

2019

Sectoral Analysis of Budget





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Banking, Financial Services and Insurance (BFSI)

Insurance

- FDI up to 100% will be permitted for insurance intermediaries
- Proposal to reduce Net Owned Fund requirement from Rs. 50 billion to Rs. 10 billion to facilitate onshoring of international insurance transactions and enable foreign reinsurers to open branches in the IFSC
- Proposal to open up FDI in the insurance sector is also under consideration

NBFCs

- To strengthen the RBI's monitoring mechanism and enhance corporate governance of NBFCs, the Government has proposed amendments in the RBI Act, 1934
 - This will give more powers to the RBI in prescribing minimum net owned funds of up to Rs. 1 billion for different categories of NBFCs, removal of directors, suppression of powers of the board of directors, issuing schemes for reorganization of NBFCs and seeking more information about their group companies
 - The changes also include provisions regarding action against defaulting auditors and enhancement of penalties for noncompliance by the NBFCs, its management and the auditors
- To encourage financially sound NBFCs, a partial credit guarantee of six months will be provided to public sector banks to purchase high-rated pooled assets for first loss, of up to 10%
- The requirement of Debenture Redemption Reserve for public issues of debt by NBFCs to be removed
- Public sector banks to be further provided INR70,000 crore capital to boost credit for a strong impetus to the economy
- The Factoring Regulation Act, 2011 will be amended to increase participation, especially by NBFCs, on the TReDS platform

Housing Finance

- Regulation authority over the housing finance sector to move back to RBI from National Housing Bank
- The minimum net owned fund requirement for housing finance companies is proposed to be enhanced to Rs. 100 million from the current Rs. 20 million

Foreign Investment

- Proposed liberalization in FDI rules for Aviation, Visual Effects, Gaming & Comics sectors
- Proposed relaxation in local sourcing norms for FDI in Single Brand Retail Trading
- Following measures to promote greater participation by FPI and NRIs:
 - Easier KYC norms for FPIs
 - Enhancement of FPI investment limit from 24% to the permitted sectoral limit at the option of the concerned investee company
 - Investments made by FPIs to be allowed in listed debt securities issued by REITs and InvITs
 - NRI Portfolio Investment Scheme to be merged with the Foreign Portfolio Investment Route to boost investment in Indian equities

Disinvestment

- Strategic disinvestment of select CPSEs and PSUs, including Air India, will continue to be a priority. A target of Rs. 1050 billion of disinvestment receipts set for 2019-20
- The Government proposes to reduce its stake from 51% in those non-financial public undertakings where it intends to retain control
 - ETFs will also be offered as an investment option to encourage long-term investment in CPSEs
- Foreign shareholding limits will be raised to maximum permissible sector limits for all PSU companies that are part of the Emerging Market Index.



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Infrastructure

- The Government plans to invest Rs. 100 lakh crore in infrastructure sector over the next five years
- There are plans to make India a hub for aircraft financing and leasing activities utilizing existing International Financial Service Centres and SEZs
- The Government will come out with a policy to promote Maintenance, Repair and Overhaul (MRO) industry
- The Government will examine suggestions of further opening up of FDI in aviation sector in consultation with all stakeholders
- PPP model will be introduced to unleash faster development and delivery of passenger freight services. There is a proposal to increase more PPP initiative for metro-rail
- Inland waterways for cargo transportation are planned to be developed, which in turn will help to decongest roads and railways
- Around 1,25,000km of road length will be upgraded over the next five years, with an estimated cost of INR80,250 crore
- Gas grids, water grids, i-ways and regional airports blueprints will be made available
- In order to promote Make in India, basic customs duty is being increased on various items

Automotive

- Deduction up to Rs. 1.5 lakh introduced for interest paid on loan taken to purchase an electric vehicle
- Scheme to be announced for incentivizing the setup of mega manufacturing plants for lithium batteries and solar PV cells, etc., to make India the global hub for manufacturing electric vehicles
- Suggestion to GST council to reduce GST rate from 12% to 5% for electric vehicles
- Basic custom duty will be increased on certain auto parts to promote Make in India initiative
- Custom duty exemption on import of certain electric vehicle parts

Defence

- The Government emphasized on an immediate requirement to modernize and upgrade the sector, secure national borders and reduce defence imports
- Exemption from basic Customs duty will be provided to military equipment and parts not being manufactured in India, on import by Ministry of Defence (MoD) or armed forces of specified military

