

Tax Hotline

February 05, 2019

INDIA INTERIM BUDGET 2019-20 - ANALYSIS

On February 01, 2019, the Indian Finance Minister presented an interim Budget for financial year ("FY") 2019-20 ("Budget"). The backdrop of the Budget was the national elections which are slated to take place in the next few months. While a full budget will be announced by the newly elected government later this year, the present interim Budget will help the government machinery to run before the elections. While the Government expects to keep the fiscal deficit to 3.4% of GDP and current account deficit to 2.5% for FY 2019-20, the Budget does not make major tax policy changes. As anticipated, it centered its attention on the domestic rural and agrarian economy, the unorganized sector and low- income salaried citizens.

The Budget mainly focuses on the Government's vision to drive India to higher economic growth and become a five trillion-dollar economy in the next five years. The Budget lists down the Government's macro-economic plans for boosting sustained economic growth. These include expending capital towards building next generation physical infrastructure, building a strong health system, focusing on rural industrialization, farm production, a safe and clean environment, outer space programmes and the creation of a Digital India, amongst others.

Reforms have been proposed with the aim of generating higher income for farmers and the Indian middle class. A financial support scheme has been introduced which proposes to provide minimum guaranteed income to small and vulnerable farmers. This, along with the impetus given to interest subvention schemes for improving the availability of farmers' loans, is expected to increase disposable income in the hands of farmers and boost rural consumption. Similarly, budgetary allocation has been made towards social security benefits in the form of pension schemes for workers in the unorganized sector. Reforms are also made to safeguard the interests of micro, medium and small enterprises.

For providing relief to small taxpayers, the Budget offers a full tax rebate for individuals whose total income is below INR 5,00,000 (approx. USD 7000). No changes are however proposed in the income tax slab rates for individuals or corporates, and persons earning income over INR 5,00,000 remain to be taxed in the same manner. Certain other measures have also been introduced for promoting the interests of the middle class and salaried citizens of the country.

The Budget also provides a thrust to investment in the real estate sector. Proposals include a) tax exemption on notional rent earned by a person on two self-occupied houses; b) non-taxability of notional rental income on unsold inventories for two years; and c) benefits of rollover of capital gains up to INR 20 million (approx. USD 280,000) from investment in two residential houses. To boost affordable housing, tax exemptions for development of housing projects are extended by a year which are further likely to accelerate construction and provide a boost to the real estate sector.

An impetus is also given to technological development, creation of digital infrastructure and digitalization of governance. To this end, the Budget proposes to create a more taxpayer friendly, technology-driven, tax assessment platform, where scrutiny is proposed to be done anonymously and in a speedier manner. It is expected that tax returns will be processed digitally within 24 hours under this project. It would be interesting to see how this is implemented and whether this can minimize challenges around unreasonable and high-pitched assessments by the tax authorities.

The Budget also proposes to introduce much needed reform to India's stamp duty legislation. One of the key reforms proposed clarifies that where several instruments are executed in furtherance of a transaction relating to issue or transfer of securities, only the principal instrument will be chargeable with stamp duty. Other key reforms include proposals to (a) impose an obligation on stock exchanges and depositories to collect stamp duty on transfers (delivery based or otherwise) of listed securities, on behalf of State Governments (b) replace broker turnover stamp duty with stamp duty on the clearance list used for transactions through stock exchanges, and (c) withdraw the stamp duty waivers on transfer of securities and mutual fund units in dematerialized form. The reforms are expected to provide operations efficiency, increase government revenue and even streamline the process of paying stamp duty.

Thus, while the interim Budget does not make significant tax reforms, it indicates the direction and pace for India's economic policy. It is interesting that the Government has estimated a fiscal deficit of 3.4% of the total GDP and current account deficit of 2.5% of the GDP for FY 2019-20. While this is a prudent target, in light of the reforms and sops proposed, further reforms may be required to maintain these ratios. The expected nominal GDP growth rate of 11.5% in FY 2019-20, coupled with expectations of higher tax collections, specifically of goods and services tax, may have an impact on achieving set goals. The prospects of the Indian economy will also need to be assessed in light of emerging global trade tensions. All-in-all, the Finance Minister presented a populist Budget keeping the elections in mind while trying to not deviate from fiscal prudence.

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