ECONOMIC LAWS PRACTICE
ADVOCATES & SOLICITORS

INTERIM UNION BUDGET 2019

An Analysis

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PREFACE

Dear Reader,

We at Economic Laws Practice (ELP) are delighted to present our analysis of the Interim Budget, delivered by the Hon'ble Interim Finance Minister Mr. Piyush Goyal.

As was widely anticipated given the upcoming elections, the Interim Budget has a populist undertone and directly puts monies in the hands of India's burgeoning middle class, in addition to alleviating concerns expressed by small to mid-size traders and the rural sector. The Interim Budget has managed to strike the right balance wherein every segment of society gets a little bit, with the promise of lots more to come, as was clear from the Interim Finance Minister's vision for India over the next 10 years.

As per convention, the main tax proposals will be presented in the regular Budget to be announced after the General Elections (and not in the Interim Budget). However, certain amendments have been proposed in this Interim Budget to reduce the tax burden on the middle-class tax payers:

Key proposals include:

1. *Reduction in tax burden for the salaried and middle class via the proposed increase in standard deduction and the tax rebate*
2. *Benefit of rollover of capital tax gains, which can be exercised once in a lifetime, proposed to be increased from investment in one residential house to that in two residential houses, for a taxpayer having capital gains up to 2 crore rupees*
3. *Tax Holiday under Section 80-IBA for affordable housing extended for one more year i.e. for projects approved up to March 31, 2020*
4. *Initiatives being taken to reduce the time limit of processing of income tax returns and issuance of refund within 24 hours*
5. *Amendments proposed in relation to notional income on unsold stock in trade, extending exemption to two self-occupied house properties, reinvestment of capital gains in two houses and extension of tax holiday for affordable housing has brought cheer to the real estate industry*
6. *Rationalisation of stamp duty on instruments pertaining to securities*

The Interim Budget has always been used as a platform to reiterate the reforms and policies introduced by the Government during its tenure, and this is no exception with the government announcing several beneficial tax amendments for the middle class and also allocating additional reforms for rural India. In sum, certainly a populist budget focussing on the betterment of rural India and the middle class. A win- win for all.

As always, we welcome your comments and feedback.

Warm Regards,
Team ELP

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BUDGET HIGHLIGHTS

DIRECT TAXES

- Individual taxpayers with annual income up to INR 5,00,000 to get full tax rebate.
- Standard deduction for salaried individual raised from INR 40,000 to INR 50,000.
- Benefit of rollover of capital gains tax to be increased from investment in one residential house to two residential houses, for a taxpayer having capital gains up to INR 2 crores; can be exercised once in a lifetime.
- TDS threshold on interest on bank and post office deposits raised from INR 10,000 to INR 40,000.
- TDS threshold for payment of rent to be increased from INR 1,80,000 to INR 2,40,0000.
- Exemption from levy of income-tax on notional rent on second house property.
- Section 80-IBA benefit for affordable housing project extended by one more year i.e. projects approved up to March 31, 2020 will now enjoy exemption.
- Initiatives to be taken to reduce the time limit for processing of income-tax returns and issuance of the refund within 24 hours.
- Period of exemption from income-tax on notional rent from unsold inventory of immovable property increased from one year to two years.

DIRECT TAXES

INCOME TAX RATES

Existing and Proposed

No changes have been proposed in the rates of tax. Accordingly, the rates of tax as applicable for AY 2020-21 are as under:

Income (INR)	Existing & Proposed Rates (%)		
	Individuals (Age less than 60 years)	Senior Citizens (Age more than 60 years but less than 80 years)	Super Senior Citizen (Age more than 80 years)
0 -2,50,000	NIL	NIL	NIL
2,50,001 - 3,00,000	5	NIL	NIL
3,00,001 - 5,00,000	5	5	NIL
5,00,001 - 10,00,000	20	20	20
10,00,001 and above	30	30	30

