

Union Budget 2020-2021



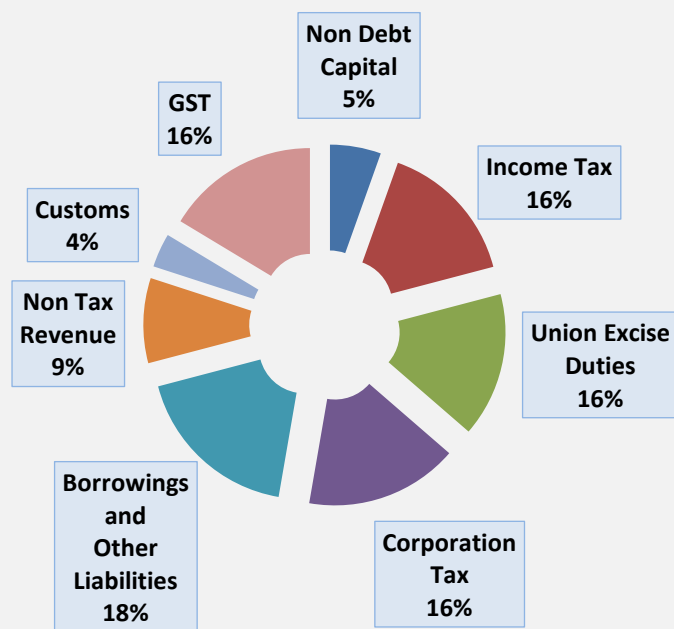
The Goodies

- ✓ Infrastructure & Economic Development given a booster shot with full tax exemption given to Sovereign Wealth Funds of foreign governments on Capital Gains, Interest & Dividend with respect to their investments made in Infrastructure. However in our view more clarity on the means of financing the mammoth Rs103 trillion National Infrastructure Pipeline comprising of more than 6500 projects over the next five years would have cheered the financial markets.
- ✓ Abolishment of the Dividend Distribution Tax and making the dividend taxable in the hands of the recipient at their applicable rates should benefit several large cash-rich companies especially in the IT sector. The Annual Revenues forgone by the GOI on the removal of the DDT is Rs250 bn. Present regime of 10% tax on dividends till Rs10 lakhs stands abolished and would impact individual recipients. Dividend from Mutual Funds are now taxable in the hands of unit holders as per the slab rates (earlier they were at flat rates)
- ✓ The massive outlay of Rs2.83 trillion towards Agriculture, Irrigation & Rural Development spelt out through a 16-point agenda in our view would create a multiplier effect in the backdrop of a very good monsoon this year.
- ✓ National Skill Development, National Logistics Policy & extension of the PMJAY to Tier-2 & Tier-3 cities would in our view create employment opportunities.
- ✓ The Finance Minister in the budget made it very clear that the GOI would back Wealth Creators and has addressed the issue of Trust Deficit quite explicitly
- ✓ Customs Duty changes on sectors like Consumer/Electrical Appliances, Footwear, Auto Parts among others aimed at promoting “ Make in India”

