Key Direct Tax Proposals
Optional tax regime

• Introduction of new optional tax regime for individuals / HUF, subject to non-availment of incentives and deductions

Tightening of residency rules

• A citizen of India not taxable in any country on account of residence / domicile etc. will be deemed to be a resident of India

• Residency threshold for NRI/ PIOs *inter-alia* on an India visit reduced from 182 days to 120 days

• Criteria of determining NOR in India modified as under:
  - Individual – who is NR in 7 out of 10 preceding years
  - HUF – Manager has been a NR in 7 out of 10 preceding years
Tax on Dividend income

• DDT (@ 20.56%) payable by company on dividends abolished
• Dividends taxable in the hands of recipient at the normal applicable rates.
  – Current regime of 10% additional tax on dividends earned by resident non-corporate taxpayers (exceeding USD 14,000) abolished
  – 10% (excluding surcharge and cess) domestic tax rate for dividends earned by non-residents/foreign companies
  – Significant impact for high net worth individuals (taxable @ ~42.74%)
  – No deduction of expenses except interest up to 20% of dividend income

• Concessional tax rate for non-residents/foreign companies under most Tax Treaties (5% to 10%), depending on eligibility
  – 5% withholding tax rate on dividends under India-Mauritius Tax Treaty
  – Lower rate from Treaty with another OECD country (e.g.: India-Lithuania Treaty) can be imported into the relevant Tax Treaty by virtue of MFN clause (e.g.: France, Netherlands, Switzerland, etc.)
Tax on Dividend income

- Cascading effect eliminated on receipt of dividend by one domestic company from domestic company
  - However, no such relief of cascading tax on dividend received from foreign companies (generally taxed at 15%)
- Withholding tax @10% on dividend distributed to residents
- Mutual fund dividend now taxable in the hands of unit holders as per slab rates (earlier subject to flat rates depending on category of mutual fund)
  - Beneficial 5% tax regime for non-residents on dividends distributed by Infrastructure debt funds done away with – now taxable at 20%
- Buyback Tax retained
International Tax

Deferment in SEP test

• Significant Economic Presence (SEP) test for establishing business connection in India deferred
  – Amended provisions slated to be effective from FY 2021-22

Business connection- income attribution clarified

• Scope of income attributable to Indian operations expanded to include:
  – Income from advertisements targeted to Indian resident customers
  – Sale of data collected from Indian residents
  – Sale of goods and services using data collected from Indian residents
International Tax

FPI Indirect transfer exemption

• Certain FPIs excluded from existing exemption on Indirect transfers

Safe harbour rules for fund management further relaxed

• Minimum corpus to be USD 14 mn now within twelve months from establishment or incorporation
• Resident participation cap of 5% not to include fund manager contributions up to USD 3.5 mn, for a period of three years

Amendment in definition of royalty

• Exclusion for Consideration from sale, distribution, exhibition of cinematographic films from definition of royalty stands omitted
International Tax

Certainty measures for determining profits of PE

- Coverage of safe harbour rules and APA agreements expanded to include profit attribution to PE/ business connection

Clarification in section 90/90A

- Section 90/90A amended to give effect to the language of Preamble modified by MLI

Thin capitalization

- Thin cap rules relaxed - not applicable to interest paid on borrowings from a PE of a foreign company engaged in banking business

Relaxation in income-tax return filing requirements

- No income-tax return required to be filed by non-residents/ foreign company only deriving income by way of Royalty/ FTS from India and applicable taxes have been discharged by way of TDS
TDS on e-commerce

• Introduction of TDS on **domestic e-commerce transactions**

• e-commerce operators required to deduct tax @ 1% at the time of payment/credit
  
  – Higher rate of 5% applicable, where no PAN furnished by the e-commerce participant
  
  – No exemption for foreign e-commerce operators

• e-commerce participant defined to mean residents selling goods or providing services through digital or e-commerce facility
  
  – Exemption for individuals or HUF recording gross amount of sales/services less than equal to USD 7,000 and furnishes PAN or Aadhar

• No TDS obligations under other section if transaction covered by these provisions
  
  – TDS on payments to continue to apply on payments made to e-commerce operators for hosting advertisements or providing unrelated services
Incentives – FS Sector

• Listing requirement omitted - for business trusts to be eligible to pass through tax regime

• Dividend income received by investors from business trusts (REIT and InvITs) now taxable on pass through basis
  – Business Trusts to deduct 10% withholding tax for residents and non-residents