Notes: Rebate, Surcharge & Cess

Sr. No.	Particulars	Existing	Proposed
1	Rebate	▪ INR 2,500 – If total income does not exceed INR 3.50 lakhs	▪ INR 12,500 – If total income does not exceed INR 5 lakhs
2	Surcharge	▪ 10% to be levied if the total income is between INR 50 lakhs to INR 1 crore; ▪ 15% is levied if the total income exceeds INR 1 crore	
3	Cess - Health and Education cess	▪ 4%	
4	AMT	▪ 19.24% (including cess) - If adjusted total income exceeds INR 20 lakhs but less than INR 50 lakhs ▪ 21.16% (including cess) - If adjusted total income is between INR 50 lakhs to INR 1 crore ▪ 22.13% (including cess) - If adjusted total income exceeds INR 1 crore	

For Companies, Firms, LLP

Sr. No.	Description	Existing & Proposed rates (%) (Including surcharge & Cess)		
(A)	**Domestic Companies**	**Net income does not exceed INR 1 crore**	**Net Income is between INR 1 crore and INR 10 crore**	**Net income exceeds INR 10 crore**
1	Regular tax	31.20	33.38	34.94
	Regular tax for companies whose total turnover or gross receipts in previous year does not exceed INR 250 crores	26.00	27.82	29.12
	Regular tax for companies covered under Section 115BA	26.00	27.82	29.12
2	MAT under Section 115JB (Rate to be applied on book profits)	19.24	20.59	21.55
3	BDT under Section 115QA	23.296 (Includes surcharge of 12% and cess of 4%)		
4	DDT under Section 115-O (without grossing up)	17.472 (Includes surcharge of 12% and cess of 4%)		
(B)	**Foreign Companies**	**Net income does not exceed INR 1 crore**	**Net Income is between INR 1 crore and INR 10 crores**	**Net Income is between INR 1 crore and INR 10 crores**
1	Regular tax	41.60	42.43	43.68
(C)	**Firms and LLP**	**Net income does not exceed INR 1 crore**		**Net income exceeds INR 1 crore**
1	Regular tax	31.20		34.944
		Adjusted total income exceeding INR 20 lakhs but less than INR 1 crore		**Adjusted total income exceeds INR 1 crore**
2	AMT	19.24		21.55

Notes: Surcharge & Cess

Particulars	Existing & Proposed
For Domestic companies	▪ NIL - If the Net income does not exceed INR 1 crore ▪ 7% - If the Net Income is between INR 1 crore and INR 10 crores ▪ 12% - If the Net income exceeds INR 10 crores
For Foreign companies	▪ NIL - If the Net income does not exceed INR 1 crore ▪ 2% - If the Net Income is between INR 1 crore and INR 10 crores ▪ 5% - If the Net income exceeds INR 10 crores
For Firms and LLP	▪ 12% is levied if the total income exceeds INR 1 crore
Cess - Health and Education cess	▪ 4%

ELP COMMENTS:

The rebate proposed on annual total income up to INR 5 lakhs is a welcome amendment for the salaried and lower-middle class taxpayers which constitute the largest category of taxpayers. It will lead to higher disposable income and thus, will result in increased consumer spending by such taxpayers.

Accordingly, salaried taxpayers with an annual income of up to INR 7 lakhs and non-salaried taxpayers with an annual income of INR 6.5 lakhs will now not be required to pay any income-tax, if the taxpayer makes investment in provident fund and other prescribed securities as per the provisions of Section 80C of the IT Act. We have illustrated the calculations below for your ease of reference:

Computation for Salaried Taxpayers:

Particulars	As per the erstwhile provisions (INR)	As per the proposed provisions (INR)
Salary Income	7,00,000	7,00,000
Less: Deductions under Section 16 of the IT Act	(40,000)	(50,000)
Income from Salary	6,60,000	6,50,000
Less: Deduction under Chapter VI-A		
Deductions under Section 80C of the IT Act	(1,50,000)	(1,50,000)
Total Income	**5,10,000**	**5,00,000**
Tax on the above (as per slab rates)		
Up to INR 2,50,000	Nil	Nil

From INR 2,50,001 – INR 5,00,000 (@ 5%)	12,500	12,500
From INR 5,00,001 – INR 5,10,000 (@ 20%)	2,000	N.A
Total Tax payable	14,500	12,500
Less: Rebate under Section 87A of the IT Act	Nil	(12,500)
Tax payable	14,500	NIL
Add: Health & Education Cess (@4%)	580	-
Total tax payable	15,080	NIL
Net tax savings	**15,080**	

