INTERIM BUDGET 2019 – DIRECT TAX PROPOSALS

PREAMBLE

The Interim Budget for 2019 was presented by the Finance Minister in Parliament. The Finance Minister observed in his speech that Budget 2019 is not merely an Interim Budget but a medium of the country's development journey and through the Interim Budget, there is an attempt to set the momentum for growth.

While thrust in the pre-election Budget has been on providing relief to farmers and lower income groups, significant relief has been provided to the middle-class taxpayers by way of rebate on taxable income upto ₹ 5 lakhs and increased standard deduction for salaried employees, widening the scope of exemption in respect of capital gains tax arising out of sale of residential property and lesser tax outgo on income from house property. The real estate sector has been given impetus by amendment in the Income-tax laws. The Finance Minister in his speech also proposed processing of income-tax returns within 24 hours and issue of refunds simultaneously, and anonymous computerized assessment within next 2 years without any personal interface between the taxpayer and the tax officer.

The following are some of the key tax proposals in the Finance Bill 2019:

- While rates and slabs have been left unchanged, full tax rebate has been provided to Individual taxpayers having annual taxable income upto ₹ 5 lakhs.
- For salaried persons, standard deduction has been raised from ₹ 40,000 to ₹ 50,000.
- Exemption from income-tax on notional rent on second self-occupied house property.
- Period of exemption from income-tax on notional rent on unsold inventories increased from 1 to 2 years.
- Benefit under section 54 of the Income-tax Act, 1961 (**"the Act"**) in respect of capital gains increased from investment in one residential house to two residential houses for capital gains upto ₹ 2 crores, which can be availed once in a lifetime.
- Benefit under section 80-IBA of the Act extended by one year for housing projects approved upto 31st March 2020.

DIRECT TAX PROPOSALS

RATES OF TAX

- No change in the tax rates in the Interim Budget 2019.
- Effective tax rates are tabulated as under:

Individuals/ HUF

Income	Existing Slabs (A.Y. 2019-20)	Proposed Slabs (A.Y. 2020-21)
A) General (other than Senior citizens & Very senior citizens):		
Upto ₹ 2,50,000	NIL	NIL
Between ₹ 2,50,001 and ₹ 5,00,000	5.2%	5.2%
Between ₹ 5,00,001 and ₹ 10,00,000	20.80%	20.80%
Between ₹ 10,00,001 and ₹ 50,00,000	31.20%	31.20%
Between ₹ 50,00,001 and ₹ 1 crore	34.20%	34.20%
Above ₹ 1 crore	35.88%	35.88%
B) Senior citizens - Resident (aged 60 years or above but less than 80 years):		
Upto ₹ 3,00,000	NIL	NIL
Between ₹ 3,00,001 and ₹ 5,00,000	5.2%	5.2%
Between ₹ 5,00,001 and ₹ 10,00,000	20.80%	20.80%
Between ₹ 10,00,001 and ₹ 50,00,000	31.20%	31.20%
Between ₹ 50,00,001 and ₹ 1 crore	34.32%	34.32%
Above ₹ 1 crore	35.88%	35.88%
C) Super Senior Citizen – Resident (aged 80 years or more)		
Upto ₹ 5,00,000	NIL	NIL
Between ₹ 5,00,001 and ₹ 10,00,000	20.80%	20.80%
Between ₹ 10,00,001 and ₹ 50,00,000	31.20%	31.20%
Between ₹ 50,00,001 and ₹ 1 crore	34.32%	34.32%
Above ₹ 1 crore	35.88%	35.88%

Rebate under section 87A to individuals

[Clause 8] *(w.e.f. 01.04.2020)*

- Rebate of income-tax available to resident individuals is proposed to be enhanced from ₹ 2,500 to ₹ 12,500 where total income of individual does not exceed ₹ 5,00,000 (earlier limit was ₹ 3,50,000).
- In effect, no tax is payable by resident individuals having total taxable income (after deductions) not exceeding ₹ 5,00,000.
- In case total income exceed exceeds ₹ 5,00,000, no rebate is available to the taxpayer.
- Benefit consequent to enhancement of rebate u/s 87A is illustrated as under:

Illustration:

(figures in INR)

Resident Individual< 60 years	Illustration 1	Illustration 2	Illustration 3	Illustration 4
Gross Total Income	4,50,000	6,50,000	6,50,000	8,00,000
Less: Deduction under Chapter VI-A	50,000	1,50,000	1,40,000	1,50,000
Total Income	4,00,000	5,00,000	5,10,000	6,50,000
Tax Payable (as per slab rates before cess)	7,500	12,500	14,500	42,500
Less: Rebate u/s 87A	7,500	12,500	-	-
Tax payable	-	-	14,500	42,500
Add: Cess @ 4%	-	-	580	1,700
Total tax liability	-	-	15,080	44,200

Domestic Company

(A) Where the total turnover in previous year 2016-17 does not exceed ₹ 250 crores.

