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FINANCE ACT 2020-21 HIGHLIGHTS
MAJOR DIRECT TAX AMENDMENTS

1) OPTION TO INDIVIDUAL & HUF FOR CONCESSIONAL RATE OF TAX (Section 115BAC)

It is provided that an **OPTION of concessional tax rates** to individual and HUF by insertion of section 115BAC in the Act subject to satisfaction of certain conditions.

Total Income	Rate of tax
Up to Rs 2,50,000/-	Nil
From Rs 2,50,001/- to Rs 5,00,000/-	5%
From Rs 5,00,001/- to Rs 7,50,000/-	10%
From Rs 7,50,001/- to Rs 10,00,000/-	15%
From Rs 10,00,001/- to Rs 12,50,000/-	20%
From Rs 12,50,001/- to Rs 15,00,000/-	25%
Above Rs 15,00,000/-	30%

Decision Matrix

Income before deductions/exemptions	Deduction/Exemption level where old regime is beneficial
Rs 5,00,000/-	No Change
Rs 7,50,000/-	Rs 1,25,000/-
Rs 10,00,000/-	Rs 1,87,000/-
Rs 12,50,000/-	Rs 2,08,333/-
Rs 15,00,000/- or above	Rs 2,50,000/-

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Exercising the Option by Individual/HUF
○ The option shall be **exercised for every previous year** where the assessee has **no business or professional income**, and in other cases the option once exercised for a previous year shall be valid for that previous year and all subsequent years. ○ The option **can be withdrawn only once** where it was exercised by the assessee **having business income for a previous year** other than the year in which it was exercised and thereafter, **the assessee shall never be eligible to exercise this option, except where such assessee ceases to have any business or professional income.** ○ Option to be exercised before the due date of filing of return. ○ Employer would need to take additional declaration from their employees as to whether deduct TDS in new regime or old regime

Conditions to be fulfilled, if option exercised
○ Leave Travel Allowance, House Rent Allowance, Minor's Income, Standard Deduction of Rs 50,000/- from salary income, Interest on housing loan for self-occupied property shall not be allowed. ○ **Chapter-VI A i.e. deductions** under sections 80C to 80U (life insurance premium, PPF contribution, ELSS, mediclaim premium, interest on education loan, donations to charitable trust, etc.) **shall not be allowed**, **except 80CCD(2)** (employer contribution on account of employee in notified pension scheme) & **80JJAA** (deduction on additional cost of new employees) ○ Deduction under Section 10AA (Income from SEZ unit), additional depreciation on plant & machinery, expenditure of scientific research, deduction from family pension, etc. shall not be allowed. ○ Brought forward loss or depreciation shall not be set-off, if it relates to above deductions.

o House property loss shall not be set-off with any other head of income.

2) CHANGES IN DUE DATE OF RETURN FILING AND TAX AUDIT & REVISION OF TAX AUDIT LIMITS

Change in due dates of return filing and furnishing tax audit report
o The due date for filing income tax return for companies and other assessees (whose accounts are required to be audited under the Act) is **extended from 30th September to 31st October w.e.f. A.Y. 2020-21.** o The due date for filing tax audit report is to be advanced by a month from the due date for filing the return of income. Consequently, for AY 2020-21, **the due date for filing tax audit report shall be 30th September 2020.**

Change in turnover limit for tax audit under Section 44AB
o Currently, every person carrying on business, if his/her total sales, turnover, or gross receipts in business exceeds Rs 1 crore, is required to get his/her accounts audited by an accountant and furnish that by the due date for furnishing the return of income. o The **threshold limit for getting accounts audited under Section 44AB of the Act has been enhanced from turnover of Rs 1 crore to a turnover of Rs 5 crores** for a person carrying on business. However, **cash receipts and cash payments of such a person should not exceed 5% of his/her total receipts or total payments** during the year, respectively. o This amendment shall be effective from A.Y. 2020-21.