Oil & Gas

- Blueprint to be announced for increasing infrastructure connectivity including development of gas grids
- Recommendation of High Level Empowered Committee (HLEC) to be implemented for retirement of old and inefficient thermal plants and addressing of low utilization of gas plant capacity due to paucity of natural gas
- Effective increase of special additional excise duty and road and infrastructure cess by INR1 for every litre of petrol and diesel with effect from 6 July 2019
- Basic customs duty to be payable on 7.5% of the transaction value for specified goods (imported duty free for petroleum or coal bed methane operations) disposed off in India in unserviceable and mutilated conditions

Retail

- Pension benefit to be extended to ~30 million retail traders and small shopkeepers with annual turnover less than INR15 million
- Business enterprises with annual turnover exceeding INR0.5 billion to provide low-cost electronic modes of payment – also no charges or merchant discount rate to be imposed on customers as well as merchants
- MSMEs to have easy access of credit for loans up to INR10 million by providing loans through a dedicated online portal within 59 minutes



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Real Estate

- Tax incentives for affordable housing:
 - Additional deduction of Rs. 1.5 lakhs to individuals, for interest paid on loan, subject to fulfillment of following conditions:
 - Loan sanctioned by a financial institution between 1 April 2019 and 31 March 2020
 - Stamp duty value of property not exceeding Rs. 45 lakhs
 - Individual not owning any other residential property on date of sanction of loan
 - Definition of “Affordable Housing” as provided under Income tax law aligned with GST law
- Definition of “consideration for immovable property” for purpose of TDS on transfer of immovable property, has been expanded
- Other policy measures:
 - Model tenancy law to be introduced to encourage rental housing
 - Joint development and concession mechanism to be utilized for releasing land from Central Government (including public sector enterprises) for undertaking affordable housing projects
 - FPIs permitted to invest in debt instruments issued by real estate investment trusts

Telecom

- Increase in the rate of Basic Customs Duty (BCD) on optical fibres, optical fibre bundle and cables from 10% to 15%
- Import of capital goods used for the manufacture of populated printed circuit board assembly (PCBA), camera modules of cellular mobile phones, chargers/adapters etc., exempted from BCD
- Withdrawal of exemption of BCD on certain inputs used in manufacture of cellular mobile phones
- Scheme to be introduced to invite global companies to set up mega manufacturing plants in advanced technology areas, such as semi conductor fabricator (FAB), lithium storage batteries, etc.

Chemical

- The Indian Government’s vision will double farmers’ income along with announcement of 10,000 farmer producer organizations (FPOs) formation to boost agro-chemical companies
- The growing Indian construction and water chemical companies will further strengthen because of continued focus on India’s infrastructure (the Indian Government will invest Rs 100 lakh crores in next 5 years) and policies announced in this Budget
 - e.g., second phase of Bharatmala, PPP to build railway infrastructure, affordable housing under Pradhan Mantri Awas Yojana, upgradation of roads connecting villages to rural markets under PMGSY-III, Jal Marg Vikas Project for capacity augmentation of navigation on National Waterways
- Income tax exemptions and indirect tax benefits are likely to be introduced to manufacturers of semi-conductor fabrication, solar photo voltaic cells, lithium storage batteries, solar electric charging infrastructure for making India a global hub of electric vehicles
 - This is expected to increase demand for silicon and lithium-ion batteries, and encourage Greenfield/Brownfield investments in India by companies manufacturing lithium and silicon
- Reduction of Basic Customs Duty on:
 - Naphtha falling under HSN 2710 reduced from 5% to 4%
 - Ethylene dichloride under HSN 29031500 reduced from 2% to 0%
 - Methyloxirane (propylene oxide) under HSN 29102000 reduced from 7.5% to 5%

Digital Economy

- To bridge the rural-urban digital divide, Bharat-Net is targeting internet connectivity in local bodies in every panchayat in the country. The Universal Service Obligation Fund will provide assistance under a PPP arrangement
- Twenty technology business incubators to be set-up in 2019-20 to skill entrepreneurs in rural areas