Income	Existing Slabs (AY 2019-20)	Proposed Slabs (AY 2020-21)
Upto ₹ 1 crore	26%	26%
Above ₹ 1 crore but less than ₹ 10 crores (inclusive of surcharge @ 7%)	27.82%	27.82%
Above ₹ 10 crores (inclusive of surcharge @ 12%)	29.12%	29.12%

(B) Where the total turnover in previous year 2016-17 exceeds ₹ 250 crores.

Income	Existing Slabs (AY 2019-20)	Proposed Slabs (AY 2020-21)
Upto ₹ 1 crore	31.2%	31.2%
Above ₹ 1 crore but less than ₹ 10 crores (inclusive of surcharge @ 7%)	33.384%	33.384%
Above ₹ 10 crores (inclusive of surcharge @ 12%)	34.944%	34.944%

Foreign Company

Income	Existing Slabs (AY 2019-20)	Proposed Slabs (AY 2020-21)
Upto ₹ 1 crore	41.6%	41.6%
₹ 1 crore to ₹ 10 crores (inclusive of surcharge @ 2%)	42.43%	42.43%
Above ₹ 10 crores (inclusive of surcharge @ 5%)	43.68%	43.68%

Local Authority/ Firm

Income	Existing Slabs (AY 2019-20)	Proposed Slabs (AY 2020-21)
Upto ₹ 1 crore	31.2%	31.2%
Above ₹ 10 crores (inclusive of surcharge @ 12%)	34.94%	34.94%

Co-operative Society

Income	Existing Slabs (AY 2019-20)	Proposed Slabs (AY 2020-21)
Upto ₹ 10,000	10.4%	10.4%
₹ 10,000 to ₹ 20,000	20.8%	20.8%
₹ 20,000 to ₹ 1 crore	31.2%	31.2%
Above 1 crore (inclusive of surcharge @ 12%)	34.94%	34.94%

OTHER AMENDMENTS

Standard deduction to salaried individuals

[Clause 3] *(w.e.f. 01.04.2020)*

- Clause (ia) of section 16, inserted vide the Finance Act, 2018 provided for standard deduction of ₹ 40,000 or the amount of salary, whichever is lower, while computing income under the head salary.
- It is proposed to increase the aforesaid standard deduction from ₹ 40,000 to ₹ 50,000.

Benefit of Nil annual value available to two self-occupied house properties

[Clause 4&5] *(w.e.f. 01.04.2020)*

- Section 23 of the Act determines annual value of a house property liable to tax under the head 'income from house property'. Sub-section (2) read with sub-section (4) to section 23 allows annual value of one self-occupied house property at Nil. Any additional house property is subject to tax at notional annual letting value.

- The Finance Bill proposes to amend section 23(4) to extend aforesaid benefit of Nil annual value from one house to two self-occupiedhouses.

- Further, the existing provisions of section 24,interalia, allows deduction of interest expenditure to the extent of2,00,000 in case of self-occupied house, whose annual value is taken as NIL under section 23(2) of the Act.

- It is proposed to amend the aforesaid provisions of section 24 to provide that the aforesaid benefit of deduction on account of interest expenditure shall not in aggregate exceed ₹ 2,00,000, even where annual value of two self-occupied houses is taken at NIL under section 23(2) of the Act.

Comments/ Observations

- The amendment would benefit taxpayers maintaining families across two or more locations on account of professional/ personal commitments.

- Pertinently, deduction of interest to the extent of ₹ 2,00,000 shall not, henceforth, be available separately with respect of each self-occupied house, but shall be cumulative for both self-occupied houses, as illustrated hereunder:

Particulars	**Illustration 1**		**Illustration 2**	
	1st Self Occupied House	**2nd Self Occupied House**	**1st Self Occupied House**	**2nd Self Occupied House**
Net Annual value	Nil	Nil	Nil	Nil
Less: Deductions u/s 24				
(a) Std. Deduction @ 30%	-	-	-	-
(b) Interest related to property	1,50,000	50,000	1,50,000	1,00,000
Aggregate interest of both properties	**2,00,000**		**2,50,000**	
Interest allowable as deduction	**2,00,000**		**2,00,000**	
Income/ (loss) u/h house property	**(2,00,000)**		**(2,00,000)**	

