NEED FOR CLARIFICATIONS

Amazon and Flipkart may approach govt on 1% TDS

PRESS TRUST OF INDIA
New Delhi, February 2

AMAZON INDIA AND Flipkart are studying the Budget proposal on levy of 1% TDS, and may reach out to the government for clarifications. "We are studying the details, and will reach out to the government for clarifications. We hope the tax regime is simple and uniform so that millions of small and medium businesses can go online, digitise their operations and continue to contribute to growing the economy," an Amazon India spokesperson said in response to an e-mailed query.

Flipkart also said it was going through the proposal. "We are studying the details, particularly how it impacts MSMEs and sellers on our marketplace platform. We will discuss further with our seller partners, and engage with the government and other stakeholders in due course," Flipkart said in its response.

The government on Saturday proposed levying 1% TDS (tax deducted at source) on e-commerce transactions, a move that could increase burden on sellers on such platforms.

"In order to widen and deepen the tax net by bringing participants of e-commerce (sellers) within tax net, it is proposed to insert a new section 194-O in the Act so as to provide for a new levy of TDS at the rate of 1%," according to Budget documents. The amendments will take effect from April 1, 2020.

> An industry expert said the move will reduce cash flow for sellers as cash will be stuck with the government in refund system

The documents said the e-commerce operator – an entity owning, operating or managing the digital platform – will have to deduct 1% TDS on the gross amount of sales or service or both. This provision will not apply in cases where the seller's gross amount of sales during the previous year through e-commerce operator is less than ₹5 lakh and the seller has furnished his PAN or Aadhaar number.

An industry expert said the move will reduce cash flow for sellers as cash will be stuck with the government in refund system. Given that many sellers are micro, small and medium enterprises, it would add pressure on them.

BookMyShow head (finance) Mitesh Shah said compliance on e-commerce has been increased by mandating them to deduct a TDS of 1% on all goods and services sold on e-commerce platforms.

"This would be in addition to TCS (tax collected at source) under the GST (goods and services tax) and this amendment might further increase the cost of compliance for e-commerce companies," he added.

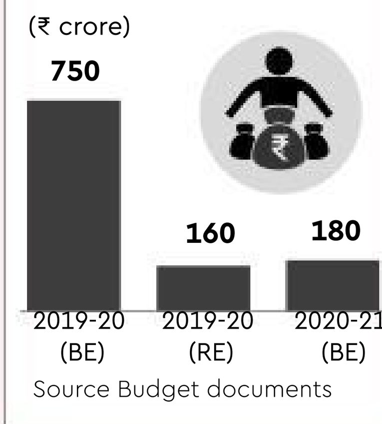
A senior industry executive, who did not wish to be named, said levying of 1% TDS on 'sales proceeds net of commission, shipping fees, listing fees etc' would have been more beneficial than the current proposal of the levy being imposed on gross sale.

Tepid response to pension scheme for traders, Budget outlay sharply cut

SURYA SARATHI RAY
New Delhi, February 2

THE OLD-AGE PENSION scheme for retail traders, small shopkeepers and self-employed persons, launched in the Budget for 2019-20, seems to have failed to enthuse the intended beneficiaries. Finance minister Nirmala Sitharaman has reduced the budgetary allocation under the Pradhan Mantri Karam Yogi Maandhan Scheme (PMKYMS) for 2020-21 to ₹180 crore, compared with the budgetary estimate of ₹750 crore in the current fiscal.

The allocation (BE) for 2020-21, however, was 12.39% higher than the revised estimate of ₹160.15 crore for 2019-20. As per official figures, only 30,361 'vyaparis' have so far enrolled under the PMKYMS.



Under the voluntary PMKYMS, the government makes a matching contribution as that of the beneficiary. Enrollment into the scheme, aimed at extending the pension benefit to about three crore vyaparis whose annual turnover is within ₹1.5 crore with the intention of providing them with some sort of social security, was kept simple requiring only Aadhaar and a bank account.

On maturity of the scheme, an individual will be entitled to obtain a monthly pension of ₹3,000 after attaining the age of 60 years. In case of the death of the subscriber, the spouse is entitled to receive 50% of the amount as family pension. The scheme is open for the 18-40-year age bracket. Contribution ranges between ₹55 and ₹200 per month, depending on the age at which one enters the scheme. Those already covered under the EPFO, NPS or ESIC as well as taxpayers are not eligible for the PMKYMS.

