NSDL
Technology, Trust & Reach

The Financial Kaleidoscope

Defining the different shapes of investment

February 2020

UNION BUDGET 2020-21

From The Editor's Desk

"Surya, the Sun, collects vapour from little drops of water. So does the King. They give back copiously. They collect only for people's wellbeing."

This verse from the epic Raghuvamsa by Kalidasa was quoted by Finance Minister Mrs. Nirmala Sitharaman while presenting the Budget for 2020-21. It captures the essence of two key economic aspects - wealth creation and taxation. These topics also feature prominently in the accompanying Economic Survey 2019-20 which prescribes a framework for fostering wealth creation in India as a means to become a $5 trillion economy by 2025. India's GDP has slowed down over the last few quarters. In order to counter this, the government along with RBI has started taking a number of corrective measures.

This includes a favourable monetary policy and additional disbursement of funds through NBFCs to increase public spending with the objective of bringing the economy back on the fast track. In her budget, the Finance Minister has continued these efforts by introducing a string of changes and initiatives pertaining to direct taxation.

While the new income tax regime may increase disposable income at hand, the abolishment of Dividend Distribution Tax may encourage more individuals to invest their money in the capital market. In this edition of The Financial Kaleidoscope, we will focus on one of the central themes, 'Wealth Creation', particularly for retail investors. It covers aspects related to income tax, savings and investments.

We hope you find this useful as you begin your financial planning for F.Y. 2020-21. We are happy to mention that we have received number of encouraging feedback on previous issue of the newsletter. We express our sincere thanks to all the readers and assure that we will continue to make improvements. We invite all our readers to participate in the 'Knowledge Wins Contest' and share your feedback and suggestions at the link given inside the newsletter. Hindi version of the newsletter is available at https://nsdl.co.in/publications/nest.php

Last but not the least, we request all readers to take care of themselves and their near and dear ones because of the ongoing crisis of Corona Virus. Please follow the best practices for personal hygiene and instructions given by the government authorities. There are several things related to your Demat account which you can do from your home, without going to your DP's office. For example, you can get your latest account statement on NSDL Mobile App or through IDeAS website. For more information on such useful NSDL services, you may like to read our January 2018 issue of this newsletter, available at:

https://nsdl.co.in/downloadables/The%20Financial%20Kaleidoscope%20-%20January%202018.pdf

