

# 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.