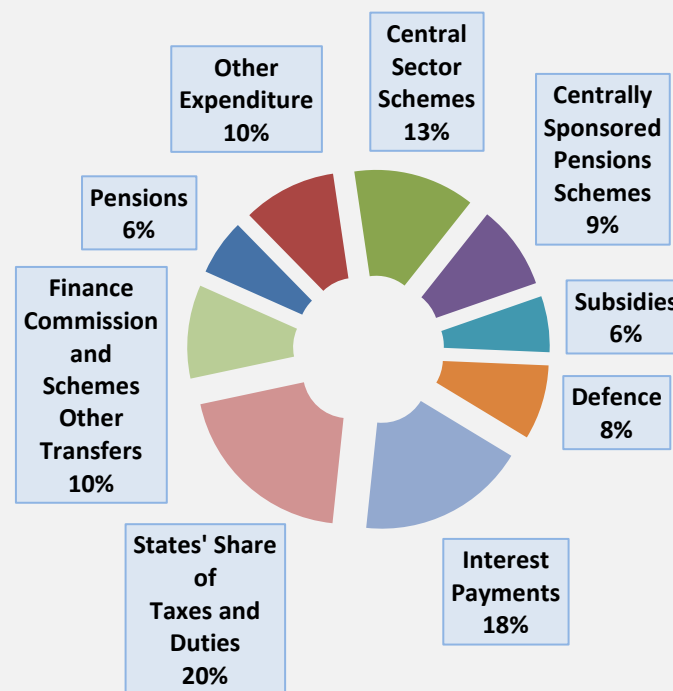


Budget at a Glance

Rupee Comes From



Rupee Goes To



Personal Taxation



Revised personal tax slabs

Tax Slabs	Income tax rates (%)	
	New	Old
5-7.5 lakh	10	20
7.5-10 lakh	15	20
10-12.5 lakh	20	30
12.5-15 lakh	25	30
>15 lakh	30	30

- ✓ However, there has been removal of 70 of the total 100 deductions i.e. an individual cannot claim exemptions under new regime.
- ✓ Also, it is at the option of the individual tax payer whether he opts for old or new tax structure
- ✓ A surcharge of 10%,15%, 25%, 37% for total income of >Rs1.5-10mn, >Rs10-<Rs20 mn, >Rs20-<Rs50 mn, >Rs50 mn respectively
- ✓ New tax once applicable will be followed in all subsequent years as well
- ✓ List of the exemptions that cannot be claimed in new tax regime are - 1) LTA 2) HRA 3) Standard deduction, deduction for entertainment allowance and employment professional tax 4) any deduction under VIA (80C, 80CCC, 80CCD, 80D, 80DD, 80DDB, 80E, 80EE, 80EEA, 80EEB, 80G, 80GG, 80GGA, 80IA, 80-IAB, 80-IAC, 80-IB, 80-IBA atc)
- ✓ Under Section 80EEA, deduction of 1.5 lakh in respect of interest on loan taken on affordable residential house property (stamp duty is <Rs45 lakh) is proposed to be extended to 31st March 2021



Indirect Taxes

- ✓ Customs duty on footwear raised to 35% from 25%, footwear parts raised to 20% from 15%
- ✓ Customs duty on Electrical appliances like fans, food grinders/mixers, hair removing appliances , water heaters, cookers, toasters, etc raised to 20% from 10%
- ✓ Customs duty on Tricycles, scooters, scale motors , dolls raised to 60% from 20%.
- ✓ Customs duty on Household appliances like China, ceramic clay, iron, steel copper, aluminum, glassware, padlock , brooms, hand sieves, comb, vacuum flasks raised to 20% from 10%.
- ✓ Customs duty on auto parts, electric vehicles has been revised upward has been raised upwards between 15-40%.
- ✓ Customs duty on PCBA of mobile phones raised to 20% from 10%. Vibrator/Ringer of mobile phones, display panel of mobile phones raised to 10% from NIL.
- ✓ Customs duty on newsprint and light-weight coated paper from 10% to 5%.
- ✓ Excise duty on cigarettes and other tobacco products has been raised.
- ✓ GOI has proposed a nominal health cess on import of medical devices



Banking & NBFC

Measures	Impact
Deposit Insurance Scheme limit enhanced by Rs5 lakh from Rs1 lakh earlier.	Positive This was need of the hour - in case of any event of any crisis in banking sector, deposit holders would be covered at higher rates
Govt. to sell its entire stake in the IDBI bank	Positive GOI currently holds 47% and LIC 51%.
Removal of exemptions in new personal tax regime	Negative This is sizeably negative for the insurance companies including life and non-life, AMCs as well as compulsion to invest will not be there under new regime
Agriculture credit target for FY21 is kept at Rs15 trillion	Neutral
NABARD refinancing scheme for NBFCs will be further expanded	Positive
Amendments in Banking Regulation Act proposed to strengthen the Cooperative Banks.	Positive Again need of the hour post debacle of PMC Bank
Reduction in the limit for NBFCs to be eligible for debt recovery under SARFAESI from Rs5 bn to asset size of Rs1 bn or loan size from Rs10 mn to Rs5 mn	Positive