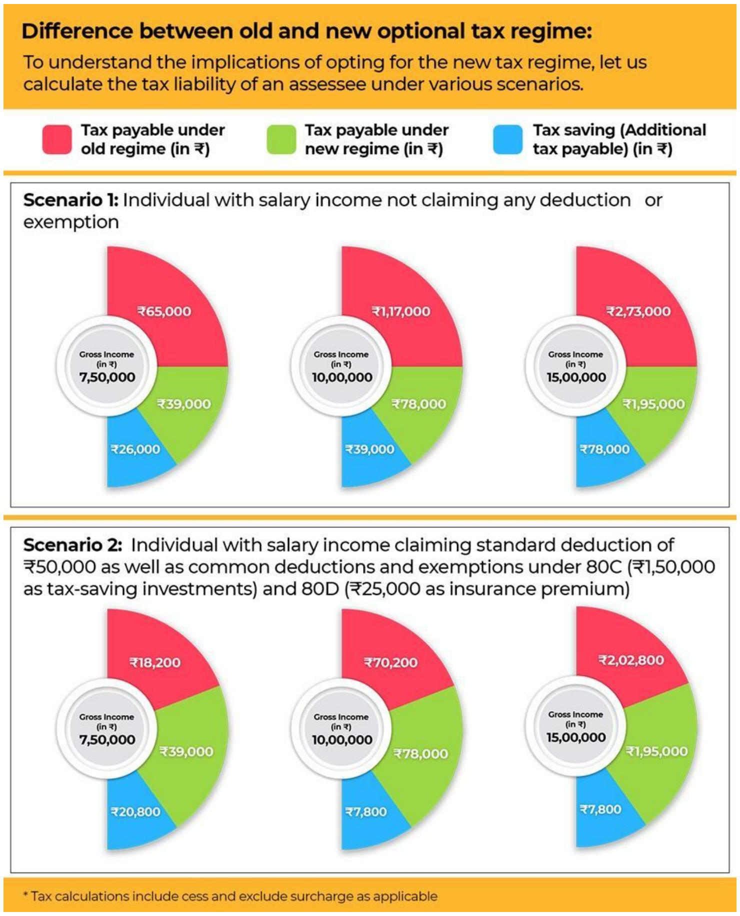
Regards,
Team NSDL

The budget has proposed a new alternative tax regime that individuals and HUF could opt for, starting from FY 2020-21. Some of the existing deductions and exemptions have been removed in the proposed new structure. In place of that, the proposed regime will apply a lower rate of tax for taxpayers who opt for it. Individuals without business income can opt for or switch between the tax regimes every year. Additionally, while individuals with business income may also select the new tax regime, it is a one-time option and cannot be changed later (unless the taxpayer stops receiving the business income). Proposed slabs and rates under the new optional income tax regime:

Income Slabs (₹)	Tax Rate
Up to 2,50,000	-
2,50,001 to 5,00,000	5%
5,00,001 to 7,50,000	10%
7,50,001 to 10,00,000	15%
10,00,001 to 12,50,000	20%
12,50,001 to 15,00,000	25%
15,00,001 and above	30%

DEDUCTIONS AND EXEMPTIONS THAT HAVE BEEN REMOVED:

- Standard deductions from salary
- Deductions under Section 80C
- House Rent Allowance (HRA)
- Leave Travel Concession (LTC)
- Housing loan interest on self-occupied property
- Setting-off losses against other income



Changes in Determining Tax Residency

The budget has proposed the following changes to determine the residential status of individuals and HUF for taxation purposes:

● An Indian citizen would be deemed to be a 'resident' during a financial year if he / she is not liable to be taxed in any other country. For such an Indian citizen who becomes deemed resident of India under this proposed provision, income earned outside India by him shall not be taxed in India unless it is derived from an Indian business or profession.
● A resident in India would be considered as not ordinarily resident if he / she has been a non- resident in India for 7 out of 10 preceding financial years (currently, an individual or HUF is considered 'not ordinarily resident' if he / she has been a non-resident for 9 out of the preceding 10 years).
● An Indian citizen or a Person of Indian Origin (PIO) would be considered a resident if he / she has been in India for more than 120 days in a given year (currently, an individual is considered 'not ordinarily resident' if he / she spend less than 182 days in India in a year).

Employer Contributions to EPF, NPS and Superannuation Fund

Under the current provisions, an employer's contribution to the following schemes in excess to a given limit is considered as taxable salary for the employee. The current limits are as follows:
● Provident Fund: Employer's contribution in excess of 12% of salary.
● Superannuation Fund: Employer's contribution in excess of ₹150,000.
● National Pension Scheme: Employer's contribution in excess of 14% of salary (for Central Government employees) and 10% of salary (for others).

As per the budget proposal, the individual limits have been replaced by an aggregate sum of ₹7,50,000. As a result, the total contribution of an employer towards such schemes exceeding ₹7,50,000 will be taxable as perquisites. Additionally, annual accretion (interest, dividend or other income) resulting from a taxable employer's contribution as stated above will also be treated as a taxable perquisite.

Deduction on Loan Interest for Affordable Housing

To realise the government's goal of 'Housing for All', the FM had announced an additional deduction for interest paid on loans taken for purchasing an affordable house during the last budget. As per the proposal, individuals could claim a deduction of up to ₹150,000 on housing loans sanctioned on or before March 31, 2020.

In order to encourage more citizens to benefit from this offer and to further incentivise the affordable housing, the budget has proposed extending this deduction for an additional year up to March 31, 2021.

