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Key changes brought by the Union Budget 2020-21 in the Direct Tax Regime

Income Tax Slab Rates [Section 115BAC]

The Union Budget 2020, proposes a new tax slab at which income-tax is to be levied for the assessment year 2020-2021 for individuals and HUFs. However, the new tax regime is optional and can only be availed if no deductions/exemptions are sought by the assessee (including standard deduction for investment mainly LIC, PPF, interest paid on housing loan on self-occupied property etc..) for those who choose to claim the said deductions the existing income tax slabs with higher tax rates will continue to apply.

Previous & Revised Income Tax Slabs

Income Slab	Income Tax Rate 2020-21	Income Tax Rate 2019-20
Up to Rs 5 lakh	Nil	Nil
Rs 5 to Rs 7.5 lakh	10%	20%
Rs 7.5 to Rs 10 lakh	15%	20%
Rs 10 to Rs 12.5 lakh	20%	30%
Rs 12.5 lakh to Rs 15 lakh	25%	30%
Over 15 lakh (No Change)	30%	30%

Modification in Residency Provision [Section 6]

- Presently an Indian citizen/person of Indian Origin is considered to be a resident in India if: –
  - He has been in India for an overall period 365 days or more within four years preceding that year; and –
  - He is in India for overall period of 182 days or more in a year.
- In an attempt to decreased the number of days of stay required in India to qualify as a resident of India the Union Budget proposes to substitute 182 days by 120 days for any individual being a citizen of India, or a person of Indian origin who, being outside India, comes on a visit to India in any previous year for 120 days or more.
- In order to qualify as a 'Not Ordinarily Resident', an assessee needs to be a non-resident in India in 7 out of the 10 previous years as against the previous conditions which were:
  - He has been a non-resident in India in nine out of ten previous year, **or**
  - He has been in India for 729 days or less in seven previous years.
- Further the Union Budget has proposed to inset a new sub-clause whereby any individual, being a citizen of India, shall be deemed to be a resident in India in any previous year, if he is not liable to tax in any other country or territory by reason of his domicile or residence or any other criteria of similar nature.

Individual Taxation

- Presently, the employer contribution to retirals are taxable when:
  - If provident fund contribution is in excess to 12 % of the salary;
  - National Pension Scheme (NPS) contribution is excess of 14 % of the salary in case of Govt. employees and 10 % of salary in other cases;

- Superannuation Fund contribution is in excess of INR. 1,50,000/-.

- In order to further simplify the taxation regime the Union Budget has proposed to introduce an aggregate limit of INR. 7,50,000/- in respect of the employer contributing in the above schemes and any contributions which are above the aggregate limit mentioned above would be taxable.
- To promote buyers to invest in the residential housing projects the Union Budget has provided a deduction in the interest on the home loan up to INR. 1,50,000 for all home buyers who does not own anyother property at the time of taking the loan. The deduction is now extended for one year in cases of loans sectioned up to 31st March 2021.

DDT [Sections 115-O and 115R]

Dividend Distribution Tax has been abolished and from now on, no companies will have to pay DDT on the dividends paid to the shareholder of the company. It has now been proposed that, income through dividends, shares and mutual funds will be treated to be a part of the regular income and taxes will be applied on such category of incomes on the basisof the tax slab rates applicable in anindividual’s case.

Stamp Duty [Section 43CA, Section 50C and Section 56(2)(x)]

- Under the current regime, for computing the income arising from transfer of land or building or both, under the head business or profession, capital gains and income from other sources, the consideration for such transfer is deemed to be the value adopted for stamp duty purposes, if the sale consideration is less than the stamp duty valuation.
- The Union Budget proposes to extend the sale harbour limit of 5 % under Section 43CA of the Act, as per which if the value of the property adopted for the purpose of stamp duty does not increase to 110 % (105% pre-amendment) of the actual consideration received, then the consideration so received shall be deemed to be the full value of the property for computing profits and gain on transfer of such asset except capital assets. Pari material to Section 43 CA of the Act, Union Budget also proposed to amend Section 50 C of the Act, wherein the transfer of capital asset being land or building or both, if value adopted for the purpose of the stamp duty does not exceed 110 % (105% pre-amendment) the actual consideration received shall deemed to be the full value of consideration for computing capital gain on transfer of such capital asset.

Tax Deduction for Donation [Section 80GGA]

In order to promote digitisation,the existing threshold of INR 10,000 for cash donations has been reduced to INR 2,000 for donations given to an approved research association, university and colleges or other intuition for specified purposes.

Foreign Investment[Section 194LC]

- That in order to increase foreign investment by special companies and business trusts under Section 194LC of the Act, the government has proposed to decrease the concessional rates of TDS from 5 % to 4 % against the interest paid to the non-resident, for the money borrowed under a loan agreement at any time on or after July, 2020 and before 1st July, 2023 as approved by the Central Government.

- Further, amendment is proposed in Section 194LD of the Act for extending the applicability of TDS at the rate of 5 percent from 1st July 2020 to 1st July 2023 in case of interest payment to Foreign Institutional Investors (FII) and Qualified Foreign Investors on their investment in Government Securities and Rupee Denominated Bonds of an Indian Company.

Auditing

- Section 44 AB of the Act, mandates that every person carrying a business in India, is required to get his account audited, if the total sale or gross receipt exceeds one crore rupee in any previous year. In the case of a person carrying out a profession,he is required to get his accounts audited, if his gross receipt in profession exceeds, fifty lakh rupees in any previous year. Union budget in order to avoid compliance burden on small and medium scale industries, proses to increase the threshold limit for a person carrying on a business from one crore rupees to five crore rupees in cases where, –
    - aggregate of all receipts in cash during the previous year does not exceed five per cent of such receipt; and
    - aggregate of all payments in cash during the previous year does not exceed five per cent of such payment.

Fee for Technical Service [Section 194J]

To reduce litigation, it is proposed to reduce rate for TDS in section 194J in case of fees for technical services (other than professional services) to two per cent from existing ten per cent. The TDS rate in other cases under section 194J would remain at ten per cent;

Start-ups [Section 191/192]

- Currently, specified security and sweat equity shares are taxable as a perquisite at the time of exercise. To increase incentive for the individuals working in a start-up, the government has proposed to defer taxation of this perquisite to the earlier of the three events namely:
    - Expiry of 48 months from end of the relevant assessment year or;
    - Sale of shares by employee or;
    - An employee's resignation(whichever is earlier).

Tax rate reduced to 2% on fees for technical services paid to residents (Section 194J)

- Reduction in TDS rates from 10 % to 2 % in cases of fees paid for the technical services (other than professional) to the resident of India. Further, the Dividend paid by Indian companies, to a shareholder, who is resident in India, shall be computed at 10% if the dividend amount exceeds 5000 during the FY and dividends paid by the company exceeding INR. 5000, will also attract TDS to the tune of 10%.