Interim Budget 2019-20

Highlights and boosters

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While the global economy is battling with strong headwinds, India's economy is seeing a robust growth and is on the path to emerging as one of the fastest growing economies in the world. The Finance Minister has presented the Interim Budget 2019. This publication provides an overview of key announcements and proposals made in the Interim Budget and its likely impact.

Sectoral highlights

Agriculture/Farm sector

- Total allocation for the Agriculture sector has seen an increase of 73% over 2018-19 (Revised estimate).
- The Government announced the Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) scheme, which will provide a guaranteed income of INR 6,000 per year to small and marginal farmers. This will involve an annual outlay of INR 75,000 crore, which is around 0.36% of the GDP (2019-20 Budget estimate).
- Interest subvention of 2% was announced for farmers affected by natural calamities. An additional 3% relaxation will be given for timely repayment of loans. This scheme has also been extended to farmers engaged in animal husbandry and fishery-related activities, and availing loans through Kisan Credit Cards.

Implications:

The announcement about financial support will provide some relief to farmers and will address to some extent issues faced in the farm sector. Interest subvention schemes will improve the credit uptake and address farmers' loan-related stress. Overall, the announcement for the farm sector is expected to boost rural consumption and demand.

Micro, Medium and Small Enterprises (MSMEs)

- 2% interest rebate for MSMEs registered under GST for loans up to INR 1 crore
- Requirement of sourcing by government enterprises from SMEs increased up to 25%, of which, at least 3% to be sourced from women-led SMEs
- Government E-procurement Marketplace (GeM) platform extended to Central Public Sector Enterprises

Implications:

Provisions relating to interest rebate will encourage more MSMEs to register under GST, which will promote compliance under GST, expand the tax base and boost formalisation of the economy. Improved access and the reduced cost of credit will lower organisations' production costs and make them more competitive. With the implementation of the GeM platform, MSMEs will have access to a larger market.

Social security for workers in the unorganised sector

- The Pradhan Mantri Shram-Yogi Maandhan Yojana has been announced for workers in the unorganised sector with a monthly income upto INR 15,000. The scheme will provide them with an assured monthly pension of INR 3,000. The scheme is contributory and the government will make a matching contribution.

Implications:

The scheme will provide old age social security and encourage savings among unorganised sector workers. Increased enrolment should lead to further formalisation of the economy.

Real estate/Construction

- In the Affordable Housing sector, benefits under Section 80-IBA of the IT Act were extended by a year for projects approved till March 2020. This will allow Real Estate developers to deduct 100% of profits derived from development of affordable housing projects.

Implications:

Extension of benefits in the real estate sector will give a boost to construction activity, particularly in affordable housing. Exemption from levy of tax on inventories is likely to encourage investment in the sector. From the consumers' point of view, benefits of rollover in capital gains and exemptions on income tax on rent will boost housing demand, and is also expected to increase investments in a second house.

Key Tax proposals

Personal Taxes

While there are no changes proposed in personal Income Tax rates and slabs, the Government has made certain key proposals to provide relief to small taxpayers, especially to middle class and salaried earners in the form of:

- Rebate on tax for total income of up to INR 5,00,000 for individuals
- Increase in standard deduction from INR 40,000 to INR 50,000 for salaried employees
- Relief for owners of more than one house; second self-occupied house not to be subject to tax on deeming/notional basis; aggregate deduction of interest on home loan for self-occupied properties retained at INR 2,00,000
- Prescribed monetary threshold for deduction of tax on interest from bank or Post Office deposits increased from INR 10,000 to INR 40,000
- Proportionate exemption on long-term capital gains arising from proceeds of sale of residential house extended to purchase of two residential houses from one house, subject to:
  - Amount of capital gain not exceeding INR 2 crore [no monetary threshold continues for investment in one residential house]
  - One-time opportunity to claim such exemption

Corporate Taxes

Domestic companies with a turnover not exceeding INR 250 crore during FY 2016-17 continue to enjoy a reduced tax rate of 25% (increased by applicable surcharge and cess). The base year for this reduced tax rate is proposed to be extended to domestic companies with turnover not exceeding INR 250 crore for FY 2017-18.

The provisions relating to TDS on rental payments provide for a monetary threshold of INR 1.8 lakh. This threshold has been enhanced to INR 2.4 lakh.

Certain key amendments have been proposed in the Interim Budget to provide relief and give an impetus to the Real Estate sector, including the affordable housing market:

- The provisions were introduced vide Finance Act 2017 to tax notional income on rentals from property held as stock-in-trade for a period beyond one year from the end of the financial year in which the certificate of completion of property was obtained. This period of holding is proposed to be increased to two years.
- Under the present provisions, deduction on profits is available to developers who are engaged in developing and building affordable housing projects. One of the conditions, i.e. the time taken to seek approval for a project from the competent authority, is proposed to be extended to 31 March 2020.
- The Government envisages a push towards technology-intensive tax assessments and return processing within the next two years. This is directed towards eliminating personal interface and bringing transparency.

Indirect Taxes

The Government has estimated the CGST collection for FY 2019-20 at INR 6.10 lakh crore. This assumes a growth of around 20% over the revised estimate FY 2018-19 at INR 5.04 lakh crore.

Given that overall growth in GST collection in the current year over last year is only 8% (INR 97,100 crore vs INR 89,700 crore on a month-on-month basis), it will be interesting to see how this ambitious target is achieved by the Government. It will need substantial expansion in the tax base and stringent control over revenue leakages.

Stamp Duty

The proposed amendments in stamp duty provisions are largely aimed at rationalising the various stamp duty provisions as well as streamlining the stamp duty collection mechanism. It is intended to designate stock exchanges and depositories to collect stamp duty on sale or transfer of securities. Such collection will be transferred to the respective state government within the prescribed time. The amendments also propose changes to the rates of duties. It also appears that exemption of stamp duty on transfer of dematerialised shares is proposed to be done away with.

In summary

The thrust of this Budget was on social infrastructure, ease of living and technology-led governance aimed at inclusive and equitable growth. The salaried class with taxable income of up to INR 5 lakh will have higher disposable incomes. Direct Benefit Transfer to farmers will support rural demand. The Pradhan Mantri Shram-Yogi Maandhan Yojana will provide social security to a large number of marginal wage earners in the country. The Real Estate sector will see more activity and the allied sectors of steel and cement will get a boost. With enhanced spending and direct benefit transfers, there is an obvious concern about inflationary pressures. However, given that capacity utilisation is still around 70%, we believe that expectations of inflationary pressure will be muted. The Government's vision to create a tech-enabled tax system is a welcome initiative. In all, this Budget has set the tone for considerable future discourse.

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