FM administers the first booster shot

Nirmala Sitharaman says two more doses coming

Government to infuse ₹70,000 crore upfront into PSBs to release liquidity of ₹5-lakh crore in the market

Enhanced surcharge on FPIs goes, so does levy on domestic equity investors

15% more depreciation for all vehicles bought till March 31, 2020, taking the total to 30%; higher vehicle registration fee deferred till June 2020

OUR BUREAU

New Delhi, August 23

In a move that is meant to counter the 48 days of turbulence in the stock market, the Government on Friday came with its first booster shot for the economy, rolling back the higher super-rich surcharge levied on capital gains in equity market for domestic and foreign investors.

It also announced relief for India Inc by clarifying that violations of Corporate Social Responsibility (CSR)-related provisions will not be a criminal offence.

A package with 32 measures

Sharing the 'package' with the media, Finance Minister Nirmala Sitharaman said these are part of 32 measures worked out to boost the slowing economy. These measures come at a time when there is a fear that growth in the first quarter could be lower and projections for the entire year are being revised downwards.

In fact, there is an apprehensions that lower investment and consumption demand are affecting jobs, and in the automobile sector alone, more that 3.5 lakh people have lost their jobs. However, the government did not give any assurance on industry's demand for lowering the Goods & Services Tax (GST) on automobiles and biscuits. "In order to encourage investment in the capital market, it has been decided to withdraw the enhanced surcharge levied by Finance (No. 2) Act, 2019 on long/ short-term capital gains arising from transfer of equity shares/units referred in Section 111A and 112 A, respectively," Sitharaman said. This will cover gains in the cash market through equity and equity-oriented mutual funds.

In her maiden Budget presented on July 5, Sitharaman had announced enhancement of surcharge on individuals having taxable income of ₹ 2 crore to ₹5 crore and ₹5 crore and above, increasing the effective tax rates for these two categories by around 3 per cent and 7 per cent, respectively. The fine-print made it clear that not only domestic but non-corporate foreign portfolio investors (FPI) will also be required to pay higher surcharge.

Since 40 per cent of the FPIs fall under the non-corporate category, it affected market sentiment and the FPIs took out ₹12,419 crore in July and ₹12,105 crore this month (till August 23).

THE BIG PUSH

Corporate governance

- CSR violations not to be treated as a criminal offence, only as a civil liability

Tax

- Angel tax — Sec 56(2)(viib) of the IT Act — withdrawn for start-ups registered with DPIIT
- Post October 1, all income-tax orders, notices, summons, letters shall be issued through a centralised computer system. A valid document must have a DIN (Document Identification number)
- All pending GST refunds due to MSMEs to be paid within 30 days from August 23. Future refunds will be cleared in 60 days
- From 'Vijay Dashmi' Day, faceless scrutiny of assessees starts

Bank/NBFCs

- Increase in NHB funding from ₹20,000 crore to ₹30,000 crore
- Banks will have to pass on repo rate reduction to consumers
- NBFCs can now use Aadhaar-based KYC of banks for their customers

NIRMALA SITHARAMAN
Finance Minister

Auto

- BS-IV vehicles purchased before March 31, 2020 will remain operational till validity of the car's registration
- Both EVs and liquid fuel driven vehicles will continue to be registered
- With ban lifted, govt departments can now buy vehicles to replace old ones
- Higher vehicle registration fee deferred till June 2020
- Additional 15% depreciation to be allowed for all vehicles bought from now till March 31, 2020, taking the total depreciation to 30%

'Big relief for FPIs'

Sunil Gidwani, Partner with Nangia Advisors (Andersen Global), said that the reversal of the surcharge is a big relief for FPIs. "It would eliminate the need to look for any exotic solutions like restructuring or changing PAN status of SICAV type of structures. It's a bonus for domestic investors as well," he added.

Fillip to MSMEs

In a bid to give fillip to job-creating Micro, Small and Medium Enterprises (MSME), Sitharaman said pending GST refunds would be done within 30 days, while start-ups, a major avenue for employment and new entrepreneurship, would be exempt from the so-called 'Angel Tax'.

She also announced an immediate infusion of ₹70,000 crore into banks to boost their liquidity and lending capacity of banks by ₹5 lakh crore while housing finance companies would get up to ₹30,000 crore with a view to reviving the real estate sector.

The Minister said banks would be required to link lending rates to the RBI's benchmark rate in order to accelerate the transmission of the central bank's policy easing. Till now, banks generally have lagged in transmitting the RBI's reduction in repo rates to borrowers.

So far this year, the RBI has cut rates by 110 basis points in four instalments but banks have passed only a part of it to borrowers. Before the last reduction, earlier this month of 35 basis points, banks on an average had passed only 29 basis points out of 75 basis points cut affected during 2019.

Relief for auto sector

For the auto sector, she doubled depreciation to 30 per cent and lifted the ban on government departments buying new vehicles. BS-IV vehicles purchased till March 31, 2020, before the country switches to lower-emitting BS-VI vehicles, would continue to be operational valid for till their registration period.

The Minister hoped that the revenue target will be met, but also said that two more big announcements will come soon.

Derivatives relief for FPIs

OUR SPECIAL CORRESPONDENT

New Delhi: Foreign portfolio investors (FPI) will not have to pay the higher surcharge on gains arising from the transfer of derivatives — futures and options (F&O). However, this benefit will not be available to domestic investors.

The finance ministry had on Friday announced a slew of measures to boost the economy, including a rollback of the enhanced super-rich tax on foreign equity investors announced in the budget.

The derivatives (futures and options) are not treated as capital asset and the income arising from the transfer of derivatives is treated as business income and liable for a normal rate of tax for domestic investors, the Central Board of Direct Taxes (CBDT) said in a statement.

But in the case of foreign portfolio investors (FPIs), derivatives are treated as capital assets and the gains arising from the transfer of the same is treated as capital gains and are subject to a special rate of tax, according to the provisions of the Income Tax Act.

"Therefore, it has been decided that the tax payable on gains arising from the transfer of derivatives (futures and options) by FPIs, which are liable to a special rate of tax under section 115AD of the (Income Tax) Act, shall also be exempted from the levy of the enhanced surcharge," it said.

> "It has been decided that tax payable on gains arising from the transfer of derivatives (futures and options) by FPIs shall be exempted from the enhanced surcharge
>
> Central Board of Direct Taxes

Domestic investors

However, the tax payable on business income arising from the transfer of derivatives to a person other than an FPI shall be liable for the enhanced surcharge, it added.

This means that such a gain will be business income for domestic investors and taxed at the normal rate of income tax plus the enhanced rate of surcharge, if it is more than Rs 5 crore.

"This was the position before the presentation of the budget, which has been restored. The finance minister had not explicitly spelt out about the derivatives on Friday. Mentioning just equities had caused some confusion and the CBDT has come out with a clarification to dispel any ambiguity," Sunil Gidwani of Nangia Advisors, a tax consultancy firm associated with Andersen Global, said.

In the 2019-20 Union Budget, the government had increased the surcharge to 25 per cent from 15 per cent on taxable income between Rs 2 crore and Rs 5 crore, and to 37 per cent from 15 per cent for income above Rs 5 crore.

Following the increase in surcharge, the effective income tax rate for individuals with a taxable income of Rs 2-5 crore has gone up to 39 per cent from 35.88 per cent and for those above Rs 5 crore to 42.7 per cent.

Bringing non-corporate FPIs under the provision of the enhanced surcharge impacted the sentiments in the stock market.

It resulted in a massive outflow by FPIs from the Indian equity market, taking out nearly Rs 25,000 crore during July and August.