

# Direct Taxes and related reforms

July 16, 2019

**Source:** Press Information Bureau (Budget 2019)

Following are the areas under which changes related direct taxes mentioned in the budget;

- Tax rate **reduced to 25% for companies** with annual turnover up to Rs. 400 crore
- **Surcharge increased** on individuals having taxable income from Rs. 2 crore to Rs. 5 crore and Rs. 5 crore and above.
- India's Ease of Doing Business ranking under the category of 'paying taxes' jumped from 172 in 2017 to 121 in the 2019.
- **Direct tax revenue increased** by over 78% in past 5 years to Rs. 11.37 lakh crore

**Tax Simplification and Ease of living** – making compliance easier by leveraging technology:

- **Interchangeability of PAN and Aadhaar**
  - Those who don't have PAN can file tax returns using Aadhaar.
  - Aadhaar can be used wherever PAN is required.
- **Pre-filing of Income-tax Returns** for faster, more accurate tax returns
  - Pre-filled tax returns with details of several incomes and deductions to be made available.
  - Information to be collected from Banks, Stock exchanges, mutual funds etc.
- **Faceless e-assessment**
  - Faceless e-assessment with **no human interface** to be launched.
  - To be carried out initially in cases requiring

verification of certain specified transactions or discrepancies.

### **Affordable housing**

- Additional deduction up to Rs. 1.5 lakhs for interest paid on loans borrowed up to 31st March, 2020 for purchase of house valued up to Rs. 45 lakh.
  - Overall benefit of around Rs. 7 lakh over loan period of 15 years.

### **Boost to Electric Vehicles**

- Additional income tax deduction of Rs. 1.5 lakh on interest paid on electric vehicle loans.
- **Customs duty exempted** on certain parts of electric vehicles.

### **Other Direct Tax measures**

- **Simplification of tax laws to reduce genuine hardships of taxpayers:**
  - The higher tax threshold for launching prosecution for non-filing of returns
  - Appropriate class of persons exempted from the anti-abuse provisions of Section 50CA and Section 56 of the Income Tax Act.

### **Relief for Start-ups**

- **Capital gains exemptions** from sale of residential house for investment in start-ups **extended** till FY21.
- **'Angel tax'** issue resolved- start-ups and investors filing requisite declarations and providing information in their returns not to be subjected to any kind of scrutiny in respect of valuations of share premiums.
- **Funds raised by start-ups to not require scrutiny from**

## **Income Tax Department**

- E-verification mechanism for establishing the identity of the investor and source of funds.
- Special administrative arrangements for pending assessments and grievance redressal
  - No inquiry in such cases by the Assessing Officer without obtaining approval of the supervisory officer.
- No scrutiny of valuation of shares issued to Category-II Alternative Investment Funds.
- Relaxation of conditions for carry forward and set off of losses.

## **NBFCs**

- Interest on certain bad or doubtful debts by deposit-taking as well as systemically important non-deposit taking NBFCs to be taxed in the year in which interest is actually received.

## **International Financial Services Centre (IFSC)**

- **Direct tax incentives proposed for an IFSC:**
  - **100 % profit-linked deduction** in any ten-year block within a fifteen-year period.
  - Exemption from dividend distribution tax from current and accumulated income to companies and mutual funds.
  - Exemptions on capital gain to Category-III Alternative Investment Funds (AIFs).
  - Exemption to interest payment on loan is taken from non-residents.

## **Securities Transaction Tax (STT)**

**STT restricted only to the difference between settlement and strike price in case of exercise of options**