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INDIAN INTERIM BUDGET 2019: AS GOOD AS IT GETS?

1 February 2019

Today, in the wake of the General Elections slated to be held in May 2019, the Government of India (Government) presented the Interim Budget 2019 (Budget).

The Hon'ble Finance Minister, whilst presenting the Budget, recounted some of the major achievements and initiatives undertaken by the Government during its tenure. The highlight being the fact that India has become the sixth largest economy in the world.

The noteworthy initiatives of the Government include, *inter alia*, the introduction of the Insolvency and Bankruptcy Code, 2016 which has led to recovery of huge Non Performing Assets (approx. USD 5 billion), implementation of the Goods and Services Tax, introduction of the Undisclosed Foreign Income and Assets Act, 2015, to bring about penalties for undisclosed income and assets, enactment of the Real Estate (Regulation and Development) Act, 2016 to bring about transparency in real estate transactions, introducing a legislation to combat fugitive economic offenders, liberalisation of the foreign direct investment policy to provide impetus to foreign investments in India, focusing on bringing down the fiscal deficit and significant reduction in inflation levels.

While there are no major income-tax related announcements, the flavour of the Budget proffered to the needs of the ordinary man and the real estate space. No changes have been proposed that would have an impact on the international investor community or the globalization of Indian businesses. The key highlights of the proposals (if enacted, would be effective from financial year (FY) 2019-20), are as follows:

- No change in tax rate, surcharge or education cess, for all taxpayers, with the highest slab rate of tax being 30%;
- SMEs tax rate of 25% remains unchanged provided their turnover in FY 2017-18 is a maximum of INR 2500 million as against FY 2016-17;
- Tax rebate to small taxpayers (individuals) and salaried employees;
- Tax on 'notional rent' to be triggered only if more than two houses are owned which is presently triggered upon owning more than one house;
- Relief to real estate sector: (a) Tax levy on 'notional rent' on unsold inventories held by real estate developers after two years from their project completion as

against the present one year; (b) extending the sunset clause from 31 March 2019 to 31 March 2020 with respect to claiming tax holiday on real estate projects;

- Benefit of exemption to individuals from payment of long-term capital gains (LTCG) on sale of residential property expanded from re-investment in one residential house to two residential houses (subject to conditions);
- Minor tweaks to limits relating to tax deduction at source on interest and rental payments.

The crescendo of the Budget speech was to make the Income-tax Department more taxpayer friendly by adopting technology driven measures. To this end, the vision is to implement 'E-tax assessments' in India, within the next two years. The salient features would include the elimination of any human interface with the tax administration; and processing of returns and refunds within 24 hours of filing.

Since this was an interim budget, the proposals were expectedly limited. As the political scenario in India gears up to welcome its next Government later this year, all eyes are now on the comprehensive Union Budget anticipated to be presented in July 2019 (Union Budget).

Interestingly, the present Government had formed a panel in November 2017 to prepare a report on replacing the existing Income-tax Act 1961 (IT Act) with a direct tax code. The intention of replacing the IT Act with a new code was to reduce tax litigation, simplify and provide clarity in tax law provisions and increase revenue collections. This report is expected to be presented by 28 February 2019. The interplay between the report and the Union Budget would be interesting to note. All in all, the Budget announcements of today were positively geared towards socialistic reforms, a step in the right direction when the country is on the brink of an upcoming election for the new Government.

- KCO Direct Tax Team

For any queries please contact: editors@khaitanco.com

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Mumbai

One Indiabulls Centre, 13th Floor
Tower 1 841, Senapati Bapat Marg
Mumbai 400 013, India

T: +91 22 6636 5000
E: mumbai@khaitanco.com

New Delhi

Ashoka Estate, 12th Floor
24 Barakhamba Road
New Delhi 110 001, India

T: +91 11 4151 5454
E: delhi@khaitanco.com

Bengaluru

Simal, 2nd Floor
7/1, Ulsoor Road
Bengaluru 560 042, India

T: +91 80 4339 7000
E: bengaluru@khaitanco.com

Kolkata

Emerald House
1 B Old Post Office Street
Kolkata 700 001, India

T: +91 33 2248 7000
E: kolkata@khaitanco.com