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3) CHANGES IN TDS AND TCS PROVSIONS

Changes in provisions relating to Tax Deducted at Source (TDS)
o TDS Rate on fees for technical services (not being professional services) and royalty income in nature of consideration for sale, distribution or exhibition of cinematographic films under Section 194J reduced from 10% to 2%. TDS Rate on professional fees will continue to remain at 10%. o **Section 194C amended:** If material is supplied by an associate of the customer to a contract manufacturer, that will qualify as "work" and hence, liable to TDS under section 194C. o A new section 194 O under which **TDS of 1% will be deducted and paid by the E-Commerce operator (Amazon, Flipkart, etc.) on the gross sale value (annual threshold limit of Rs 10 lakh only for individuals/HUF)** at the time of credit of amount of sale or service or both to the account of e-commerce participant (online seller) or at the time of payment thereof to such participant by any mode, whichever is earlier. o **TDS on dividend at 10%** (as dividend distribution tax is abolished and dividend has become taxable in the hands of shareholders) with a **threshold limit of Rs 5,000/-.** o TDS under Section 194K on income from income distributed, other than capital gains, by mutual funds to its unit-holders is to be levied at 10% with a threshold limit of Rs 5,000/-. o TDS under section 194N on withdrawal of cash from bank has provided that the threshold limit of Rs.100 lakhs would reduce to Rs.20 lakhs if the person withdrawing cash has not filed his return or not filed the return on time u/s

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139(1) during last three years. Rates of TDS is such case would be:

a. Above Rs.20 lakhs but upto Rs.1 crore withdrawal – 2%

b. Above Rs.1 crore withdrawal – 5%

Limit will be calculated from 01.04.2020 but applicability of the amendment would be from 01.07.2020

- In case of individuals/HUF, TDS sections such as 194A (interest), 194C (contract), 194H (commission/brokerage), 194I (rent) & 194J (professional/technical services), etc. will be applicable if the gross turnover from the business exceeds Rs 1 crore or gross receipts from the profession exceeds Rs 50 lakhs during the preceding financial year and the condition linked to Section 44AB have been done away with.

Changes in provisions relating to Tax Collected at Source (TCS)

Section 206C to levy TCS is amended as under:

- Authorized dealer (dealing in foreign exchange) receiving an amount of Rs 7 lakhs or more in financial year for remittance under Liberalized Remittance Scheme (LRS) of RBI, shall be liable to **collect TCS at the rate of 5% on sum received from a buyer remitting such amount out of India**. TCS is to be collected on amount over and above Rs.7 lakhs**.** If the LRS is out of educational loan eligible under S.80E, TCS shall be 0.50% in excess of Rs.7 lakhs (applicable from 01.10.2020)
- A seller of an overseas tour package shall be liable to **collect TCS at the rate of 5% on any amount received from buyer of such package.** Threshold limit of Rs.7 lakhs available for LRS is not applicable in such case.

  In both the above cases, if the buyer does not have PAN/Aadhar, the rate of applicable TCS shall be 10%.
- A seller, whose turnover from business exceeds Rs 10 crores during the immediately preceding financial year, **shall be liable to collect TCS at the**

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rate of 0.1% on consideration received from a buyer in excess of Rs 50 lakhs for the goods sold. In non-PAN/Aadhar cases, the rate shall be 1%. This amendment is not applicable on export or import of goods. (applicable from 01.10.2020)

- The above amendments will not be applicable if the TDS is deducted by the buyer under any other section.

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4) OTHER AMENDMENTS

Corporate Taxation
○ **Concessional Rate of Tax of 15%** for new manufacturing companies set up & registered after 1st October 2019 and commencing production on or before 31st March 2023, **extended to power generating companies.** ○ **Abolition of Dividend Distribution Tax (DDT):** DDT is abolished on dividends declared, distributed, or paid on or after 1 April 2020. Dividend is now to be taxed in the hands of the recipient of income, i.e. shareholders/unit holders. However, if dividend is declared by company before 31 March 2020 and dividend is received after 1 April 2020, then such dividend would be eligible for exempt income subject to Sec.115BBDA (i.e. tax on dividend received above Rs.10 lakhs) but the company would be liable to pay DDT. (Note: Dividend is chargeable to tax on the basis of its declaration and not on the basis of receipt) ○ **Section 80M** has been introduced **to remove the cascading effect of taxes on inter-corporate dividend.** The section will allow set off only for dividend distributed by the company up to one month before the due date of filing of return. ○ Modification of concessional tax schemes for domestic companies under section 115BAA (15% tax) and 115BAB (22% tax): ➢ Taxation Ordinance, 2019 inserted section 115BAA and section 115BAB in the Act to provide domestic companies **an option to be taxed at concessional tax rates provided they do not avail specified deductions and incentives.** Some of the deductions prohibited are deductions under any provisions of Chapter VI-A under the heading "C. Deduction in respect of certain incomes" other than the provisions of section 80JJAA. ➢ The provisions of section 115BAA and section 115BAB is now amended **to not allow deduction under any provisions of Chapter VI-A other than section**

