

# Union Budget 2019-20: Highlights

## Fiscal Management

- Fiscal deficit target for FY20 reduced to 3.3% of GDP from an earlier 3.4% of GDP estimated in February's interim budget
- FY20 gross borrowing and net borrowing remains unchanged at Rs. 7.1 lakh crores and Rs. 4.73 lakh crores respectively
- Government aims to buy back bonds worth Rs. 50,000 crores of bonds in FY20
- India's sovereign external debt to GDP is among the lowest globally at less than 5%  
The Government to start raising a part of its gross borrowing programme in external markets in external currencies. This will also have beneficial impact on demand situation for the government securities in domestic market

## Revenues/Expenditure

- Dividends from state-owned firms seen at Rs. 57,487 crores in FY20
- Gross tax revenue seen at Rs. 24.6 lakh crores in FY20
- Net tax revenues seen at Rs. 16.49 lakh crores in FY20
- A marginal rise in total expenditure from Rs. 27.84 lakh crores to Rs. 27.86 lakhs crores

## Infrastructure development

- To invest Rs. 100 lakh crores in infrastructure over the next five years
- Public Private Partnership (PPP) in railways infrastructure development
- Measures for boosting infrastructure financing
  - Credit Guarantee Enhancement Corporation to be set up in 2019-20
  - Action plan to deepen long term bonds market
  - To permit transfer of FII/FPI investment in debt securities issued by Infrastructure Debt Fund - Non-Bank Finance Companies (IDF-NBFCs) to domestic investors within the specified lock-in period
- Measures to deepen Corporate Debt market which is crucial for the infrastructure sector

- To deepen the Corporate tri-party repo market in Corporate Debt securities, Government will work with regulators RBI/SEBI to enable stock exchanges to allow AA rated bonds as collaterals
- User-friendliness of trading platforms for corporate bonds will be reviewed, including issues arising out of capping of International Securities Identification Number (ISIN)

### **Mega Investment in Sunrise and Advanced Technology Areas**

- To launch a scheme to invite global companies through a transparent competitive bidding to set up mega-manufacturing plants in sunrise and advanced technology areas

### **Electric Vehicles**

- To lower the GST rate on electric vehicles from 12% to 5%. Further, an additional income tax deduction of Rs.1.5 lakh on the interest paid on loans taken to purchase electric vehicles. This amounts to a benefit of around Rs. 2.5 lakh over the loan period to the taxpayers who take loans to purchase electric vehicle

### **Start-ups**

- The start-ups and their investors who file requisite declarations and provide information in their returns will not be subjected to any kind of scrutiny in respect of valuations of share premiums
- At present, start-ups are not required to justify fair market value of their shares issued to certain investors including Category-I Alternative Investment Funds (AIF). It is proposed to extend this benefit to Category-II Alternative Investment Funds also
- To extend the period of exemption of capital gains arising from sale of residential house for investment in start-ups up to 31.3.2021 and relax certain conditions of this exemption

### **Affordable housing**

- Under affordable housing, interest paid on housing loans is allowed as a deduction to the extent of Rs. 2 lakh in respect of self-occupied property
- In order to provide a further impetus, an additional deduction of up to Rs. 1,50,000 is allowed for interest paid on loans borrowed up to 31st March, 2020 for purchase of

an affordable house valued up to Rs. 45 lakh. This will lead to an enhanced interest deduction up to Rs. 3.5 lakh

### **Micro, Small and Medium Enterprises (MSME)**

- For all the GST registered MSMEs, new loan or incremental loan of Rs. 1 crore with interest subsidy of 2% will be approved
- An allocation of Rs. 350 crores have been made for MSMEs interest subsidy requirement

### **Investments**

#### **Minimum Public shareholding**

- To consider increase minimum public shareholding in the listed companies from current 25% to 35%

#### **Foreign Direct Investment (FDI)**

- The Government to examine suggestions of further opening up of FDI in aviation, media and insurance sectors in consultation with all stakeholders
- 100% FDI to be permitted for Insurance intermediaries
- Local sourcing norms to be eased for FDI in single brand retail sector

#### **Foreign Portfolio Investor (FPI)**

- To increase the statutory limit for FPI investment in a company from 24% to sectoral foreign investment limit. FPIs will be permitted to subscribe to listed debt securities issued by REITs and InvITs
- To rationalize and streamline the existing Know Your Customer (KYC) norms for FPIs
- Proposal to merge the NRI-Portfolio Investment Scheme Route with the Foreign Portfolio Investment Route

#### **Retail Participation**

- The Government will take up necessary measures in consultation with RBI and SEBI to get retail investors to invest in treasury bills and securities issued by the government

#### **Social Stock Exchange**

- To initiate steps towards creating an electronic fund raising platform - a social stock exchange under the regulatory ambit of SEBI for listing social enterprises and voluntary organizations working for the realization of a social welfare objective so that they can raise capital as equity, debt or as units like a mutual fund

### **Banking and Financial Sector**

- Rs. 70,000 crores to be provided as capital boost for Public Sector Banks
- For purchase of high-rated pooled assets of financially sound NBFCs, amounting to a total of Rs. 1 lakh crore during the current financial year, Government to provide one time six months' partial credit guarantee to Public Sector Banks for first loss of up to 10%
- NBFCs which do public placement of debt have to maintain a Debenture Redemption Reserve (DRR) and in addition, a special reserve as required by RBI, has also to be maintained. To allow NBFCs to raise funds in public issues, the requirement of creating a DRR, which is currently applicable for only public issues as private placements are exempt, will be done away with.
- To return the regulation authority over the housing finance sector from National Housing Bank (NHB) to RBI
- To facilitate on-shoring of international insurance transactions and to enable opening of branches by foreign reinsurers in the International Financial Services Centre, it is proposed to reduce Net Owned Fund requirement from Rs. 5,000 crores to Rs. 1,000 crores