Compared with the PMKYMS, other old-age pension schemes are doing better. Around 41 lakh people have joined in the Pradhan Mantri Shram Yogi Maandhan Yojana (PMSYMY) and 19,46,373 have come under the Pradhan Mantri Kisan Maandhan Yojana (PMKMY). While PMSYMY is a pension scheme meant for unorganised workers, the PMKMY is to provide old-age pension to small and marginal farmers. Sitharaman has kept the budgetary allocation under the PMSYMY at ₹500 crore for 2020-21, same as 2019-20. The revised estimate for the scheme for 2019-20 has been kept at ₹408 crore. For the PMKMY, the BE has been kept at ₹500 crore.

'Direct tax collection target scaled down in Budget; new slabs to benefit taxpayers'

NEELABH SRIVASTAVA
New Delhi, February 2

THE DIRECT TAX collection target has been revised downwards to ₹11.80 lakh crore in the Budget after making a "realistic assessment" of various economic factors, a top government official said.

The set target for revenue collection (personal income tax, corporate tax and others) was ₹13.35 lakh crore for the 2019-20 financial year that ends on March 31. "Those (earlier) estimates have been revised in the Budget and our new target would be about ₹11.80 lakh crore which I am pretty confident to achieve," CBDT chairman PC Mody told PTI in a post-Budget interview.

Asked about the reasons for the recalibration of the target, Mody said, "It was just a realistic assessment of what is achievable and also it has to be taken into account that we have had a lot of revenue forgone."

The revenue foregone is essentially on two accounts – huge refunds issued and cut in the corporate tax. The Central Board of Direct Taxes (CBDT) is the policy-making body for the Income Tax Department that collects revenue for the government under the direct taxes category.

CBDT chairman PC Mody

"We are very very hopeful (of achieving the revised target) because past experience shows that the last quarter (January-March) is the period when the maximum revenue comes in," Mody said. **PTI**

Stock markets' reaction on Budget surprising: NITI Aayog VC

BIJAY KUMAR SINGH
New Delhi, February 2

NITI AAYOG VICE-CHAIRMAN Rajiv Kumar expressed surprise over the stock markets reacting negatively on the Budget proposals, saying investors probably expected some big-bang reforms and ignored the initiatives towards investment and growth.

Kumar in an interview to PTI said the Budget has done nothing wrong, and it has "ticked all the boxes".

"I am actually quite surprised by the markets' reactions yesterday, going down 1,000 points. I was trying to understand why did that happen," he wondered.

The NITI Aayog vice-chairman said, "... the Budget does nothing wrong, it has got nothing anti-private investment or anti-private sector or anti-growth, the Budget is ticking all the boxes."

Pointing out that the UPA-1 had given gave a lot of sops in 2008 Budget because elections were due, Kumar said it had resulted in ballooning of the fiscal deficit to 6% in 2009 from 2.5%. **PTI**

From the Front Page

FM says will reduce tax incidence for individuals progressively

SOME OF the divestment plans (Air India sell-off, for instance) could not be carried out earlier this fiscal because of the requirement of due processes, which are necessary to make the disinvestment exercise more transparent as well as to give adequate time to potential investors to make an informed decision, she suggested. These plans will be implemented this year, and the government intends to list LIC and completely sell off its residual 47% stake in IDBI Bank.

Asked about the steep fall in stock markets on Saturday after the presentation of the Budget (the Sensex tanked around 1,000 points), the minister said she would await the movement on Monday by when key stakeholders will have gauged the precise impact of various Budget proposals. Of course, Saturday's reaction of the domestic stock markets was partly shaped by a slide in global markets due to the coronavirus scare.

Soon after the announcement of the new income tax regime, the government on Saturday evening came out with a list of exemptions applicable for taxpayers switching to the new tax system.

As for the new PIT scheme, the minister said: "...because the income cuts are deeper in the new scheme, we believe a taxpayer from a particular income bracket will be much better off coming into the new system. And the new system, however much I repeatedly say has no exemptions, there are some exemptions that we have allowed in the new system also."

