

Aatmanirbhar Bharat

Part 1

Introduction

Coronavirus (Covid-19) pandemic has caused a lot of economic disruptions to countries across the globe. The pandemic, in addition to causing loss of lives, has resulted in the following situations in various countries across the globe:

1. Loss of employment to millions of workers and labourers.
2. Underpayments to labourers, contractors, managers, directors and other stakeholders of business entities.
3. Change in the strategies adopted by business entities pertaining to the areas of supply chain management, business verticals, reorganization in operational structures.
4. Formation of new alliances and hostility among the countries of the globe.

In order to avoid economic recession and as a measure to kickstart the Indian economy, Union Finance Minister Nirmala Sitharaman, under the stewardship of Honourable Prime Minister Narendra Modi, on Wednesday presented the details of the Rs 20 lakh-crore economic stimulus package, announced by Prime Minister Narendra Modi on Tuesday, to help businesses recover from the debilitating impact of the coronavirus pandemic, to boost growth and to help build a self-reliant India.

Honourable Finance Minister, Smt. Nirmala Sitharaman reiterated that the package was based on five economic pillars:

1. economy,
2. infrastructure,
3. tech-driven systems,
4. demography and
5. demand.

The Finance Minister announced tax reforms as part of the first phase of the stimulus package to revive the economy. Essentially, the focus is on making India self-reliant, with a thrust on reviving, aiding and encouraging the Micro, Small and Medium Enterprises (MSMEs).

The stimuli are multipronged.

1. Easing of access to funds by the MSMEs
2. Lessening the burden of Statutory and Tax compliances under Income Tax Act, 1961

In this article, we have provided a birds-eye-view of the various economic packages and incentives announced by the Finance Minister which primarily pertain to business entities including MSMEs.

Micro, Small and Medium Enterprises

Existing Norms

Enterprises are classified into two broad categories:

1. Manufacturing/Production Enterprises
2. Service Enterprises

The above enterprises are classified as micro or small or medium enterprises based on the **investment made by them in plant and machinery**. As per the provisions of **Section 7** of the Act, enterprises are classified into micro or small or medium enterprises illustrated as under:

Criteria	Micro	Small	Medium
Manufacturing / Production enterprise	Does not exceed ₹ 25 lakhs	Exceeds ₹ 25 lakhs but does not exceed ₹ 5 crores	Exceeds ₹ 5 crores but does not exceed ₹ 10 crores
Service enterprise	Does not exceed ₹ 10 lakhs	Exceeds ₹ 10 lakhs but does not exceed ₹ 2 crores	Exceeds ₹ 2 crores but does not exceed ₹ 5 crores

Further, the following has been provided to help in understanding the classification of enterprises at the different threshold limits:

Manufacturing / Production enterprise	Service enterprise
Exact ₹ 25 lakhs- Micro	Exact ₹ 10 lakhs- Micro
Exact ₹ 5 crores- Small	Exact ₹ 2 crores- Small
Exact ₹ 10 crores- Medium	Exact ₹ 5 crores- Medium

Revised Norms

In the revised norms, criteria of eligibility is determined by both Investment in Plant and Machinery and the Annual Turnover of the enterprises.

Category	Micro	Small	Medium
Manufacturing or Production enterprise	Investment < Rs. 1 crore	Investment < Rs. 10 crores	Investment < Rs. 20 crores
Service enterprise	Turnover < Rs. 5 crores	Turnover < Rs. 50 crores	Turnover < Rs. 100 crores

It has to be noted that, for classification of an enterprise as a micro, medium or small enterprise, it has to satisfy both the investment and turnover criteria jointly.

While as on date, the ministry has not provided the clarification as to which of the above criteria takes the primary weightage.

For example, If A Ltd's investment is Rs. 1.5 crore and its annual turnover is Rs. 4 crores, then it is not clear as to whether A Ltd is a Micro enterprise or a Medium enterprise. We would have to wait for further updates from the Ministry.

Other Benefits for MSMEs

- **MSME receivables from Gov and CPSEs to be released in 45 days**
- Fintech will be used to enhance transaction-based lending using the data generated by the e marketplace.
- **e market linkage** for MSMEs to be promoted to act as a replacement for trade fairs and exhibitions.