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80JJAA or section 80M, in case of domestic companies opting for taxation under these sections.

- These amendments will apply in relation to the assessment year ~~2020-21~~ 2021-22 and subsequent assessment years.

Taxation of Real Estate Transactions – Enhanced safe harbor limit

- 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 deeming provisions to substitute actual consideration with stamp duty valuation are not applicable, if the difference between actual sale consideration and stamp duty valuation does not exceed a safe harbor of 5%.
- **The harbor of 5% to 10% is expanded by amending the provisions of Section 43CA, Section 50C and Section 56(2)(x).**

Employer contributions in excess of specified limits now liable to tax

- Currently employer contributions in following cases are liable to tax only if:
  - Provident Fund contribution is in excess of 12% of the salary**.**
  - NPS Contribution is in excess of 14% of the salary for Central Govt. employees and 10% of salary in any other case.
  - Superannuation Fund Contribution is in excess of Rs 1,50,000/-.

  Also employee is not taxable on accruals on such contributions.

- **An aggregate monetary limit of Rs 7,50,000/- in respect of employer contribution to such schemes is now introduced**

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- Any contribution in excess of such monetary limit would be taxable as perquisite.
- Further the annual accretion on these contributions (in excess of monetary limits) will be treated as a perquisite.

Change in Residency Rules

- Currently, an Indian citizen/person of Indian origin is considered to be 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 that year.
- This provision is now **tightened** by reducing the Indian citizen / person of Indian origin's **stay in India to an overall period of 120 days or more (instead of 182 days), provided the income taxable in India by such person is more than Rs.15 lakhs**

- Likewise for qualifying to be a 'Not Ordinarily Resident', the assessee needs to be a non-resident in India in ~~7~~ 9 out of 10 previous years as against the dual conditions earlier namely:
  - 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.

- **Indian citizens not liable to tax in any other jurisdiction (by reason of his domicile or residence) shall be deemed to be resident in India.**

- **If an individual becomes "Resident" due to the above amendments, then they would be considered as 'Not Ordinarily Resident'**

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Changes in capital gains
o Currently, (under section 55(2)(b)(i) and (ii) of the Act), an assessee can opt to take the "cost of acquisition" of a capital asset (acquired before 1 April 2001) at either its actual cost of acquisition or "fair market value" as on 1 April 2001. o Where the capital asset is land or building, **the "fair market value" of the capital asset at its "stamp duty value"** as on 1 April 2001 is now capped.

5) 'Vivaad se Vishwas' Scheme

Proposed Dispute Resolution Scheme
○ Currently, there are 483,000 direct tax cases pending in various appellate forums. ○ In the last budget, the Sabka Vishwas Scheme was launched to reduce litigation in indirect taxes which resulted in settling more than 189,000 cases. ○ It is proposed to bring a scheme similar to the indirect tax 'Sabka Vishwas' scheme for reducing litigations related to direct taxes. ○ The following are the key features of the proposed scheme: ➢ The proposed scheme to be called the 'Vivad Se Vishwas' scheme. ➢ Under the proposed scheme, a tax payer would be required to pay only the amount of the disputed taxes and get complete a waiver of interest and penalty provided he/she pays by 31st March 2020. ➢ Those who avail this scheme after 31st March 2020 will have to pay some additional amount. ➢ The scheme will remain open until 30th June 2020. ➢ Tax payers in whose cases appeals are pending at any level can benefit from this scheme.