Removal of Tax on Allotment of Employee Stock Option Plans (ESOPs)

ESOPs are securities or shares issued generally by start-ups to their employees as a means to attract and retain quality talent. ESOPs can form a substantial portion of compensation for a number of employees and are currently considered as taxable perquisites when exercised. In case the employees continue holding the shares for the long term, it attracts additional tax liability which could create a cash flow problem for such individuals.

In order to address this issue, the budget has proposed a change pertaining to the payment of taxes for ESOP-holding employees of eligible start-ups. According to the new proposal, employees will need to pay applicable taxes within 14 days of the occurrence of the following events (whichever is earliest):

- 5 years from the end of the financial year in which options are exercised, or
- From the date of sale of such security by the employee, or
- From the date of the employee ceasing employment with the company.

Savings, Investments and Financial Planning

Increased Insurance Cover for Deposits

Bank deposits are a favoured investment avenue for a lot of citizens. However, there have been a few financial crisis at banks that result in inconvenience to depositors in the form of cash withdrawal restrictions imposed by RBI, and in some cases the loss of their life savings. Currently, RBI requires all commercial and cooperative banks to insure the deposits for up to ₹ 1,00,000 per depositor through Deposit Insurance and Credit Guarantee Corporation (DICGC).

In order to address this issue and to revive the faith of depositors in the banking system, the budget has proposed hiking the deposit insurance coverage to ₹ 5,00,000 per depositor.

Abolition of Dividend Distribution Tax (DDT)

What is DDT?
A dividend is a payout given to shareholders (of companies) or unitholders (of mutual funds) out of their profits and is considered an income for the recipient individuals. Currently, companies are required to pay a DDT at the rate of 15% (plus applicable surcharge and cess) which comes to an effective tax rate of 20.56%. Mutual funds on the other hand currently charge a

DDT at an effective rate of 11.65% on equity funds and 29.12% on debt funds.

What is the proposed change?

The FM has proposed moving to a classical taxation system under which the dividend will be taxable in the hands of recipients at tax rates applicable to them. If an individual falls in the 30% tax bracket, he / she will be liable to pay a tax at the rate of 30% on all incomes from dividends.

In addition to this, mutual fund house will deduct tax at source (TDS) of 10% on dividend payouts in excess of ₹5,000 per year. No tax shall be deducted by the fund house on income which is in the nature of capital gains.

Impact of Abolishment of DDT on Investors

The abolition of DDT is likely to boost market sentiment by increasing the attractiveness of the Indian equity market and providing financial relief to a large class of investors.

Additionally, the old DDT regime increased the tax burden for investors, particularly small investors whose income was taxable at a lower rate. The removal of DDT will likely increase the proportion of disposable income among individuals which could result in increased investments in the equity markets as well as mutual funds.

So, if an individual falls in a lower tax bracket, it would make sense to switch to the new tax regime. However, if an individual pays the top rate of income tax, then investing in an equity mutual fund (growth option) may be a better option.

Impact of the New Tax Regime on Investors

The existing tax regime offers a number of deductions and exemptions for investments made in tax-saving instruments. Additionally, the current tax regime requires investors to wait for the lock-in period to end in order to access their funds.

This restricts the ability of small and retail investors to make prudent investments in order to maximise their returns.

The new tax regime which no longer offers deductions and exemptions, actually incentives individuals to invest in productive vehicles as against investing in instruments that are designed to save taxes. This opens up a number of avenues for investors to invest in goal-oriented instruments that are better suited to an investors' risk appetite and financial goals which are beneficial in the long run

Tax Administration

Taxpayers' Charter

In order to strengthen the trust between taxpayers and the administration, the FM has proposed the adoption of a 'Taxpayers' Charter'. The objective of this exercise is to enhance the efficiency of the existing system to make it more citizen-friendly. To be published by the Central Board of Direct Taxes (CBDT), the charter will clearly enumerate the rights of taxpayers as well as guidelines to reduce the harassment of taxpayers.

'Vivad se Vishwas' Scheme

Currently, there are over 483,000 cases pending at different levels for disputes related to direct taxes. With the objective of reducing litigations, the budget has proposed 'Vivad se Vishwas' scheme.