<u>Computation for other than Salaried Taxpayers:</u>

Particulars	As per the erstwhile provisions (INR)	As per the proposed provisions (INR)
Annual Income under various heads of income	6,50,000	6,50,000
<u>Less: Deduction under Chapter VI-A</u>		
Deductions under Section 80C of the IT Act	1,50,000	1,50,000
Total Income	**5,00,000**	**5,00,000**
<u>Tax on the above (as per slab rates)</u>		
Up to INR 2,50,000	Nil	Nil
From INR 2,50,001 – INR 5,00,000 (@ 5%)	12,500	12,500
Total Tax payable	12,500	12,500
Less: Rebate under Section 87A of the IT Act	Nil	12,500
Tax payable	12,500	NIL
Add: Health & Education Cess (@4%)	500	-
Total tax payable	13,000	NIL
Net tax savings	**13,000**	

INCOME FROM SALARIES

Standard Deduction on Salary income proposed to be increased

- The provisions of Section 16(ia) of the IT Act are proposed to be amended to increase the standard deduction from INR 40,000 to INR 50,000 while computing the income under the head "Salaries".
- The amendment will take effect from April 1, 2020.

ELP COMMENTS:

Section 16(ia) of the IT Act provides for standard deduction at the time of computation of the income under the head "Salaries". The present standard deduction is INR 40,000, which was introduced by the Finance Act, 2018.

The proposed amendment to increase the standard deduction from INR 40,000 to INR 50,000 will further reduce the tax burden on individuals earning income under the head "Salaries".

INCOME FROM HOUSE PROPERTY

Exemption from income-tax on notional rent for second self-occupied property

- Currently as per Section 23(4) of the IT Act, a taxpayer is provided with an option to claim nil annual value in respect of any one house, declared as self-occupied property. It is now proposed to extend this relief in respect of any two houses, declared as self-occupied property.
- Section 24 of the IT Act has been amended to provide that the aggregate of the amounts of deduction shall not exceed INR 2 lakhs. In other words, irrespective of two self-occupied properties, the aggregate amount of deduction in case of borrowed capital shall not exceed INR 2 lakhs.
- The amendment will take effect from April 1, 2020.

ELP COMMENTS:

Section 23(2) of the IT Act provides that in case of self-occupied property, the annual value for the purposes of determining the income under the head "House Property" shall be taken as "Nil". Section 23(4) of the IT Act restricts the above exemption to only one house property and provides that other than the one house property on which exemption has been claimed, the other shall be taxable in the hands of the tax payer.

In other words, up till one self-occupied property, no income shall be chargeable to tax under the head "House Property". It has been proposed to extend the exemption to two self-occupied properties. The proposed amendment is a welcome move considering that there are many tax payers who will have more than one self-occupied property. This will also give much needed impetus to the real estate sector. The deduction on borrowed capital is proposed to be restricted INR 2 lakhs.

Taxation of unsold stock in trade in case of real estate developers

- Section 23(5) of the IT Act is proposed to be amended to provide that in case of building or land held as stock in trade and which is not let out, in such a case, the annual value of such property for a period of two years, from the end of financial year in which the certificate of completion of construction is obtained, shall be taken as "nil".
- The amendment will take effect from April 1, 2020.

ELP COMMENTS:

Section 23(5) was introduced vide the Finance Act, 2017 to provide that in case of real estate developers, wherein the building or land is held as stock in trade, and if the property is not let out after one year of obtaining completion certificate, then such real estate developers will be liable to tax on the annual value of such property as notional income.

The real estate industry was already under pressure mainly on account of disruption caused by demonetization, introduction of GST and RERA. Further, the industry was facing the challenge of piled up completed unsold inventory due to lower sales.

The above amendment introduced by the Finance Act, 2017 caused a furore in the real estate industry and was touted as the "sin-tax" on unsold completed inventory. As a result, the industry had made multiple representations before the Government for providing relaxation/withdrawal of the said amendment.

Taking into consideration the hardship faced by the industry, the Finance Bill, 2019 proposes to relax the time-limit for charge of notional tax to the inventory lying unsold till two years (instead of one year) of obtaining completion certificate. The proposed amendment is a welcome move and will provide a much needed breather to the real estate industry.