Some analysts, however, have said the two tax regimes will only make the structure more complex.

"With the optional new regime, taxpayers will have to evaluate what works better for them. Those committed to long-term savings and investing via 80C may be discouraged and this may likely demotivate them from investing in tax-saving asset classes," Archit Gupta, founder of Cleartax, said.

Sitharaman on Saturday introduced the new tax slabs with lower rates for an annual income of up to ₹15 lakh for those who are willing to forego exemptions and deductions under the new regime. Once an individual chooses the new tax regime, he has to continue with it in subsequent years.

Under the new tax proposal, people with an annual income of up to ₹2.5 lakh will not have to pay any tax. For income between ₹2.5 lakh and ₹5 lakh, the rate (as earlier) is 5%. However, those with an income of ₹5 lakh to ₹7.5 lakh will be required to pay a lower rate of 10%; between ₹7.5 lakh and ₹10 lakh 15%; between ₹10 lakh and ₹12.5 lakh 20%; between ₹12.5 lakh and ₹15 lakh 25%; and above ₹15 lakh 30%.

India Inc reports flat revenues, muted profits in Dec quarter

GIVEN THE slowdown in markets overseas, managements of IT firms like TCS are conservative while speaking on the outlook, noting that it would not be easy to replicate the growth rates of the past.

That State Bank of India's corporate loan book contracted during the quarter is evidence of the sluggishness in industry. Sales for a group of 431 companies contracted 1% year-on-year; operating profit margins rose 132 basis points y-o-y as costs contracted by over 2% y-o-y. Some large commodity players like JSW Steel posted a sharp drop in profits of 88% y-o-y.

Manufacturers of consumer goods say rural demand is yet to show a resurgence, and in some pockets, has slowed further. Nonetheless, Hindustan Unilever managed to grow volumes by 5% y-o-y during Q3FY20 on a high base. Colgate, however, reported a 19th straight quarter of sub-10% topline growth and over this time the simple average volumes growth has been sub 3% y-o-y; in Q3FY20 volumes grew just 2.3% y-o-y.

At Tata Motors, smaller wholesale volumes resulting from inventory corrections and an adverse product mix resulted in an Ebitda loss for the stand-alone business; M&HCV volumes were down 43% y-o-y. At UltraTech revenue growth was virtually flat, although realisations shot up, because volume growth was weak. Analysts pointed out that, adjusting for Binani's volume, the standalone cement volumes declined 8% y-o-y led by weak industry demand. JSW Steel also posted poor revenue numbers with sales falling 12% y-o-y. At PVR, the growth in footfalls was only 1% y-o-y while same-store footfalls actually contracted 6% y-o-y. At Avenue Supermarts, same-store sales rose by 6-7% y-o-y. Large companies such as Reliance Industries reported very ordinary numbers across businesses — except for retail. The accelerated fall in capex, however, enabled the company to turn free-cash-flow positive.

Dividend tax: Equity MF investors may move to growth plans

WHILE IN the proposed structure dividends will be taxed according to their tax slabs, if they opt for growth equity schemes, they have to pay long-term capital gains of just 10%. So, investors in the higher tax bracket of 20% or 30% will get more benefits of staying invested in growth plans. Earlier, DDT for equity-oriented funds was 11.64% (which includes surcharge and cess).

DDT for distribution of income by debt fund was 25% for individuals and Hindu undivided family (HUF) and 30% for others. After grossing up and including surcharge and cess, this comes to 38.33% and 49.92%, respectively. While the rate of DDT by companies in India is 15%, which after grossing up, comes to 17.65% and taking the impact of surcharge at 12% and cess at 4%, this comes to 20.56%.

Market participants say TDS of 10% for dividend above ₹5,000 in year is too low and should be around ₹50,000. "There were people who were investing in dividend plans to get regular income, but now it will be better for them to opt for systematic withdrawal plans (SWPs)," Union Asset Management Company CEO G Pradeepkumar said.

SWP allows investors to withdraw a certain amount of money at a regular interval from their lump sum investment.