Contractors

- **Extension of up to 6 months** (without costs to contractor) to be provided by all Central Agencies (like Railways, Ministry of Road Transport & Highways, Central Public Works Dept, etc)
- All GOI agencies, such as Railways, highways or central public works, will give three to six months extension to all contractors without extra costs.
- To facilitate greater liquidity, government agencies will partially release **bank guarantees to the extent of the completed contract** so that cash flow improves.
- Scheme covers construction/ works and goods and services contracts.

Real Estate

Following are the various reliefs provided to the Real Estate Sector and under RERA.

- Relief for real estate sector: Extension of registration and completion date certificates by 6 months.
- Date of Real Estate Projects under RERA has been extended
- **Treat COVID-19 as an event of 'Force Majeure' under RERA.**
- **Extend the registration and completion date suo-moto by 6 months for all registered projects expiring on or after 25th March 2020 without individual applications.**
- Regulatory Authorities may extend this for another period of up to 3 months, if needed
- Issue fresh 'Project Registration Certificates' automatically with revised timelines.
- Extend timelines for various statutory compliances under RERA concurrently.

Businesses

The Ministry has come up with the following initiatives for Businesses including MSMEs who have been adversely affected by the covid-19 situation and the nation-wide lockdown.

1. Rs. 3 Lakh crores of Collateral free loans to meet their Working Capital Requirements.

This would help the businesses which need additional funding to meet operational liabilities built up, buy raw material and restart business.

It has to be noted that this facility is to meet only the working capital requirements and not for any other purposes such as term loan, infrastructure commitments, property, plant and equipment obligations for expansion of business.

2. Emergency Credit Line from Banks and NBFCs up to 20% of entire outstanding credit as on 29th February 2020.

Eligibility criteria

- Borrowers (*Businesses including MSMEs*) with up to
 - **Rs 25 crore outstanding**
 - and
 - **Rs 100 crore turnover**

3. Rs 20,000 crores Subordinate Debt for Stressed MSMEs

Eligibility criteria

- Functioning MSMEs which are NPA or are stressed

Benefits

- Promoters of the MSME will be given debt by banks, which will then be infused by promoter as equity in the Unit
- This would benefit such MSMEs for equity support

4. Rs 50,000 crores Equity infusion for MSMEs through Fund of Funds

Eligibility criteria

- MSMEs with growth potential and viability

Benefits

- Expanding MSME size as well as capacity
- Encouraging MSMEs to get listed on main board of Stock Exchanges

5. Disallowance of Global Tenders upto Rs. 200 crores

Eligibility criteria

- MSMEs catering to Government procurement tenders upto Rs 200 crores

Benefits

- Disallowing Global tenders would reduce the competition posed to MSMEs from International companies
- It would help MSMEs in increasing their business and would contribute to their learning curve

Direct Taxation

1. Reduction of Rates of TDS

In order to provide more funds at the disposal of taxpayers for dealing with the economic situation arising out of COVID-19 pandemic, rates of TDS for the following non-salaried specified payments made to non-residents have been reduced by 25% for following non-salaried specified payments. **This measure would release Liquidity of Rs. 50,000 crore.**

Sl. No	Section	Nature of Payment	Existing Rate of TDS	Reduced rate from 14/05/2020 to 31/03/2021
1	193	Interest on Securities	10%	7.5%
2	194	Dividend	10%	7.5%
3	194A	Interest other than interest on securities	10%	7.5%
4	194C	Payment of Contractors and sub-contractors	1% (Individual/HUF) 2% (others)	0.75% (individual/HUF) 1.5% (others)
5	194D	Insurance Commission	5%	3.75%
6	194DA	Payment in respect of life insurance policy	5%	3.75%
7	194EE	Payments in respect of deposits under National Savings Scheme	10%	7.5%
8	194F	Payments on account of re-purchase of Units by Mutual Funds or UTI	20%	15%
9	194G	Commission, prize etc., on sale of lottery tickets	5%	3.75%
10	194H	Commission or brokerage	5%	3.75%