CAPITAL GAINS

Exemption under Section 54 extended to investment in two residential houses

- Section 54 of the IT Act provides exemption to an individual or HUF on LTCG arising from transfer of a residential house if such LTCG is utilized for acquiring one residential house. Further, such exemption is available if the individual or HUF:
  - purchases one residential house within one year before or two years after the date of transfer; or
  - constructs one residential house within three years from the date of transfer,
  - to the extent of LTCG arising from transfer of a residential house or amount invested in purchase or construction of one such residential house, whichever is lower.
- Finance Bill, 2019 proposes that if the LTCG does not exceed INR 2 crores, then the taxpayer would have an option to purchase or construct "two" residential houses in India instead of "one" residential house for availing the exemption under Section 54 of the IT Act, which will take effect from April 1, 2020. Further, the taxpayer can exercise such an option only once during his lifetime. The said proposed amendment has been illustrated as under:

Particulars	Scenario 1 – LTCG less than INR 2 crores	Scenario 2 – LTCG exceeding INR 2 crores
LTCG on transfer of a residential property (A)	1,80,00,000	2,10,00,000

Number of residential properties purchased from above proceeds	2	2
Value of house 1 purchased	1,20,00,000	1,20,00,000
Value of house 2 purchased	60,00,0000	90,00,000
Option to avail benefit as per proviso to Section 54 proposed by Finance Bill, 2019	Yes	No
Exemption available under Section 54 of the IT Act (B)	1,80,00,000	1,20,00,000
Value of taxable LTCG (A-B)	**Nil**	**90,00,000**

ELP COMMENTS:

The proposed amendment to Section 54 of the IT Act is a welcome measure providing an option to the taxpayers to invest the LTCG up to INR 2 crores into two residential houses instead of one residential house. The said amendment will benefit the real estate industry and will increase the demand for the residential property.

TDS

- Currently, Section 194A of the IT Act prescribes TDS on interest income, other than interest on securities. Further, TDS under Section 194A of the IT Act is not applicable when the interest income paid by a banking company, co-operative society or a post office does not exceed INR 10,000 in a financial year.
- It is proposed to amend Section 194A of the IT Act to raise the threshold limit from INR 10,000 to INR 40,000, for TDS on interest income, other than interest on securities, paid by a banking company, co-operative society or a post office in a financial year.

ELP COMMENTS:

Raising of the threshold limit for TDS from INR 10,000 to INR 40,000 on interest income on deposits with banks and post office will ease the compliance burden on small taxpayers. Further, it will reduce the withholding tax compliance required to be undertaken by banks and post offices.

The above amendment is in line with other amendments proposed in the Finance Bill, 2019 providing benefit to small taxpayers.

- Currently, Section 194-I of the IT Act prescribes TDS on rental income. Further, TDS under Section 194-I of the IT Act is not applicable when the rent paid does not exceed INR 180,000 in a financial year.
- It is proposed to amend Section 194-I of the IT Act to raise the threshold limit from INR 180,000 to INR 240,000, for TDS on rental income.

ELP COMMENTS:

Threshold under Section 194-I of the IT Act was earlier increased by Finance Act, 2010 from INR 120,000 to INR 180,000. Finance Act, 2019 has proposed to raise the said threshold to INR 240,000. Taking into account the rising inflation, the proposed increase in the threshold is a welcome rationalization measure resulting in easing the compliance burden on landlords letting out small properties.

DEDUCTION

Extension of one year given for deductions in respect of profits and gains from housing projects

Amendment made to Section 80-IBA of the IT Act

- Section 80-IBA of the IT Act is proposed to be amended to extend the benefit of deduction to affordable housing projects approved on or before March 31, 2020.

ELP COMMENTS:

With an intention of promoting affordable housing projects, Section 80-IBA of the IT Act was introduced by the Finance Act, 2016 to provide deduction of 100% profits to entities engaged in development of housing projects, subject to certain conditions. This deduction was available to projects approved between June 1, 2016 to March 31, 2019. This benefit is now proposed to be extended for another one year.