- Proposed amendment may be disadvantageous to taxpayers having substantial interest costs in relation to two self-occupied house properties, as illustrated hereunder:

Particulars	Pre-Amendment		Post-Amendment	
	1st Self Occupied House	2nd Self Occupied House (deemed let out)	1st Self Occupied House	2nd Self Occupied House
Net Annual value	Nil	1,80,000	Nil	Nil
Less: Deductions u/s 24				
(c) Std. Deduction @ 30%	-	-	-	-
(d) Interest related to property	1,50,000	3,00,000	1,50,000	3,00,000
Deduction of interest allowable	(1,50,000)	(3,00,000)	(2,00,000)	
Income/ (Loss) u/h house property	(1,50,000)	(1,20,000)	(2,00,000)	
Aggregate income/ loss u/h house property*	(2,70,000)		(2,00,000)	

* Loss is thus higher under pre-amended regime.

Notional rent of unsold inventory in the hands of real-estate developer

[Clause 4] *(w.e.f. 01.04.2020)*

- Section 23(5) of the Act inserted by the Finance Act, 2017 provided that annual value of house property held as 'stock-in trade' shall be taken as NIL until one year from end of financial year in which completion certificate for such property is obtained by the assessee.
- It is proposed to amend the aforesaid section in order to extend the grace period of one year to two years from end of financial year in which completion certificate is obtained.

Comments/ Observations

- The aforesaid amendment comes as a respite for real estate developers sitting over unsold stock of inventories due to sluggish markets.

Roll over of exemption under section 54 to two residential house properties

[Clause 6] *(w.e.f. 01.04.2020)*

- Section 54 of the Act provides for exemption from long term capital gain arising on transfer of a residential house property, if such gain is utilized in acquiring one residential house property, subject to fulfilment of certain other conditions specified therein.
- The aforesaid section is proposed to be amended to extend benefit of said exemption on investment of gain in maximum of two residential house properties, instead of one house earlier, subject to the condition that the amount of long-term capital gain does not exceed ₹ 2 crores.
- The aforesaid benefit/ option can be exercised by the taxpayer only once in a lifetime.

Comments/ Observations

- The enhanced benefit may be illustrated as under:

Particulars	Pre-Amendment	Post-Amendment
LTCG on sale of residential house	2,00,00,000	2,00,00,000
Investment in new residential house		
- Residential house 1	75,00,000	75,00,000
- Residential house 2	1,25,00,000	1,25,00,000
Exemption u/s 54	1,25,00,000	2,00,00,000
Taxable LTCG	75,00,000	NIL
Tax on above @20%	15,00,000	NIL

Deduction under Section 80-IBA

[Clause 7] *(w.e.f. 01.04.2020)*

- Section 80-IBA provides for deduction of profits and gains derived from housing projects, being approved by competent authority upto 31.03.2019.
- The aforesaid sunset date of obtaining approval from competent authority is proposed to be extended from 31.03.2019 to 31.03.2020.

Increased threshold limit in section 194A

[Clause 9] *(w.e.f. 01.04.2020)*

- Section 194A,interalia,provides for deduction of tax at source @ 10% by bank, cooperative society, post office or under other notified scheme on interest (other than interest on securities) exceeding ₹ 10,000 payable/ paid to resident.
- It is proposed to amend the aforesaid section to enhance the aforesaid threshold limit of TDS from ₹ 10,000 to ₹ 40,000.

Enhanced threshold for TDS on rental payment under section 194I

[Clause 10] *(w.e.f. 01.04.2020)*

- It is proposed to enhance the threshold limit of TDS on annual payment of rent under section 194I from ₹ 1,80,000 to ₹ 2,40,000.

MISCELLANEOUS –

PREVENTION OF MONEY LAUNDERING ACT, 2002

Enhancement of time limit for attachment of property

[Clause 22] *(w.e.f. Date to be notified by Central Government)*

- Under section 8(3) of the Prevention of Money Laundering Act, 2002 (**"PMLA"**), the Adjudicating Authority confirms attachment of property involved in money laundering, which continues upto 90 days during investigation.
- It is proposed to extend the time limit of 90 days to 365 days.
- It is further proposed to insert an explanation to exclude the period during which investigation is stayed by any Court in counting 365 days period.

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Prepared for the use of clients and professional associates.

The document summarises the proposals made in the Finance Bill 2019-20 and key policy announcements and reviews them objectively.

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