11	194-I(a)	Rent for plant and machinery	2%	1.5%
12	194-I(b)	Rent for immovable property	10%	7.5%
13	194-IA	Payment for acquisition of immovable property	1%	0.75%
14	194-IB	Payment of rent by individual or HUF	5%	3.75%
15	194-IC	Payment for Joint Development Agreements	10%	7.5%
16	194J	Fee for Professional or Technical Services (FTS), Royalty, etc.	2% (FTS, certain royalties, call centre) 10% (others)	1.5% (FTS, certain royalties, call centre) 7.5% (others)
17	194K	Payment of dividend by Mutual Funds	10%	7.5%
18	194LA	Payment of Compensation on acquisition of immovable property	10%	7.5%
19	194LBA(1)	Payment of income by Business trust	10%	7.5%
20	194LBB(i)	Payment of income by Investment fund	10%	7.5%
21	194LBC(1)	Income by securitisation trust	25% (Individual/HUF) 30% (Others)	18.75% (Individual/HUF) 22.5% (Others)
22	194M	Payment to commission, brokerage etc. by Individual and HUF	5%	3.75%
23	194-O	TDS on e-commerce participants	1% (w.e.f. 1.10.2020)	0.75%

This would ensure more funds into the hands of the business establishments, which would, otherwise, have been locked as 'funds with the Government.'

2. Reduction of Rates of TCS

Sl. No	Section	Nature of Receipts	Existing Rate of TCS	Reduced rate from 14/05/2020 to 31/03/2021
1	206C(1)	Sale of		
		(a) Tendu Leaves	5%	3.75%
		(b) Timber obtained under a forest lease	2.5%	1.875%
		(c) timber obtained by any other mode	2.5%	1.875%
		(d) Any other forest produce not being timber/tendu leaves	2.5%	1.875%
		(e) scrap	1%	0.75%
		(f) Minerals, being coal or lignite or iron ore	1%	0.75%
2	206C(1C)	Grant of license, lease, etc. of		
		(a) Parking lot	2%	1.5%
		(b) Toll Plaza	2%	1.5%
3	206C(1F)	(c) Mining and quarrying	2%	1.5%
		Sale of motor vehicle above 10 lakhs	1%	0.75%
4	206C(1H)	Sale of any other goods	0.1% (w.e.f 01.10.2020)	0.75%

Kindly note that, if the payee does not provide the PAN / Aadhar No, then the above reduction in TDS rates will not apply and only 20% tax deduction is applicable.

3. Extension of Due Dates

Due date of all income tax return for FY 2019 20 will be extended from

Cases	From	To
Transfer Pricing and Non Tax Audit Cases	31 st July 2020 and 31 st October 2020	30 th November 2020
Tax Audit	30 th September 2020	31 st October 2020

4. Other Benefits

- Extending last date for filing belated Income Tax Returns of assessees for the financial year 2018-19 to June 30, 2020.
- The **pending income tax refunds** to charitable trusts and non-corporate businesses and professions including proprietorship, partnership and LLPs and cooperatives shall **be issued immediately** upon application for refund.
- Period of **Vivad se Vishwas Scheme** for making payment without additional amount will be extended to **31st December 2020**.

Provident Fund

Employees PF relief of Rs.2500 crores

- In order to provide more take home salary for employees and to give relief to employers in payment of Provident Fund, EPF contribution is being reduced for businesses and workers for 3 months, amounting to a liquidity support of Rs 6,750 crores.
- Statutory PF contribution of both employer and employee will be reduced to 10% each from existing 12% each for all establishments covered by EPFO for next 3 months.
- Under Pradhan Mantri Garib Kalyan Package (payment of 12% of employer and 12% employee contributions was made into EPF accounts of eligible establishments.
- Extending support for another three months from March-May 2020 to June-August 2020 as well. Nearly 3.6 lakh establishments benefit, 72.22 lakh employees will benefit.
- This support will be extended by another three months to salary months of June, July and August 2020
- This will provide liquidity relief of Rs 2500 crores to 3.67 lakh establishments and for 72.22 lakh employees.