BANKING & FINANCE, CORPORATE & COMMERCIAL, DEFENCE, IBC, PRIVATE EQUITY & VENTURE CAPITAL AND REAL ESTATE

BANKING & FINANCE

(a) Stamp duty on Financial Transaction

It is proposed to levy stamp duty on one instrument relating to one transaction and to be collected at one place through the Stock Exchanges. To protect the State revenues, the duty collected is proposed to be shared with the State Governments on the basis of the domicile of the buying client.

ELP COMMENTS:

This will considerably bring down the transaction cost and will facilitate financial transactions executed electronically, in line with SEBI's demand to rationalise stamp duty structure for financial transactions.

(b) Stamp Duty on Debentures

The present stamp duty on issuance of debentures is 0.05% per year of the face value of the debentures, subject to maximum of 0.25% or INR 25 lakhs whichever is lower.

Stamp duty on issuance of debentures is proposed to be revised to 0.005% and the aforesaid cap of 0.25% or INR 25 lakhs is proposed to be removed.

ELP COMMENTS:

The table below illustrates the earlier stamp duty structures on issuance of debentures and the proposed amendment:

Amount of Debenture (in Rupees) Amount	Stamp Duty Amount (INR) – As Per Present Rates		Stamp Duty Amount (INR) – As Per The Proposed Amendment
	Tenure: 1 year	Tenure: 5 years	Tenure: Not Applicable Now
1 lakh	50	250	5
10 lakhs	500	2500	50
1 crore	5000	25000	500
10 crores	50000	250000	5000
100 crores	500000	2500000	50000
500 crores	2500000	2500000	250000
5000 crores	2500000	2500000	2500000

As can be seen in the above table:

i) It is proposed to do away with the structure of calculating stamp duty based on tenure of the debentures.
ii) The proposed amendment in stamp duty will help issuers in capital market to reduce stamp duty cost since as per the present stamp duty rates, issuance of debentures of INR 100 crores (for a tenure of 5 years or more) or INR 500 crores (irrespective of tenure) itself hits the cap of INR 25 lakhs which amount (of stamp duty) will now be triggered for issuance of INR 5000 crores.

BANKING REFORMS UNDER INSOLVENCY AND BANKRUPTCY CODE

Interim Finance Minister Piyush Goyal used the Budget 2019 to drive home the Government's achievements in improving banks' financial health amid the ongoing NPA crisis, and to highlight the success of the recently introduced IBC.

In his speech, he noted that the period of 2008-2014 can be recognised as the period of aggressive credit growth as the outstanding loans of public sector banks ballooned from INR 18 lakh crores to INR 52 lakh crores. NPAs burgeoned due to the fact that projects were started which could either not be completed or had low capacity utilization.

In the budget speech, the Interim Finance Minister stated that the Government has taken proactive measures to address the NPA issue plaguing the banking sector and has followed the 4R process – Recognition, Resolution, Recapitalization and Reforms.

Further, in the budget speech, the Interim Finance Minister claimed that INR 3 lakh crores has been recovered via the IBC process. The IBC is a resolution friendly mechanism which is helping in recovery of NPA loans while preserving the underlying businesses and jobs.

To restore the financial health of public sector banks, recapitalization has been done up to INR 2.6 lakh crores and amalgamation of banks were done to reap the benefits of economies of scale, improve access to credit and cover larger geographical area. Further it was also pointed out that three PSU banks — Bank of Baroda, Bank of Maharashtra and Oriental Bank of Commerce — have been removed from the prompt corrective action list of RBI.

ELP COMMENTS:

The IBC process has helped the financial creditors to recover Rs. 3 lakh crores in recovery of NPA loans while preserving the underlying businesses and jobs. However, the IBC has also faced many practical challenges such as unwarranted litigations without much merit being filed before various authorities, which has served only to clog the adjudicating system.

Mr. Arun Jaitley in his speech has said that *"The early harvest through the IBC process has been extremely satisfactory. It has changed the debtor-creditor relationship. The creditor no longer chases the debtor. In fact, it is otherwise. Upon the constitution of the NCLT and the implementation of IBC its functionality had revealed the need for improvements in the law. Two legislative intervention since then have taken place".*

The IBC has been touted as the knight in shining armour to salvage the NPA situation, accordingly, expectations from it have surged. Though much ground has been covered over last two years, there are certain concerns, which may require attention such as:

a) Litigations/interventions by various stakeholders, erstwhile promoters etc, successful/ unsuccessful resolution applications which has served only to clog the adjudicating system;
b) Resolution of all the 50 cases mandated by the Reserve Bank of India are pending for resolution;
c) Sanctity of adherence to the timelines;
d) Insufficient infrastructure in comparison with the accounts to be resolved or filed; and
e) Delay in implementation of a successful resolution plan.