● Under the proposed scheme, taxpayers would required to pay only the disputed amount of taxes with a full waiver on interest and penalty if the payment is made by March 31, 2020*.
● For disputed penalty, interest and fee not connected with the disputed tax, the taxpayer would be required to pay only 25% of the amount for settling the dispute.
● A taxpayer shall be required to pay 110% of the disputed tax (the excess 10% shall be limited to the amount of related penalty and interest if any) and 30% of penalty, interest and fee if payment is made after March 31, 2020.
● The scheme will remain open till June 30, 2020.

Eligibility:
● Pending appeals/writs filed on or before January 31, 2020
● Orders for which time for filing appeal has not expired on January 31, 2020
● Cases pending before the Dispute Resolution Panel on January 31, 2020.
● Search cases with the disputed tax amount of less than ₹5 crore in a year.
● Disputes where the payment has already been made by the taxpayer will also be eligible under the scheme.
● Dispute related to amount of tax, penalty, interest, fee, tax deducted at source (TDS) or tax collected at source (TCS) are covered under the scheme.

Salient features of the 'Vivad se Vishwas' scheme

Payment Date	Disputed Tax	Disputed Penalty / Interest / Fee
• Before March 31, 2020	100% of the disputed tax amount or 125% in search cases	25% of disputed penalty or interest or fee
• Between April 1, 2020 and June 30, 2020	110% of the disputed tax amount or 135% in search cases	30% of disputed penalty or interest or fee

If a taxpayer's pending appeal is decided in his or her favour by the appellate forum, or if the IT department has filed an appeal on the issue, they will be required to pay only 50% of the amounts mentioned above

*Note – On March 24, 2020 FM declared that the date has been extended till June 30, 2020.

Faceless Appeals

With the objective of transforming the direct tax regime, and to deliver on the government's promise of 'maximum governance and minimum government', the budget has proposed the launch of a faceless appeal process for taxpayers in matters of dispute. This is also in continuation with the IT department's initiative of reducing human interface with the objective of bringing greater efficiency, transparency and accountability to the income tax assessment process. In addition to the digitisation and automation of functions such as filing of IT return, assessment and processing of returns and issuance of refunds, taxpayers will now have the option of managing tax disputes in a faceless and electronic manner.

Allotment of PAN Through Aadhaar

Following the introduction of the interchangeability of PAN and Aadhaar announced in the last budget, the FM has introduced new measures to further ease the process of allotment of PAN. Accordingly, the government will launch a system under which PAN shall be instantly allotted online on the basis of Aadhaar.

Budget Trivia

- Traditionally, the budget was tabled by the Finance Minister in the Parliament on the last working day of February. The practice of presenting it on Ist February was introduced in 2017 by the then Finance Minister Mr. Arun Jaitley.

- Most of us are used to seeing the budget speech starting at 11:00 am, however, up until 2000, it was done at 5:00 pm. According to one theory, the timing was a remnant of our colonial history and was apparently done to match the starting of the day for the British Parliament. In 2001, Mr. Yashwant Sinha became the first Finance Minister to present a budget at 11:00 am.

- This was Mrs. Nirmala Sitharaman's first full budget after taking over as the Finance Minister. She is only the second woman to have presented a union budget. Mrs. Indira Gandhi was the first to do it in 1970 when she was the Prime Minister and held the finance portfolio as well.

- The first budget of independent India was presented by Mr. R. K. Shanmukham Chetty on November 26, 1947. It was for a period of seven and half months from August 15, 1947 to March 31, 1948. The targeted revenue for the period was estimated to be ₹ 171.15 crore, while the fiscal deficit was pegged at ₹ 24.59 crore.

- Mr. Morarji Desai holds the record of presenting the highest number of budgets – 10. He is followed by Mr. P. Chidambaram with nine, Mr. Pranab Mukherjee with eight, Mr. Manmohan Singh with six and Mr. Arun Jaitley with five budgets.