• Dividend, interest and capital gains income earned by subsidiary of Abu Dhabi Investment Authority and SWFs (satisfying specified criteria’s) not liable to tax
  – Investments to be made before 31 March 2024 in specified infrastructure facilities and to be notified businesses – locked in for three years
Incentives – FS Sector

- Benefit of 5% rate on interest on ECBs and FPI investment in bonds extended to 2023
  - Coverage extended to FPI investment in municipal debt securities
  - Rate further reduced to 4% for long term bonds and rupee denominated bonds exclusively listed on IFSC
- Cost of acquisition of mutual fund units segregated in accordance with SEBI regulations to be determined basis respective net asset value
  - Period of holding to include period of holding of original units
Incentives – Start ups

Tax holiday

• Maximum time limit for claiming deduction further extended to 10 years from 7 years
• Turnover limit for claiming deduction increased to USD 14 mn from USD 3.5 mn

Deferment of taxes on ESOPs for employees of start-ups

• Existing two-level taxation led to cash flow issues for employees – now removed
• Eligible start-ups to deduct or pay taxes on perquisite income of its employees on occurrence of earlier of the following within 14 days:
  – After expiry of 48 months from the end of relevant AY (of exercise of option)
  – Date of sale of shares
  – From the date on which the employee ceases to be an employee of such start-up.
• Where employer fails to deduct tax – onus on the employee to comply and pay taxes as above
Tax incentives

Concessional tax rate for power generation companies
- Beneficial corporate tax rate @ 17.16% extended to domestic companies engaged in generation of electricity
- Such entities are entitled to claim deduction for inter-corporate dividends

Deduction for specified business
- Deduction for capex for specified business (eg cold storage, laying of pipelines etc.) made optional

Real estate
- Safe harbour limit for sale of immovable property increased from 5% to 10%
- Tax incentives for affordable housing projects
  - Time limit for obtaining approval for such projects extended upto March 31, 2021. Similar extension provided for first time buyers availing home loans for such projects
Faceless proceedings

• Existing scheme of faceless assessment proceedings proposed to be extended to penalty / CIT(A) proceedings

Reference to Dispute Resolution Panel (DRP):

• Option to avail DRP appellate route extended to all non-residents
• Provisions currently applicable only where tax officer is proposing variation to returned ‘income or loss’ – proposal to make provisions applicable to ‘any variation’ to the tax return

Stay of demand by Tribunal (ITAT)

• ITAT may grant stay of demand upto 180 days only if taxpayer deposit 20% of tax (inclusive of interest / penalty etc) or it provides security of equal amount
• Extension of stay not possible beyond 365 days
Tax Compliance & Dispute Resolution

New Dispute Resolution Scheme

• Announced in Budget speech – not part of Finance Bill
• Scheme applicable in case of all appeals pending at any level

<table>
<thead>
<tr>
<th>Payment under Scheme</th>
<th>Tax Payable / Scheme available</th>
</tr>
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<tbody>
<tr>
<td>On or before March 31, 2020</td>
<td>Tax amount (no interest / penalty)</td>
</tr>
<tr>
<td>After March 31, 2020 and before June 30, 2020</td>
<td>Tax + additional amount (not specified)</td>
</tr>
<tr>
<td>After June 30, 2020</td>
<td>Scheme not available</td>
</tr>
</tbody>
</table>

Others

• Tax Payer’s Charter (enumerating tax payers’ rights) to be enshrined in the Statute – to be notified
• Penalty applicable on recording of fake entries or omission to record an entry to evade tax to the extent of sum of such false / omitted entries
Procedural and Other Changes

Tax compliance measures

• Tax audit limit raised from USD 0.15 mn to USD 0.70 mn where the receipts and expenditure in cash <= 5% of the total receipts and expenditure

• All audit reports/ certificates (Tax audits, MAT, Transfer Pricing, tax holiday deduction etc.) to be obtained and filed within 1 month prior to the date of filing of Income-tax return

Tax Collection at Source

• Obligation on Banks to collect tax @ 5%/10% (non-PAN/Aadhar holder) for LRS remittance exceeding USD 10,000 in a financial year

• Obligations on seller of an overseas tour program package to collect TCS @ 5% / 10% (for non-Pan/Aadhar cases)

• Sale of goods in excess of USD 70,000 by a seller (whose turnover/gross receipts exceeded USD 1.5 mn in previous FY) shall attract TCS @ 0.1% / 1% (non-PAN/Aadhar holder)
Key Indirect Tax Proposals
Free Trade Agreements

• Provisions introduced for administration of rules of origin under free trade agreements