Apart from mutual funds, companies in India also pay DDT of 20.56% on dividends declared by them and shareholders are not subject to any tax. "Going forward, the shareholders will have to pay tax according to their tax slabs. Shareholders who are in the lower tax bracket of 'nil' or 10% will stand to benefit under the new regime, said Himanshu Parekh, partner and head, corporate and international tax, KPMG in India. In addition, a resident (other than company) was required to pay tax at 10% plus applicable surcharge and cess if the dividend income in a year exceed ₹10 lakh.

DEA secy: No expansionary fiscal policy

HE ALSO indicated that the fresh fiscal deficit slippage is unlikely to cause any irrational spike in the already-elevated inflation, as higher spending is being used to create growth-inducing productive assets.

The government has projected an 18% hike in its capital expenditure for the next fiscal, compared with 13.4% in FY20, but it has also bridled the pace of its revenue spending. Revenue expenditure is budgeted to rise only 11.9% in FY21 to ₹26.3 lakh crore, against the revised estimate (RE) of 17% for the current fiscal.

In the current fiscal, the government spending to prop up faltering growth has taken a toll on the Centre's stock of debt as well as fiscal rigour, forcing it to invoke an escape clause provided in the FRBM rule to inflate fiscal deficit by 50 bps for this financial year and the next to 3.8% and 3.5% of GDP, respectively. A collapse in nominal economic growth in FY20 to 7.8% (on a revised base), a 17-year low, has also contributed to higher fiscal deficit. The FY20 budget targeted fiscal deficit at 3.3% for this fiscal and 3% for FY21.

However, if the revenue-strapped government's off-budget mop-ups of ₹1.73 lakh crore and ₹1.86 lakh crore — which typically mask its actual fiscal hole — to fund expenditure are factored in, the deficit would zoom to 4.6% of the GDP for this fiscal and 4.4% in FY21, respectively.

"The tax buoyancy which comes out of investment push will not happen very quickly. That gap has to be filled in by some additional government funding, which could not have been possibly done by 3.3% or 3% fiscal deficit," the official said. The tax buoyancy is estimated to be at a decade's low of 0.5 and projected to improve to an optimistic 1.2% next fiscal. With net tax receipts have been revised downward by ₹1.44 lakh crore in FY20, the Centre compressed revenue expenditure by ₹98,000 crore in RE while it allocated an additional ₹10,338 crore for capex this fiscal year. The government's next tax receipts growth of 14.2% (down from 25.2% in BE) in FY20 also looks very optimistic as the tax receipts have declined by 3.3% y-o-y in April December 2019.

Responding to 15th Finance Commission's suggestion that the Centre's should clean its balance sheet by gradually eliminating off-budget financing, Chakraborty said EBRs fully serviced by the Centre were not some thing that would continue perpetually. CPSEs, most of which by the FCI, would borrow ₹1.28 lakh crore in FY20 and another ₹1.37 lakh crore in FY21.

Former finance secretary Subhash Chandra Garg recently wrote that the system of small savings should be wind down in five years as the government has failed to enforce its policy of aligning small savings rates to the market interest rates on similar instruments. Banks are unable to compete with these rates but can't bring down their rates for transmitting the monetary policy signals as they would lose out the savings completely.

New PIT regime will appeal to most: Revenue secretary

"THE NEW regime makes sense for those people who because of some family circumstance, could not avail themselves of exemptions. The earlier system was iniquitous for those taxpayers. Supposed I am earning Rs 7 lakh per annum and my family expenditure is huge, which prohibits me from taking full 80C benefit, then the old regime is detrimental to me," he said.

The official added that the new regime is specifically beneficial for those who have just joined the work force, and do not have a housing loan or other benefit. The new employee, who might only be contributing to EPFO and spending on health, would opt for the new regime

"Another example is those above the age of 60, why does he need to put money in provident fund, why would the person spend on life insurance or housing loan? The individual is perhaps receiving a pension and has certain years of life, he would like to use that money. There was no scope or incentive to avail exemption and the old regime was a not optimal," Pandey said.

He added that small business owner with an income of Rs 10 lakh or so would also benefit from the new regime as he doesn't get LTC and other employee benefits like standard deduction of Rs 50,000. Pandey said that it was difficult to estimate how many taxpayers would switch to the new regime as many factors played a part, including new salary structure that employers would design.

Govt: No plan to tax NRIs' global income

SUCH TAXATION could have hit Indian diaspora hard and undermined employment opportunities for Indians in various low or no tax countries.