CORPORATE & COMMERCIAL AND PRIVATE EQUITY & VENTURE CAPITAL

Stamp Duty

Pursuant to the Companies (Prospectus and Allotment of Securities) Third Amendment Rules, 2018 dated September 10, 2018, all unlisted public companies are required to dematerialise their issued securities and issue securities, only in dematerialised form, in accordance with the provisions of the Depositories Act, 1996 and regulations made thereunder, with effect from October 2, 2018.

Under the Interim Budget for the Financial Year 2019-2020 ("**Interim Budget**"), certain new provisions and amendments have been incorporated to rationalise stamp duty implications pertaining to issue and transfer of securities. Following are some important amendments that have been proposed under the Indian Stamp Act:

1. ***Definition of "Instrument":***

   Under the definition of instrument, a new category has been added to include within its ambit documents, electronic or otherwise, created for the transaction on the stock exchange or depository, by which any right or liability is, or purports to be, created, transferred, limited, extended, extinguished or recorded pertaining to securities.

2. ***Definition of "Marketable Security":***

   The definition of marketable security has been amended as a security "capable of being traded in any stock exchange in India", as against the older provision which was a security "capable of being sold in any stock market in India or in the United Kingdom".

3. ***Definition of "Market Value":***

   A new definition of the market value has been incorporated under the Stamp Act, with reference to a different set of instruments. As per the definition, market value in relation to an instrument shall mean -

   i) any security is traded in a stock exchange, means the price at which it is so traded;
   ii) any security which is transferred through a depository but not traded in the stock exchange, means the price or the consideration mentioned in such instrument;
   iii) any security is dealt otherwise than in the stock exchange or depository, means the price or consideration mentioned in such instrument;

4. ***Incorporation of new provision relating to stamping of principal instrument for transactions on stock exchanges and depositories:***

   It is proposed that the stamp duty would be chargeable only on the principal instrument for the following transactions and no stamp duty shall be charged on any other instruments relating to any such transactions: (i) sale of securities when made through the stock exchanges; (ii) transfer of securities by the depository; and (iii) issue of securities that create or change the records of a depository.

5. ***Change in list of "securities dealt in depository not liable to stamp duty":***

   Section 8A of the Stamp Act has been substituted to the effect removal of exemption of stamp duty on transfer of (i) beneficial ownership of securities, dealt with by a depository; and (ii) beneficial ownership of units, such units being units of a Mutual Fund including units of the Unit Trust of India established wider sub-Section (1) of Section 3 of the Unit Trust of India Act, 1963, dealt with by a depository.

6. ***Incorporation of new provision in relation to collection of stamp duty on instruments of transactions on stock exchanges and depositories:***

6.1 The State Government is now not permitted to charge or collect stamp duty on any note or memorandum or any other document, electronic or otherwise, associated with the following transactions:

i) Sale of securities when made through the stock exchanges;
ii) Transfer of securities by the depository; and
iii) Issue of securities that create or change the records of a depository.

In relation to the aforementioned transactions, the obligation to collect the stamp duty on behalf of the State Government has been casted on stock exchanges, clearing corporations authorised by the stock exchanges and depositories, as the case may be.

6.2 Obligation to pay stamp duty has been cast upon identified persons as mentioned below:

i) in the case of sale of security through stock exchange, by the buyer of such security;
ii) in the case of sale of security otherwise than through a stock exchange, by the seller of such security;
iii) in the case of transfer of security through a depository, by the transferor of such security;
iv) in the case of transfer of security otherwise than through a stock exchange or depository, by the transferor of such security;
v) in the case of issue of security, whether through a stock exchange or a depository or otherwise, by the issuer of such security; and
vi) in the case of any other instrument not specified herein, by the person making, drawing or executing such instrument.