• Obligations on importer - Importer to submit certificate of origin and possess sufficient information in relation to origin criteria, regional value content and product specific criteria

• Provisions for time bound verification from exporting country in case of doubt

• Failure to provide information may lead to suspension of preferential tariff treatment on such goods and release of goods may be subjected to furnishing of security equal to differential duty benefit claimed

• In certain cases the preferential tax treatment may be denied without further verification

• A request for verification can be sent to the issuing authority of exporting country within 5 years from the date of claim of preferential duty basis which the preferential tariff treatment can be restored or denied

• In case non-compliance is detected, the officer may reject preferential tariff treatment on imports of identical goods from the same producer
Customs duty

- To promote ‘Make in India’ Customs duty rates rejigged
- Health cess at the rate of 5% to be levied on import of specified medical equipment/ devices falling under heading 9018 to 9022. To be levied as duty of Customs
- Social Welfare Surcharge exempted on certain goods
  - including all commercial vehicles (including electrical vehicles), if imported in CBU
- Social Welfare Surcharge exemption withdrawn in case of certain goods covered under Chapter 84 and Chapter 85
- Amendments introduced to Customs Tariff Act, to enable application of safeguard measures including tariff rate quota, in order to curb increased quantity of imports of goods which causes or threatens to clause serious injury to domestic industry
Goods and Service Tax (‘GST’)

- 100% penalty to be imposed on persons retaining benefit of certain transactions and at whose instance such transactions are conducted—supplies without or with false invoices, invoices in violation of provisions of GST laws, supplies without provision of goods or services, etc.

- Eligibility criteria under composition scheme to apply equally for goods as well as services

- Retrospective amendment (effective July 1, 2017) in statutory provisions on timelines for taking transition credit

- Enabling provisions inserted for cancellation of voluntary registrations by GST authorities

- Delay in application for revocation of cancellation of registrations can be condoned for a cumulative period of 60 days

- Removal of difficulty orders can now be issued up to June 30, 2022
Questions

Dinesh Kanabar
dinesh.kanabar@dhruvaadvisors.com

Ajay Rotti
ajay.rotti@dhruvaadvisors.com
Contact Us

Mumbai
One Indiabulls Centre
11th Floor, Tower 2B
841, Senapati Bapat Marg
Elphinstone Road (West)
Mumbai 400 013
Tel: +91 22 6108 1000 / 1900

Ahmedabad
B3, 3rd Floor, Safal Profitaire
Near Auda Garden
Prahadnagar, Corporate Road
Ahmedabad - 380 015
Tel: +91-79-6134 3434

Bengaluru
Prestige Terraces, 2nd Floor
Union Street, Infantry Road
Bengaluru 560 001
Tel: +91-80-4660 2500

Delhi/NCR
101 & 102, 1st Floor, Tower 4B
DLF Corporate Park
M G Road, Gurgaon
Haryana - 122 002
Tel: +91-124-668 7000

Kolkata
4th Floor, Unit No 403, Camac Square,
24 Camac Street, Kolkata
West Bengal – 700016
Tel: +91-33-6637 1000

Singapore
Dhruva Advisors (Singapore) Pte. Ltd.
20 Collyer Quay,
#11-05, Singapore - 049319
Tel: +65 9105 3645

New York
Dhruva Advisors USA, Inc.
340 Madison Avenue, 19th Floor
New York, New York 10173 USA
Tel: +1-212-220-9494

Dubai
WTS Dhruva Consultants
U-Bora Tower 2, 11th Floor, Office 1101,
Business Bay, P.O. Box 127165
Dubai, UAE
Tel: 971-56900-5849

Dinesh Kanabar (Mumbai)
Chief Executive Officer
dinesh.kanabar@dhruvaadvisors.com

Vishal Gada (Ahmedabad)
vishal.gada@dhruvaadvisors.com

Ajay Rotti (Bengaluru)
ajay.rottii@dhruvaadvisors.com

Krishan Malhotra (Delhi / NCR)
kiran.malhotra@dhruvaadvisors.com

K. Venkatatchalam (Pune)
k.venkatatchalam@dhruvaadvisors.com

Rahul Mitra (Kolkata)
rahul.mitra@dhruvaadvisors.com

Mahip Gupta (Singapore)
mahip.gupta@dhruvaadvisors.com

Nilesh Ashar (Dubai)
nilesh.ashar@dhruvaadvisors.com

Pratik Shah (Dubai)
pratik.shah@dhruvaadvisors.com

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