

TAX ALERT



Government announces first tranche of fiscal stimulus measures amid Covid-19 crisis

The Hon'ble Finance Minister ('FM') today announced the first tranche of measures as part of the INR 20 trillion (approx. USD 266 billion) stimulus package to support the revival of the Indian economy in response to the COVID-19 crisis.

Whilst several other measures (including tax measures) are expected to be announced in the days to come, the ones which were announced today largely focused on providing support to Micro, Small and Medium enterprises ('MSME') in order to build a self-reliant India.

Few important tax related changes were also announced by the Hon'ble FM.

The key announcements on tax related matters are summarised as under:

a. Reduction in withholding tax rates (TDS and TCS)

In order to provide more liquidity to the taxpayers, the Government has announced a reduction of 25% in the existing TDS / TCS rates for certain payments. Such reduction would be applicable to all payments made to Indian residents such as contractual payments, professional fees, commission, brokerages, etc.

The revised TDS rates for certain key payments¹ are tabulated below:

Section	Nature of payment	Old TDS rate	New TDS rate
193	Interest	10%	7.5%
194	Dividends	10%	7.5%
194A	Interest (other than interest on securities)	10%	7.5%
	Payment to contractors		
194C	For individuals and HUF	1%	0.75%
	For persons other than individuals and HUF	2%	1.5%
194D	Insurance commission	5%	3.75%
194DA	Payment in respect of life insurance policy	5%	3.75%
194F	Payments on account of re-purchase of units by mutual funds or UTI	20%	15%
194H	Payment of commission or brokerage	5%	3.75%
	Rent		
194I	Use of machinery or plant or equipment	2%	1.5%
	Use of any land or building (including factory building) or land appurtenant to a building (including factory building) or furniture or fitting	10%	7.5%
194-IB	Payment of rent by certain individuals or HUF	5%	3.75%
	Fees for professional or technical services		
194J	Professional fees	10%	7.5%
	Technical fees	2%	1.5%
194K	Payment of dividend by mutual funds	10%	7.5%
194-O	TDS on e-commerce participants	1% (w.e.f. October 1, 2020)	0.75%

The revised TCS rates for certain key transactions² are tabulated below:

Section	Nature of transaction	Old TCS rate	New TCS rate
206C(1)	Sale of scrap	1%	0.75%
206C(1F)	Sale of motor vehicle above INR 10 lacs	1%	0.75%
206C(1H)	Sale of any other goods exceeding INR 50 lacs in a financial year	0.1% (w.e.f. October 1, 2020)	0.075%

¹ Based on nature of payments listed in Press Release dated May 13, 2020 issued by the CBDT. Legislative amendments in this regard shall be proposed in due course.

² Based on nature of transactions listed in Press Release dated May 13, 2020 issued by the CBDT. Legislative amendments in this regard shall be proposed in due course.

It may be noted the aforesaid relaxation in TDS rates do not apply to salary payments. Also, the relaxation would not apply if TDS is required to be deducted at a higher rate due to non-furnishing of PAN or Aadhar. Also, payment to non-residents would be subjected to withholding tax at the applicable rates in force. This benefit of reduced TDS / TCS rates would be effective from May 14, 2020 and will be applicable till March 31, 2021.

b. Release of tax refunds

The Government has announced release of all pending tax refunds to charitable trusts, non-corporate businesses and professions including proprietorship, partnership, LLP and co-operative societies on an immediate basis.

c. Extension of due dates

The due dates to file income-tax returns for all categories of taxpayers (whether corporate or non-corporate) for FY 2019-20 has been extended to November 30, 2020. Further, the due date for completion of tax audit has also been extended to October 31, 2020³.

In addition to the above, the due dates for completion of assessment proceedings has been extended as under⁴:

Year	Relevant Date for passing of assessment order		
	Non-transfer pricing cases	Transfer pricing cases	
	Last date for passing Order by AO	Last date for passing TP Order	Last date for passing Draft Order by AO
AY 2017-18	December 31, 2019	November 01, 2020	December 31, 2020
AY 2018-19	December 31, 2020* (earlier September 30, 2020)	August 01, 2021	September 30, 2021
AY 2019-20	September 30, 2021* (earlier March 31, 2021)	January 30, 2022	March 31, 2022
AY 2020-21	March 31, 2022	January 30, 2023	March 31, 2023

**extended as per the announcement made by the Hon'ble FM today.*

It appears that there is no extension in time limit for passing a draft assessment order for AY 2017-18 which continues to be December 31, 2020.

d. Extension of time for payment under Vivad se Vishwas Scheme

The deadline for availing the benefit of Vivad se Vishwas scheme (without payment of additional 10% of disputed tax) is further extended till December 31, 2020 (earlier due date was June 30, 2020).

³ The due date for taxpayers to whom the provisions of transfer pricing apply continues to be October 31, 2020

⁴ Based on the presentation made by the Hon'ble FM. One will need to check the formal notification / Circular (expected shortly) to see if there are any deviations from this.

e. Contribution to Employee Provident Fund account


In order to increase take home salary of the employee and to grant relief to the employer, the Government has decided to reduce the statutory PF contribution from 12% to 10%. Accordingly, both employer and employee would be required to contribute 10% of salary as PF contribution for next 3 months. Further, in eligible establishments, the Government would continue to pay employer's and employee's PF contribution up to August 2020.

RTA Comments

The measures announced by the Government today should go a long way in instilling confidence in the economy and providing liquidity to the MSME sector. The decision to expedite issuance of tax refunds to certain categories of taxpayers is also a step in the right direction. Whilst reduction in TDS rates would provide more funds at the disposal of businesses, taxpayers would need to reassess their advance tax computations, etc. so that there is no additional interest burden at the time of filing of tax returns and payment of self-assessment tax. Further, as per the law, tax is required to be deducted at the time of payment or credit, whichever is earlier. This aspect should also be kept in mind before one applies the lower withholding tax rate which is effective only from May 14, 2020.

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