DEFENCE & AEROSPACE

Overview

In the new Interim Budget of 2019-20, the Ministry of Defence has been allocated INR 3,22,163.05 crores for revenue and capital expenditure. This amounts to roughly 3.53% of the central government's budget of 2019-20 and 1.53% of India's estimated GDP. While the share of revenue expenditure has gone up by 12%, capital expenditure has increased by just a mere 3% as a percentage of last years' budgetary estimates.

India's Defence budget Analysis

While India's defence budget for 2019-20 has grown by 9% over last year's budget estimates, it still remains at just 1.53% of the projected GDP. In order to achieve its status as a self-sufficient country that primarily exports rather than imports its defence equipment, the Standing Committee on Defence in its 2014 report had recommended that India's defence budget should be increased to about 3% of GDP. However, in the last eight years, the highest point reached by the defence budget as a proportion of GDP has just been 2.4% in 2011-12. Given below is an analysis of the defence expenditure over the past six years:

Figure 1: Defence Budget Analysis

Year	Defence expenditure (INR crore)	Share of GDP (%)[1]	Growth over previous years' Defence Budget (%)
2014-15	2,22,370	2.25%	9%
2015-16	2,30,125	2.26%	3.49%
2016-17	2,48,710	2.21%	12.37%
2017-18	2,63,004	2.17%	6.2%
2018-19	2,95,512	1.56%	7.7%
2019-20	3,22,163	1.53%*	9%*

Share of capital & revenue expenditure

In 2019-20, capital expenditure for defence is budgeted at INR 1,03,380.34 crores, and it accounts for *21.89%* of the total defence budget (inclusive of pensions and miscellaneous expenses). Capital outlay includes expenditure on purchasing defence equipment, weaponry, aircrafts, naval ships, land, and construction of roads and bridges in border areas. This figure is lower than last year's budget where the capital expenditure amounted to approximately *24.62%* of the defence budget.

The remaining defence expenditure is revenue expenditure which includes expenditure on salaries, allowances, stores required for running the defence services and maintenance of equipment and buildings. Revenue expenditure for 2019-20 amounts to 46.35% of the defence budget. Share of revenue expenditure is typically high because the Indian defence forces are personnel-intensive, with a sanctioned strength of 1.4 million active personnel along with 2.8 million reserve personnel. The amount of funds sanctioned in this budget for defence pensions has significantly increased as a result of the implementation of the One Rank One Pension scheme introduced by the Union Government

[1] Stockholm International Peace Research Institute (SIPRI) data

* Based on calculations as per data presented in the Interim Budget

Over the years, the budget for capital acquisitions for the defence services is declining in comparison to revenue allocations, thereby adversely affecting the modernisation process of the armed forces. It means that India would be unable to acquire a lot of modern equipment and technology, having to rely on its outdated arms and ammunition. While its neighbours continue to grow from strength to strength spending vast sums on their defence sector (an example can be taken from China, who despite having 2.1 million active military personnel allocate a significant chunk of their defence budget towards modernisation and capital acquisition), India is playing a perilous game by not matching them stride for stride.

Figure 2: Defence Budget Break-up (INR crores)

Major Head	Actual 2017-18	Budgeted 18-19	Budgeted 19-20	% change (BE to BE)
Revenue Exp.	2,01,692.80	1,95,948	2,18,782.71	11.65%
Capital Outlay	90,438.40	99,564	1,03,380.34	3.83%
Pensions	91,999.58	1,08,854	1,12,079.57	2.96%
Miscellaneous	33,111.13	35,109.77	37,827.16	7.7%

ELP COMMENTS:

The Interim Budget has not satisfied the demands of India's defence sector as it has merely matched the previous budget adjusted for inflation. It would have been preferable for the Government to allocate serious funds for capital acquisition as well as research & development. While the pension scheme introduced is an admirable one, the fact that India's armed forces are so personnel intensive means that it is a heavy drain on the funds available for the defence sector. Since majority of all the defence deals secured over the past year have been with either foreign original equipment manufacturers or Public Sector Undertakings, the lack of funds being made available in the budget signifies that India's private sector will struggle to pave its way into the defence industry. The possible downside of increasing the defence capital budget by only 3.83% could be that India's much heralded 'Make-in-India' initiative may stall without the adequate funds necessary to sustain investment in the country.