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Policies for Rural India

- Every rural family (except those opting out) will have electricity and clean cooking facility by 2022
- Department of fisheries to establish a robust fisheries management framework through Pradhan Mantri Matsya Sampada Yojna, addressing infrastructure, modernization, traceability, production, productivity, post-harvest management and quality control
- Scheme of Fund for Upgradation and Regeneration of Traditional Industries (SFURTI) aims to set-up common facility centres and it will contemplate Technology and Livelihood Business Incubators for artisans and skilled labour
- More Technology and Livelihood Business Incubators to be set-up to skill entrepreneurs in rural areas
- A vision of “Har Ghar Jal,” which will ensure piped water supply to all rural households through sustainable water supply management
- Swachh Bharat Mission to be extended to solid waste management in every village
- Government to promote cluster-based development of traditional industries by setting up CFCs for focused sectors: bamboo, honey and khadi
- Proposal to replicate zero-budget farming, already being practiced in some states

Corporate Debt Market

- Action plan for deepening the long-term bonds market with focus on infrastructure sector to be introduced
- The Government will work with regulators such as SEBI/ RBI to enable stock exchanges to allow AA rated bonds as collaterals
- Sale of debt investments made by FIIs/ FPIs in Infrastructure Debt Fund – NBFCs within the lock-in period proposed to be permitted
- Enable the inter-operability of RBI and SEBI depositories to allow retail investors to invest in treasury bills

Education and Skilling

- The Government proposes introducing a new National Education Policy to achieve the dual objective of:
 - Promoting research and innovation
 - Developing India as a knowledge hub destination
- A draft of the National Education Policy, 2019 has already been put up for public consultation until July 2019
- To develop India’s youth and make them future ready, the Government intends to train them to develop skill sets in niche areas such as AI, IoT, 3D printing, robotics, virtual reality and Big Data
- The Government proposes a comprehensive regulatory overhaul in higher education:
 - Providing greater autonomy, performance and learning outcome-based evaluations and focus on employability will be the key policy directions
 - Promote “Study in India” to attract foreign students to Indian institutions
 - Rs. 4 billion allocated to building “World Class Institutions” for FY 2019-20
- Introduction of new regulatory bodies:
 - A National Research Foundation to promote and coordinate research in the country
 - A National Sports Education Board for Development of Sportspersons will be set up under the “KheloIndia Scheme.”
 - Introduction of a HECI bill in the current year. The Government had announced its intention to introduce the HECI as a new regulator for higher education last year. This year, we expect to see the introduction of the bill to implement this



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Start Ups

Relaxation of conditions for Carry Forward and Set Off of Losses – Allowed if:

- At least 51% beneficial owners of voting power (i.e. shareholders) in value in the previous year should also be at least 51% beneficial owners of voting power (i.e. shareholders) in the year in which loss was incurred
- Change in ownership in the company (including start Ups) is due to any Resolution Plan approved by NCLT under IBC

Exemption of capital gains arising from sale of residential property for investment in eligible start-ups extended up to 31.03.2021

- Earlier it was required to invest up to 31.03.2019

Exemption from Angel Tax in certain cases

- If investment is received from any Venture Capital or any Category II Alternative Investment Fund (AIF) above fair market value, then Angel Tax would not be applicable u/s 56 (2) (viib)

Buy Back Tax introduced for Listed Company

- In case of buy back of shares by a listed co., It would be taxable in the hands of Company u/s 115QA, not in the hands of Shareholders
- Taxability in the hands of Private Companies has not changed.
- In nut shell, shareholders are not required to pay tax in case of buy back, it is the company who will pay tax on buy back u/s 115 QA

Relaxation in the condition to demerger

- Condition of recording the assets and liabilities at book value under demerger u/s 2 (19AA) by the resulting company shall not be applicable in a case where the property and liabilities of the undertaking received by it are recorded at different value in compliance with Indian Accounting Standards.

Other Provisions

- Exclusive TV channel will be launched for Start-ups under the DD bouquet
- Subject to the following, eligible start-up not to be scrutinized for “Angel Tax” issue by tax authorities:
 - Filing of requisite declaration and information in returns.
 - Identity of Investor and source of investment to be resolved by e-verification mechanism.
 - For pending assessments of eligible start-ups and redressal of grievances, special administrative arrangements will be introduced by CBDT. Any inquiry or verification in such cases will be done by AO only after approval of Supervisory officer.
 - To promote digital payments, no charges or Merchant Discount Rate shall be imposed on customers as well as merchants of the business establishments with annual turnover more than 50 crore, shall offer such low cost digital modes of payment to their customers.



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