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BUDGET ASSAYER

India Interim Budget 2019: Preparing for the future

Amidst huge expectations to pull a magic wand out of a hat, on February 1, 2019 the interim finance minister (“**IFM**”) of India presented the last budget of the Modi Government before the general elections in May 2019. Understandably, the IFM immaculately recounted at length the policy decisions and actions taken by the government over the last four and half years to demonstrate their benefits to the economy as a whole and to the common man. He then laid out the vision for the next ten years, emphasising on building infrastructure, creating digital India, rural industrialisation, development of the 'Blue Economy' (i.e. develop inland waterways), agricultural reforms, etc.

Despite being a typical 'vote on account' budget, which does not permit him to make any tax policy changes, the IFM announced some measures aimed at benefiting the general public and some sections of the industry. These include increased gratuity limits, pension scheme for the unorganised sector, and some reliefs for sectors such as agriculture, animal husbandry, construction industry, etc.

In a big move, all transactions in dematerialised instruments have been brought under the purview of stamp duty, which were exempt from stamp duty so far. Further, rules relating to collection of stamp duty in transactions involving securities are currently unclear, especially in regard to the persons responsible for payment and collection of stamp duty. In order to provide clarity and an impetus to transactions in securities, the Bill proposes to amend the Indian Stamp Act to stipulate the seller to be responsible for payment of stamp duty, in case of sale of securities through stock exchanges, and the transferor/issuer in case the transaction is undertaken through a depository. The Bill proposes to streamline collection of stamp duty on securities transactions by routing it through an identified collecting agency, i.e. the stock exchange, or clearing corporation authorized by the stock exchange, or the depository. The relevant state government would receive stamp duty within three weeks from the end of the month in which transaction takes place.

There is no change in tax rates. A few changes are proposed to the Income-tax Act, 1961 to provide relief to individual taxpayers, demonstrating solidarity with the middle class tax payer. The threshold for triggering tax deduction at source on interest income has been increased and the threshold for tax rebates has been increased such that an individual earning INR 0.5 million may not pay any tax.

The Indian tax department has been in focus recently due to certain aggressive actions for collection of taxes. It is proposed to introduce measures to make the Indian tax department more taxpayer friendly. Certain aspirations with respect to procedural aspects are announced in terms of putting systems in place for processing all tax returns within 24 hours of being submitted and issuing refunds simultaneously. Within the next two years, most scrutiny and assessment proceedings would take place online, and on an anonymous basis – relevant rules have already been prescribed in the previous budgets and the technology for the same is under development.

Some important direct tax proposals announced in the Finance Bill, 2019 ("**Bill**") presented during the Budget are discussed below:

- *Rebate for income up to INR 0.5 million*

  Currently tax rebate is available in cases where the taxable income of an individual does not exceed INR 0.35 million. This rebate is restricted to a maximum of INR 2,500.

  The Bill proposes to increase and extend the rebate to such individuals whose taxable income does not exceed INR 0.5 million. The quantum of tax rebate is also proposed to be increased to INR 12,500.

  Interestingly, as the relief offered is by way of a rebate and not by way of reduction in tax rate, the above rebate would not be available to resident individuals with taxable income exceeding INR 0.5 Million.

- *Relief for construction businesses*

  Notional annual letting value of unsold land or building is taxable in the hands of developers if such property remains unsold for a period of more than one year from the end of the Financial Year ("**FY**") in which a completion certificate is received from the competent authority.

  In order to provide relief to developers, and possibly due to the slowdown in the real estate markets, it is proposed that such unsold inventory consisting of land or building maintained by developers will not be subject to tax for two years, as against the present period of one year from the end of the FY in which the completion certificate is received.

- *Affordable housing in focus*

  Developers engaged in construction of affordable housing projects are not subject to income tax if the project is approved by the relevant authority by March 31, 2019, subject to other conditions.

  It is proposed to extend this benefit by one year to projects approved by the authorities till March 31, 2020.

- *Rollover benefit for capital gains tax revamped*

  Long term capital gains arising from transfer of a residential house are exempt from tax if such gains are reinvested in one residential house within a specified period.

  The Bill proposes to extend this exemption from capital gains tax to cases where the taxpayer reinvests such gains in up to two residential houses, provided the capital gains arising from such transfer do not exceed INR 20 million. This relief for reinvesting in two residential houses is proposed to be available only once during the lifetime of a taxpayer.

All the above amendments are proposed to be effective from April 1, 2019.

- *Leeway under Prevention of Money Laundering Act*

  The Prevention of Money-laundering Act, 2002 currently allows the adjudicating authority to attach any property involved in the money laundering, during investigation up to ninety days or during the pendency of the proceedings.

  The Bill proposes to extend the period for which the property can remain attached to three hundred sixty-five days, excluding any period during which investigation is stayed under an order by any court.

  This would give a longer leeway to the investigating authority. It would be effective from date to be notified by the Government in the Official Gazette.

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