News

Inter Depository Transfers of Government Securities

NSDL Depository System will be enhanced to allow market transfers for Government Securities between the Depositories through the "Inter Depository Transfer" module. As per relevant RBI notification, Participants need to comply with the norms laid down by RBI regarding the board- approved risk management process and audit oversight before accepting transactions in Government Securities. Participants are advised to ensure compliance and inform to NSDL in the prescribed format to enable NSDL to facilitate IDT of Government Securities.

Reference: Circular No. NSDL/POICY/2020/0017 dated February 03, 2020 available on NSDL website.

Implementation of Enhanced Due Diligence for Dematerialization of Physical Securities

NSDL has made changes in the file formats in respect of dematerialisation of physical securities for enhanced due diligence. Participants are requested to take note of this. Reference:Circular No. NSDL/POICY/2020/0021 dated February 24, 2020 available on NSDL website.

Margin obligations to be given by way of Pledge/ Re-pledge in the Depository System

SEBI has directed that to mitigate the risk of misappropriation or misuse of client's securities available with the Trading members (TM) / Clearing members (CM) / Depository Participants, with effect from June 01, 2020, TM / CM shall accept collateral from clients in the form of securities, only by way of 'margin pledge', created in the Depository system. Transfer of securities to the demat account of the TM / CM for margin purposes shall be prohibited. In case, a client has given a power of attorney in favour of a TM / CM, such holding of power of attorney shall not be considered as equivalent to the collection of margin by the TM / CM in respect of securities held in the demat account of the client.

Reference: Circular No. NSDL/POICY/2020/0023 dated February 26, 2020, available on NSDL website.

Training Programmes for Participants:

CPE Training Programme for Participants

NSDL, a NISM accredited Continuing Professional Education (CPE) Provider offers CPE training programmes in different modules for eligible associated persons. In February 2020, NSDL conducted six such training programmes at Ahmedabad, Kolkata, Mumbai, New Delhi and Surat.

Investor Education initiatives undertaken by NSDL:

NSDL conducts Investor Awareness Programmes (IAPs) throughout the country to ensure investors are aware of different aspects of investing. Till date, NSDL has conducted over 4,000 programmes which have been attended by more than 3.86 Lakh investors. Feedback received from investors during these IAPs is extremely encouraging. The schedule of these programs is published online at https://nsdl.co.in/Investor-Awareness-Programmes.php.

We shall be happy to conduct IAPs for your organization / institute / society. Help us in driving the investor education initiative further by writing to us at info@nsdl.co.in about such programmes to be conducted.

More the education, more the prudence.

Knowledge Wins Contest [redacted]

How Much Is the Dividend Tax (DDT) On Pay-Outs In The Proposed Budget?

To send your replies: visit/click www.nsdl.co.in/knowledge-win-contest.php
or
Scan this QR code

25 Lucky Winners get FREE GIFTS

Previous Month's Winners

A V Nagarathna - Bengaluru
Aarti Chandiramani - Mumbai
Amit Singh - Kolkata
Anuj Shah - Ahmedabad
Arunachalam Srinivasan - Madurai
Ashok Deshpande - Bengaluru
Chandan Patwa - Mumbai
Chandrashekhar Patil - Nashik
Darshan Bid - Thane
Dharmik Shah - Mumbai
Dhruv Sethi - Delhi
Gopi Krishna - Bengaluru
Gothandaraj A - Kanyakumari
G Chandrashekarreddy - Rangareddy
Manik Budhiraja - Bengaluru
Murali Gopalakrishnan - Chennai
Murugesan Appasamy - Vridhachalam
Pradeep Bahal - Lucknow
Premchand Agrawal - Aurangabad
Rajeswara Rao Ammisetty - Hyderabad
Ramanpal Singh Sapal - Delhi
Rohit Katariya - Delhi
Sai Ganesh Althi - Visakhapatnam
Selwin Thomas - Coimbatore
Sourabh Navlakha - Ahmedbadad

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