### **Disinvestment**

- Government has set an enhanced target of Rs. 1,05,000 crores of disinvestment receipts for FY20
  - It will undertake strategic sale of PSUs and will also continue to do consolidation of PSUs in the non-financial space as well.
- The Government will also review, in case where the Undertaking is still to be retained in Government control, to go below 51% to an appropriate level on case to case basis
- To further encourage retail participation in Central Public Sector Enterprises (CPSEs) the Government would realign its holding in CPSEs, including Banks to permit greater availability of its shares and to improve depth of its market
- To offer an investment option in Exchange Traded Funds (ETFs) on the lines of Equity Linked Savings Scheme (ELSS). This would also encourage long term investment in CPSEs
- To take steps to meet public shareholding norms of 25% for all listed PSUs and raise the foreign shareholding limits to maximum permissible sector limits for all PSU companies which are part of Emerging Market Index

### **Tax proposals**

- Threshold for applicability of lower corporate tax rate of 25% increased from Rs. 250 crores to Rs. 400 crores
- TDS of 2% on cash withdrawal exceeding Rs. 1 crore in a year from a bank account to promote cash-less economy
- Increase in surcharge for those with taxable income in the range of Rs 2- 5 Crore and Rs. 5 Crore and above
  - Effective Income Tax increase of 3% for those earning Rs. 2 crore-5 Crore
  - Effective Income Tax increase of 7% for those earning over Rs. 5 Crore and above

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

- To give relief in levy of Securities Transaction Tax (STT) by restricting it only to the difference between settlement and strike price in case of exercise of options

### **Interchangeability of PAN and Aadhaar**

- For ease and convenience of tax payers, PAN and Aadhaar can be used interchangeably for filing of returns

### **Pre-filing of Income-tax Returns**

- Pre-filled tax returns will be made available to taxpayers which will contain details of salary income, capital gains from securities, bank interests etc. This will not only significantly reduce the time taken to file a tax return but will also ensure accuracy of reporting of income and taxes

### **Indirect Taxes**

- To increase Special Additional Excise duty and Road & Infrastructure Cess each by one rupee a litre on petrol and diesel
- To increase custom duty on gold and other precious metals from 10% to 12.5%
- Basic customs duty is being increased on items such as cashew kernels, PVC, Vinyl flooring, tiles, metal fittings, mountings for furniture, auto parts, certain kinds of synthetic rubbers, marble slabs, optical fibre cable, CCTV camera, IP camera, digital and network video recorders etc.
- Exemptions from custom duty on certain electronic items which are now being manufactured in India are being withdrawn
- End-use based exemptions on palm stearin, fatty oils, and exemptions to various kinds of papers are also being withdrawn
- To encourage domestic publishing and printing industry, 5 % custom duty is being imposed on imported books

- To further promote domestic manufacturing, customs duty reductions are being proposed on certain raw materials and capital goods
- To further incentivise e-mobility, customs duty is being exempted on certain parts of electric vehicles
- Customs duty is also being exempted on capital goods required for manufacture of specified electronic goods
- Export duty is being rationalised on raw and semi-finished leather to provide relief to this sector
- In the view of huge pending litigations from pre-GST (Goods and Services Tax) regime, a 'Legacy Dispute Resolution Scheme' is proposed that will allow quick closure of these litigations

#### **Tax Incentives**

- Incentive in respect of Rupee-denominated Bond (RDB)
- Incentives to encourage offshore funds: In 2015, the Government had enacted a specific concessional regime to facilitate location of fund managers of offshore funds in India. This was subjected to some conditions. Two of these conditions, relating to the remuneration of fund manager and the time limit for building up of corpus, are proposed to be rationalised so as to facilitate setting up of fund management activity in India with respect to such offshore funds
- Incentives to Category-II AIF: Presently, the investment made by Category-I AIF is exempted from the applicability of the provisions of section 56(2)(viib) of the Income-tax Act. It is proposed to extend this exemption to Category-II AIF as well

#### **Incentives to National Pension System (NPS) subscribers**

- In order to give effect to the cabinet decision already taken to incentivise NPS, it is proposed to
  - increase the limit of exemption from current 40% to 60% of payment on final withdrawal from NPS
  - allow deduction for employer's contribution upto 14% of salary from current 10%, in case of Central Government employee
  - allow deduction under section 80C for contribution made to Tier II NPS account by Central Government employees

#### **Incentives to certain Non-banking Financial Companies (NBFCs)**

- Deposit taking and systemically important non-deposit taking NBFCs can now pay tax in the year they receive interest for certain bad or doubtful debts

#### **Preventing tax abuse**

- The listed companies to pay additional tax at 20% in case of buy back of share, as is the case currently for unlisted companies

### **Rationalisation measures**

- It is proposed to provide that concessional rate of short term capital gains tax shall also apply to fund of funds set up for disinvestment of Central Public Sector Enterprises (CPSEs), to which concessional rate of long term capital gains tax has already been extended
- It is proposed to allow pass through of losses in cases of Category I and II AIF similar to pass through of income which is allowed at present
- It is proposed to provide that tax shall be withheld on taxable payout of life insurance companies on net basis at 5%, instead of 1% on gross as at present

### **Others**

- A Model Tenancy Law and reforms are proposed to promote rental housing
- The government to streamline multiple labour laws into a set of four labour codes

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