On Sunday, the government said, "In order to avoid any misinterpretation, it is clarified that in case of an Indian citizen who becomes deemed resident of India under this proposed provision, income earned outside India by him shall not be taxed in India unless it is derived from an Indian business or profession. Necessary clarification, if required, shall be incorporated in the relevant provision of the law". It added, "The new provision is not intended to include in tax net those Indian citizens who are bonafide workers in other countries."

Separately, finance minister Nirmala Sitharaman told a group of journalists, "An NRI living in another country earns money there which is not taxed at all there and he has some earnings through something in India on which he does not pay tax here either because he does not live here. What we are essentially saying is that, for the income generated in India, pay a tax. If you have a property here that generates rental income here, but because you live there, you carry this income there and pay tax neither there nor here. Have I got even a sovereign right to take that into my consideration or not? I am not taxing what you earn in Dubai."

However, tax experts say income generated in India by an NRI was anyway taxable in India. If people have not been doing so, that should be dealt with as tax evasion, rather than through the introduction of a potentially contentious concept of 'deemed residents". As the Finance Bill and the memorandum are worded, NRIs workers in countries without income tax liability could qualify as deemed residents and be liable to be taxed in India for their income generated in these countries.

Explaining the rationale behind the Budget proposals, the government said that the issue of stateless persons has been bothering the tax authorities in the world for quote some time with instances of individuals shifting stays over countries to avoid paying tax anywhere. "The current rules governing tax residence makes it possible for High Net Worth Individuals and other individuals who may be Indian citizen to not to be liable for tax anywhere in the world. Such a circumstance is certainly not desirable".

India, the world's largest recipient of foreign remittances, saw inflows of $79 billion in 2018. A large part of the remittances come from West Asian countries.

Shefali Goradia, partner at Deloitte India said: "Reducing the threshold of physical presence in India to 120 days in a year from 182 days (for retaining NRI tag) will make visiting NRIs more conscious of their travel dates. On one hand, the government has been keen to attract talent and onshore the funds and fund managers whereas on the other hand, this move will disincentivize people from spending more time in India. Businesses are mobile and with a view to attract entrepreneurs to India, FM should consider restoring the prior threshold".

Separately, tax experts said while the Budget acceded to the long-standing demand of start-ups for deferred tax payment on employees stock option plans (ESOPs), it would only available to those firms that are certified as start-ups by the inter-ministerial board (IMB). Siddharth Pai, founding partner at 3one4 Capital in an article said: "If one reads the fine print of the Finance Bill 2020, under section 156, there exists a pernicious insertion in the form of a qualifier in order for a start-up to avail of this: the startup should be recognised by the IMB (Inter-Ministerial Board), a government body that certifies a startup as "innovative" Out of the 50,000+ startups in India, only 27,000+ are registered with DPIIT; of these, only a fraction have received IMB certification due to the process. Only these IMB certified startups can avail of this."

Govt may weigh dilution of up to 10% stake in LIC

THE LIFE Insurance Corporation Act will have to be amended to facilitate its listing, the finance secretary said. The inter-ministerial board will comprise at least the members of the departments of investment and public asset management, financial services and law, he said.

Commenting on IDBI Bank, Kumar made it clear that while the government would like to sell its entire residual stake in that (46.5%), it won't ask LIC to sell its shares in the debt-laden bank. Any such decision will be made by LIC, he added.

Separately, finance minister Nirmala Sitharaman suggested that even after the proposed listing, LIC will still remain a public-sector company and its policy holders need not fear for any loss of implicit sovereign guarantee on its products.

The finance secretary said the listing of LIC will bring in greater transparency as well as public participation; it will also deepen the equity market.

"Listing of companies on stock exchanges disciplines a company and provides access to financial markets and unlocks its value. It also gives opportunity for retail investors to participate in the wealth so created. The government now proposes to sell a part of its holding in LIC by way of Initial Public Offer (IPO)," the finance minister had said in her Budget speech.

LIC is the country's largest insurer that controls over 70% of the market share. It has a market share of 76.28% in number of policies and 71% in first-year premiums. It's also the promoter of IDBI Bank, having acquired a controlling stake from the government.