One interesting aspect in the budget is a Major Head for 'Loans to Engineering Industries' for which INR 169 crores is earmarked in the Revised Estimate for FY18-19. This could provide a boost to the industry investing in the sector and help in prototype development/infrastructure of defence equipment. However, it is not clear if this will be spent on private sector, start-ups, innovators or DPSUs. Sadly, no allocations are made against this head in the FY19-20 budget.

While this is a pre-election and an Interim Budget, we are hopeful the post-election budget will be more progressive in capital and R&D allocations, if Make-in-India in defence is ever to result in self-reliance and exports of defence products. Although the Hon'ble Interim Finance Minister did state that increase in the budget will be effected if necessary, an upfront allocation in the demand for grants would have been a motivation for investors in the sector.

REAL ESTATE

GST Reduction for Home Buyers

It was mentioned in the budget speech that the Government has moved the GST council to appoint a Group of Ministers to examine and make recommendations to reduce the burden of GST on the Home Buyers.

ELP COMMENTS:

If GST is reduced further for the housing sector, it would give a boost to sales in the real estate industry. Reforms brought in by Real Estate (Regulation and Development) Act, 2016 and the hope that the title insurance picks up pace simultaneously in the country, would further help in increasing confidence and trust of the home buyers and investors in the real estate industry in the country.

The benefits under Section 80-IBA of the IT Act is extended for one more year, i.e. to the housing projects approved till March 31, 2020.

In addition to making affordable housing available for the low-income group citizens, the same would ensure that the developers continue to show interest in low income group/affordable housing projects in line with the Government's plan "Housing for all by 2022". This will also support the refinance scheme for construction finance for affordable housing introduced by National Housing Bank and in turn support the market for Housing Finance Companies in India.

Notional Rent Exemption, Capital Gains and TDS

The Government has, with an intent to give an incentive to the real estate sector, proposed to extend the period of exemption from levy of tax on notional rent, on unsold inventories, from one year to two years, from the date of obtaining of the completion certificate.

As an additional benefit to the home buyers, levy of income tax is also exempted on the notional rent on a second self-occupied house by an individual given the difficulty of the middle class having to maintain families at two locations on account of their job, children's education, care of parents etc.

The benefit of rollover of capital gains under Section 54 of the IT Act is being increased from investment in one residential house to two residential houses for a tax payer having capital gains up to INR 2 crores. This benefit can be availed once in a life time.

The TDS threshold for deduction of tax on rent is proposed to be increased from INR 1,80,000 to INR 2,40,000 for providing relief to small taxpayers.

ELP COMMENTS:

Exemption on the levy of tax on the unsold inventories seems to be a result of huge inventory being created with the real estate developers and promoters in the industry in past few years because of the decline in the sales. The aforesaid step would lead to relief not only to the developers but also to the home buyers who purchase the completely constructed houses from developers wherein the tax on the notional rent is loaded in the sales cost of the units under the inventory. This would be further supported by the liberal increase from investment in one residential house to two residential houses for a tax payer having capital gains up to INR 2 crores for the purpose of availing benefit of rollover of the capital gains under Section 54 of the IT Act.

The increase in the threshold of TDS on rent from INR 1,80,000 to INR 2,40,000 will allow some additional liquid cashflows to the owners and help in incresed leasing transactions in the real estate industry.

GLOSSARY OF TERMS

Abbreviation	Meaning
AMT	Alternate Minimum Tax
AO	Assessing Officer
AY	Assessment Year
BDT	Buy-back Distribution Tax
DDT	Dividend Distribution Tax
FY	Financial Year
GST	Goods and Services Tax
HUF	Hindu Undivided Family
IBC	Insolvency & Bankruptcy Code, 2016
INR	Indian Rupees
IT Act	Income Tax Act, 1961
LLP	Limited Liability Partnership
LTCG	Long Term Capital Gain
MAT	Minimum Alternate Tax
MSMEs	Micro, Small and Medium Enterprises
NPA	Non-Performing Assets
RERA	Real Estate (Regulation and Development) Act, 2016
Stamp Act	Indian Stamp Act, 1899
TDS	Taxes Deducted at Source

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