Banking & NBFC

Measures	Impact
Providing MSME's working capital in the form of subordinated debt via banks that would work as quasi-equity and guaranteed by Credit Guarantee Trust for Medium & Small Entrepreneurs (CGTMSE)	Positive
Extension of window for restructuring of debt of MSMEs till March 31, 2021	Positive
Fund allocation of Rs10 bn provided by EXIM and SIDBI to mid-sized cos in pharma, auto components etc. to help them in export markets	Positive
Continuation of partial credit guarantee scheme for NBFCs in order to address their liquidity concerns	Positive

Impact of fiscal deficit, market borrowings on banks

- Fiscal deficit target for FY21 is estimated at 3.5% vs. revised estimates 3.8%. Here, the important assumption is nominal GDP is estimated to grow by 10% in FY21 - although looks reasonable growth to achieve but given constrained macro environment, it is equally tough task to achieve.
- Gross market borrowings is estimated to be Rs7.96 trillion vs. Rs7.66 trillion. Any slowdown in growth would push up borrowings requirements resulting in increase in the yields and crowding out private investment demand.
- Also, divestment target is steeply estimated at Rs2.1 trillion vs. Rs0.65 trillion in FY20 which would be mainly led by IPO of LIC. Any non-achievement of such targets would again constraint borrowings and resultant yields as well.

Financial Markets



Measures	Impact
Increase in limit for FPIs in corporate bonds from 9% to 15%	Positive
Formulation of legislation of credit default swaps (CDS)	Positive
Introduction of new debt based ETFs consisting primarily of government securities	Positive
Equity investment to the tune of Rs220 bn in IIFCL and a subsidiary of NIIF for long term funding of infrastructure projects	Positive
Setting up of International Bullion Exchange in GIFT City	Positive

Infrastructure Sector

- ✓ Allocated Rs273 bn in FY 21 to develop commerce, industry.
- ✓ Allotted Rs14.8 bn on national technical textile mission.
- ✓ To launch new export credit scheme NIRVIK for small exporters, which will have higher insurance cover and lower premiums
- ✓ Plan five new smart cities via PPP mode
- ✓ Proposed Rs1.7 tn for transport infra FY 21.
- ✓ Aim to achieve 27,000 km electrification for railway tracks
- ✓ Allocated Rs220 bn for power, renewable sector in FY 21.
- ✓ To expand national gas grid to reach 27,000 km.
- ✓ To develop Bengaluru city rail network for Rs186 bn
- ✓ Proposed Rs60 bn for Bharat Net project in FY 21



Rural, farm and Agricultural sector

- ✓ Allocation for farm, irrigation, rural development stands at Rs2.83trillion, out of which Rs1.23trillion is allocated for rural development, while Rs1.6 trillion is allocated towards agriculture and farming.
- ✓ Agricultural credit target for FY 21 set at Rs15 trillion
- ✓ GOI is committed to double the farm income by FY 22
- ✓ Plans to install 2 mn solar pumps in rural India under the KUSUM plan
- ✓ To raise fish output to 20 mn tons by FY23
- ✓ To double milk processing capacity to 108 mn tons by 2025.



Social sector, Education

- ✓ GOI allocated Rs690 bn for health sector
- ✓ Rs 30 bn allocated for skill development in FY 21
- ✓ Allocate Rs993 bn for education sector in FY 21
- ✓ Jal Jeevan Mission allocation of Rs115 bn in FY 21.
- ✓ Swachh Bharat Mission allocation of Rs123 bn in FY 21
- ✓ Allocated Rs95 bn for senior citizens, handicapped by FY 21.
- ✓ To allocated Rs850 bn for schemes for SCs, OBCs in FY 21.
- ✓ To provide Rs437 bn for programmes for STs in FY 21
- ✓ To provide Rs286 bn for women specific plans in FY 21.
- ✓ Proposed Rs356 bn for nutrition related plans in FY 21.
- ✓ To provide Rs308 bn for J&K, Ladakh in FY 21.

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