

Key Highlights of Interim Budget 2019 Impact on Technology sector

Fiscal Deficit gap to widen in 2019-20

The fiscal deficit for 2018-19 as per the revised estimates is pegged at 3.4% of the GDP. The fiscal responsibility target of 3.3% for 2018-19 has been missed and the gap is significant for 2019-20 where the target is 3.1% and the estimate are now pegged at 3.4%.

Given this is an election year, this might not have been entirely unexpected. The Government has announced significant schemes to boost farmers' income and tax reliefs targeted at population at the base of the tax bracket. The gross tax revenue as a percentage of GDP is expected to be 11.9% for 2018-19 (as against 12.1% estimated in last year's budget), mainly on account of lower GST collections.

\$ 10 trillion economy in year 2032

The Government has set an objective of making India a \$ 10 trillion economy in year 2032 and \$ 5 trillion economy by year 2024. India is today a \$ 2.7 trillion economy (based on estimated GDP of INR 1, 88, 40,731 crore for 2018-19 RE). A broad vision based on ten dimensions was outlined in this context. An important part of this initiative is to create a Digital India reaching every sector of the economy, every corner of the country and impacting the life of all Indians.

For the IT sector, the budget highlights a continued intention of leveraging technology for achieving economic, social and governance related objectives.

National Programme on 'Artificial Intelligence'

A key win for NASSCOM is the announcement of a National Programme on 'Artificial Intelligence'. This is envisaged to take the benefits of Artificial Intelligence and related technologies to the people. In this context, NASSCOM has been requested to begin work on a National AI portal.

Other announcements signifying the Government's thrust towards digitisation are:

- Developing 1 lakh Digital villages
- Simplifying taxation provisions and related compliances
 - Indian Customs to introduce full and comprehensive digitalization of export/import transactions and leveraging RFID technology to improve export logistics.
 - Direct Tax compliance simplification:
 - All returns to be processed in twenty-four hours and refunds to be issued simultaneously.
 - Within the next two years, almost all verification and assessment of returns selected for scrutiny will be done electronically through anonymised back office, manned by tax experts and officials, without any personal interface between taxpayers and tax officers.

- Make in India: Expanding rural industrialisation using modern digital technologies to generate massive employment has been highlighted as a key dimension of Government's vision. This is expected to build upon the Make in India approach to develop grass-roots level clusters, structures and mechanisms encompassing the MSMEs, village industries and start-ups.

The focus on digital India mission is as per expectations and it would be important for NASSCOM and its members to work closely with the Government to shape the digital ecosystem.

Measures for small businesses

Measures announced for small business and start-ups are notable steps in making business process simpler with the use of technology. These should offer support and growth framework to the SME and start-up community.

- 2% interest rebate for GST registered SME units on incremental loan of INR 1 Crore
- Public procurement on Government e-marketplace platform (GeM) to be utilised by MSMEs for selling goods, extended to public sector enterprises
- Requirement of sourcing from SMEs by Government enterprises increased to 25% and at least 3% to be sourced from women owned SMEs.
- Support for 3 lakh Common Services Centre – rendering digital services, creating digital infrastructure.

Direct taxes

Corporate tax: No changes in tax rates and no other legislative changes as well in the Income-tax Act, 1961.

Individual taxation

- It has been proposed to extend the tax rebate provided under Section 87A of the Act, from INR 2500 to INR 12,500, for individual tax payers with annual income of upto INR 5 lakh. Which would mean that for employees whose taxable income is INR 5 lakh or less, no taxes would have to be paid by such employees; - **no impact on IT sector since most employees earn more than Rs 5 lac, unless employees make investments in tax incentive linked schemes.**
- Standard tax deduction for salaried persons has been proposed to be raised from INR 40,000 to INR 50,000 (effective tax break for employees in the highest tax bracket would be INR 3,000) – **marginal relief**
- It has been proposed to withdraw the taxability of notional rent on second self-occupied house property;
- Minimum threshold for applicability of TDS provision has been increased with respect to the below:
- 194A – Applicability of TDS on interest has been increased from INR 10,000 to INR 40,000; and
- 194I - Applicability of TDS on rent has been increased from INR 180,000 to INR 240,000

- It has been proposed to amend Section 54 of the Act to extend the benefit from 1 house residential property to 2 residential house property subject to the condition that the tax payer having long term capital gain up to INR 2 crore rupees. The same would be a one-time opportunity.

Beyond Budget

Some of the significant clarifications/ announcements currently awaited by the industry are listed below. NASSCOM is working with the industry and the Government to ensure that the issues/ concerns are suitably addressed.

- Angel Tax
- Several important GST clarifications related to treatment of BPO services as intermediary, Head office and branch office transactions remain not clarified.
- Reduction in TDS rate on software payments
- Final Significant Economic presence rules awaited
- Need for domestic mobilisation of investments
- Roadmap for corporate tax rationalisation for large companies