

Direct Tax Proposals under the Union Budget 2020-21

February 11, 2020

Source: PIB, Union Budget 2020-21

Key changes proposed:

During the Budget session, the Union Finance Minister announced some changes in the Direct Tax they are as follows

Why Direct Tax Proposals?

To stimulate growth, simplify tax structure, bring ease of compliance, and reduce litigations.

Personal Income Tax:

- Significant relief to middle-class taxpayers.
- New and simplified personal income tax regime proposed:



- **Around 70 of the existing exemptions and deductions (more than 100) to be removed** in the new simplified regime.
- Remaining exemptions and deductions to be reviewed and rationalized in the coming years.
- **New tax regime to be optional** – an **individual may continue to pay tax as per the old regime and avail deductions and exemptions.**
- Measures to pre-fill the income tax return initiated so that an individual who opts for the new regime gets pre-filled income tax returns and would need no assistance from an expert to pay income tax.
- New regime to entail estimated revenue forgone of Rs. 40,000 crore per year.

Corporate Tax:

- **The tax rate of 15% extended to new electricity generation companies.**
- Indian corporate tax rates now amongst the lowest in the world.

Dividend Distribution Tax (DDT):

- DDT removed making India a more attractive investment destination.
- Deduction to be allowed for dividends received by holding company from its subsidiary.
- Rs. 25,000 crore estimated annual revenue is forgone.

Start-ups:

- **Start-ups with turnover up to Rs. 100 crore to enjoy 100% deduction for 3 consecutive assessment years out of 10 years.**
- Tax payment on ESOPs deferred.

MSMEs to boost less-cash economy:

The turnover threshold for audit increased to Rs. 5 crores from Rs. 1 crore for businesses carrying out less than 5% business transactions in cash.

Cooperatives:

- Parity brought between cooperatives and the corporate sector.
- **Option to cooperative societies to be taxed at 22% + 10% surcharge and 4% cess with no exemption/deductions.**
- **Cooperative societies exempted from Alternate Minimum Tax (AMT) just like Companies are exempted from the Minimum Alternate Tax (MAT).**

Tax concession for foreign investments:

- **100% tax exemption to the interest, dividend, and capital gains income on the investment made in**

infrastructure and priority sectors before 31st March 2024 with a minimum lock-in period of 3 years by the Sovereign Wealth Fund of foreign governments.

Affordable housing:

- Additional deduction up to Rs. 1.5 lakhs for interest paid on loans taken for an affordable house extended till 31st March 2021.
- Date of approval of affordable housing projects for availing tax holiday on profits earned by developers extended till 31st March 2021.

Tax Facilitation Measures

- **Instant PAN** to be allotted online through Aadhaar.
- **'Vivad Se Vishwas' scheme**, with a deadline of 30th June 2020, **to reduce litigations in direct taxes:**
 - Waiver of interest and penalty – only disputed taxes to be paid for payments till 31st March 2020.
 - Additional amount to be paid if availed after 31st March 2020.
 - Benefits to taxpayers in whose cases appeals are pending at any level.
- **Faceless appeals to be enabled by amending the Income Tax Act.** 0
- **For charity institutions:**
 - Pre-filling in return through the information of donations furnished by the done.
 - Process of registration to be made completely electronic.
 - **Unique registration number (URN)** to be issued to all new and existing charity institutions.
 - Provisional registration to be allowed for new charity institutions for three years.
 - CBDT to adopt a Taxpayers' Charter.

Losses of merged banks:

- Amendments proposed to the Income-tax Act to ensure that entities benefit from unabsorbed losses and depreciation of the amalgamating entities.