

Law and policy update

10 key takeaways from INR 20 lakh crore economic relief package | May 14, 2020

In a speech that echoed and amplified PM Modi's 'Atmanirbhar Bharat' (Resilient India) approach, India's Union Finance Minister (FM) on Wednesday announced a slew of measures to help businesses recover from impact of Covid-19 outbreak. These measures, when included with the earlier steps announced by finance minister and Reserve Bank of India, will be worth INR 20 lakh crore, which amounts to approximately 10% of the country's GDP and immediately positions this as one of the most substantial stimulus packages globally.

With a distinct focus on land, labour, liquidity and laws, the self-reliant strategy depends on five pillars – growing a new economy, creating a state-of-the-art infrastructure, setting up a technology-based delivery system, leveraging the young demography and exploiting domestic demand.

Key takeaways

1. INR 30,000 crore Special Liquidity Scheme for NBFCs/HFCs/MFIs

Government will launch INR 30,000 crore Special Liquidity Scheme, under which investment will be made in both primary and secondary market transactions in investment grade debt paper of NBFCs/HFCs/MFIs.

Under the scheme banks will be allowed to invest, through both primary and secondary market transactions. These investments, to the extent of INR 30,000 crore, will be fully guaranteed by the government. This will provide liquidity support for NBFCs, HFC, MFIs and Mutual Funds and create confidence in the market.

2. INR 45,000 crore Partial Credit Guarantee Scheme 2.0 for NBFCs

Existing PCGS scheme to be extended to cover borrowings such as primary issuance of Bonds/CPs (liability side of balance sheets) of such entities. First 20% of loss will be borne by Government of India. This scheme will result in liquidity of INR 45,000 crore.

3. INR 90,000 crore liquidity injection for DISCOMs

DISCOM payables to Power Generation and Transmission Companies currently stand at approximately INR 94,000 crore. PFC/REC will infuse liquidity of INR 90,000 crore to DISCOMs against receivables and loans will be given against state guarantees for exclusive purpose of discharging liabilities of Discoms to Gencos.

4. Relief to contractors

Extension of up to six months (without costs to contractor) to be provided by all central agencies (like Railways, Ministry of Road Transport and Highways, Central Public Works Dept, etc). This covers construction/works and goods and services contracts.

5. Extension of registration and completion date of real estate projects under RERA

The registration and completion date has been extended suo-moto by six months for all registered projects expiring on or after March 25, 2020 without individual applications. Regulatory authorities may extend this for another period of up to three months, if needed.

6. Loans

- INR 3 lakh crore collateral free automatic loan for businesses, including MSMEs. This will benefit 45 lakh small businesses.
- Emergency credit line will be extended to businesses/MSMEs from banks and NBFCs up to 20% of entire outstanding credit as on February 29, 2020. Borrowers with up to INR 25 crore outstanding and INR 100 crore turnover will be eligible for the scheme. The loans will have four-year tenor with moratorium of 12 months on principal repayment and capped interest. 100% credit guarantee cover to banks and NBFCs on principal and interest will be provided.

7. Taxation

- Rates of Tax Deduction at Source (TDS) for non-salaried specified payments made to residents and rates of Tax Collection at Source (TCS) for specified receipts shall be reduced by 25% of existing rates to release liquidity of INR 50,000 crore.
- All pending refunds to charitable trusts, non-corporate businesses and professions including proprietorship, partnership, LLP and co-operatives shall be issued immediately.
- Due date of all income-tax returns for FY 2019-20 will be extended from July 31, 2020 and October 31, 2020 to November 30, 2020, and for tax audit from September 30, 2020 to October 31, 2020.
- Vivad se Vishwas scheme has been extended till December 31, 2020

8. MSMEs

- Definition of MSMEs has been revised to remove any differentiation between manufacturing and service sector enterprises and allow MSMEs to aim for expansion without losing attendant benefits. From now on, any company with an investment of up to INR 1 crore and turnover of INR 5 crore will be a micro company. Likewise, a company with an investment of up to INR 10 crore and turnover of INR 50 crore has been defined as small company and a company with investment of up to INR 20 crore and turnover of INR 100 crore has been defined as medium company.
- Indian MSMEs have often faced unfair competition from foreign companies. Therefore, global tenders will be disallowed in government procurement tenders up to INR 200 crore. Necessary amendments of General Financial Rules will be effected.

9. Employees Provident Fund (EPF)

- Under Pradhan Mantri Garib Kalyan Package (PMGKP), payment of 12% of employer and 12% employee contributions were made into EPF accounts of eligible establishments. While this was provided earlier for salary months of March, April and May 2020, the support will be extended by another three months to salary months of June, July and August 2020. This will provide liquidity relief of INR 2,500 crore to 3.67 lakh establishments and for 72.22 lakh employees.
- To increase take-home salary for employees and give relief to employers in payment of provident fund dues, statutory PF contribution of both employer and employee will be reduced to 10% each from existing 12% for all establishments covered by EPFO for next three months.
- CPSEs and state PSUs will, however, continue to contribute 12% as employer contribution. This scheme will be applicable for workers who are not eligible for 24% EPF support under PM Garib Kalyan Package and its extension. This will provide relief to about 6.5 lakh establishments covered under EPFO and about 4.3 crore such employees and will lead to liquidity of INR 6,750 crore to employers and employees over three months.

10. INR 1.70 lakh crore relief package under Pradhan Mantri Garib Kalyan

Insurance cover of 50 lakh per health worker will be provided, 80 crore poor people have been given benefit of 5 kg wheat or rice per person for the next 3 months, 1 kg pulses for each household for free every month for the next three months. Around 20 crore women Jan Dhan account holders will get INR 500 per month for next 3 months. Gas cylinders, free of cost will be provided to 8 crore poor families for the next three months. MNREGA wage will be increased to INR 202 a day from INR 182 to benefit 13.62 crore families Ex-gratia of INR 1,000 to 3 crore poor senior citizen, poor widows and poor Divyang.

Our view and suggestions

The relief package is a bold attempt to help the world's fifth largest economy as it hurtles towards its first full year contraction in four decades. While the package contains a suite of offerings targeted at different sections of the economy including the MSMEs, any subsequent announcements should include labor reforms and contain a clear focus on addressing the immediate need of cash for MSME sector to meet its short-term working capital requirements, preserve entrepreneurial spirit and boost capital formation and consumption.

Some of the below mentioned measures may be considered to further ease the burden of businesses:

- Receivables due from large corporates must be released for any MSME irrespective of whether its registered or not
- Salary and wage support for 3 months period of lockdown can be partly reimbursed to MSMEs to enable staff retention and prevent crucial skills & knowledge gained over the time
- Limits set under Bill Discounting Scheme of National Small Industries Corporation can be temporarily done away with as it causes delay and acts as an impediment to timely support
- Income tax rate for partnership firms should be brought at par with corporate tax rate

New Delhi

81/1 Adchini
Sri Aurobindo Marg
New Delhi – 110 017

Phone: (+91) (11) 6638 7000
Email: newdelhi@hsalegal.com

Mumbai

Construction House, 5th Floor
Ballard Estate
Mumbai – 400 001

Phone: (+91) (22) 4340 0400
Email: mumbai@hsalegal.com

Bengaluru

Aswan, Ground Floor, 15/6
Primrose Road
Bengaluru – 560 001

Phone: (+91) (80) 4631 7000
Email: bengaluru@hsalegal.com

Kolkata

No. 14 S/P, Block C,
Chowringhee Mansions
Kolkata – 700 016

Phone: (+91) (80) 4631 7000
Email: kolkata@hsalegal.com