by 2022-23

Impact

- While Urea fertilizer pay-out should suffice for FY20, in complex fertilizers, the subsidy may not be sufficient if current prices of raw materials are maintained
- This would help improve demand for agricultural inputs
- As there is an increase in subsidy over FY20 Vote on account it is an overall Positive for fertilizer companies.
- The fund will be used to attract private investment in creation and management of fisheries infrastructure facilities, besides acquisition of state-of-the-art technologies.
- This would be a huge boost to the companies in the aquaculture space and also with infra space associated with it

Capital Goods — Positive

Budget Proposal

- Defence capital acquisition outlay of ₹1034 Bn against ₹940 Bn for FY19 RE
- Railway capex increased by 14% to ₹1.59 Tn from ₹ 1.39 Tn in FY19RE
- Outlay for roads, Metro and rural roads increased from 1.52 Tn to 1.85 Tn
- Increase in customs duty on split AC's from 10% to 20%, on Optic fibre and cable from 10% to 15%, CCTV and IP cameras and recorders from 15% to 20%, on various auto ancillaries by 5%
- ₹750 Bn outlay for income support for small farmers

Impact

- Growth of about 10% much better than the growth of 4% for last year
- Continued thrust on new capacity building new lines, gauge conversion, track renewals and in metropolitan projects. Positive from EPC companies. Wagon procurement increased from 11k to 18k

- Increased incentive to make in India. This is as per policy of increasing duty for products in which production capacities are available in India
- This would increase demand for small consumer durables.

Oil and Gas — Negative

Budget Proposal

- Petroleum subsidy allocation maintained (compared to interim budget) by ₹375 Bn, of which ₹337 Bn towards LPG and SKO subsidy
- Increase in Special Additional Duty and Road cess by ₹1/ ltr each on petrol and diesel
- Import duty on naphtha cut from 5% to 4%
- Import duty on PVC increase from 7.5% to 10%

Impact

- Allocation of ₹337 bn to be utilized for carry forward from FY19 and FY20 gross under-recovery.
- Total increase of ₹2/ltr is likely to be passed on to the consumer. Additional tax revenue of ₹ 290 Bn for Govt on annual basis.

Automobile — Neutral

Budget Proposal

- Government has proposed reduction in GST on Electric vehicles (EV) from 12% to 5%.
- Income tax exemption on interest for purchase of EVs up to ₹1.5 lakhs

Impact

- Positive for E-Vehicle manufacturers as this would incline more demand for the electric vehicles.
- Negative for most original equipment manufacturers as there is investment in ICE technology which will have to be depreciated faster.