

Features of the Economic Relief Package of the Government of India during the COVID-19 situation

written by Jidesh Kumar | May 13, 2020



Finance Minister's Strategy to Battle COVID-19 Outbreak

Government of India has announced Economic Relief Package in multiple tranches. The first tranche, announced on May 13, 2020, has 14 different measures. Six of these are for Micro, Small and Medium Enterprises (MSME); 2 are for Employees Provident Fund (EPF); 2 for NBFCs, Housing Finance companies and MFIs; 1 to electricity distribution companies; 1 to contractors; 1 in the real estate sector and 3 tax measures:

1. Features for MSMEs package in India

- For regular functioning MSMEs, collateral free automatic loans worth Rs 3 lakh crore will be provided. This is for 4 year tenure and is 100 percent guaranteed. This will last till October 21, 2020;
- For NPA and stressed MSMEs, Rs 20,000 crore will be infused through subordinate debt for stressed MSMEs who have equity problems. This liquidity line will benefit 2 lakh MSMEs. All NPA or stressed MSMEs are eligible for scheme. Government will provide Rs 4,000 crore to CGTMSE who will provide partial guarantee to banks who will then give benefit to stressed MSMEs;
- For viable MSMEs, Fund of funds of the Government of India will infuse Rs 50,000 crore equity through its daughter funds. This fund infusion will be for those MSMEs who have potential and are viable. This gives such MSMEs an opportunity to expand and also list on stock exchanges when they are ready;
- Definition of MSMEs changed - Definition being changed for MSMEs in their benefit, so that they can grow in size and get benefits. The Definitions now is applicable similarly for Manufacturing and Service Enterprises. Investment limit which defined MSMEs has been revised upwards. Additional criteria being brought in is turnover size - earlier differentiation between manufacturing and service MSMEs will be categorised similarly;



- Global tenders in government procurement will be disallowed for up to Rs 200 crore or less. This will allow MSMEs a chance to supply for these big projects. Small units can be part of government purchases
- Since trade fairs and exhibitions will be difficult, we will provide e-market facilities. GoI and CPMEs where there are receivables - all will be cleared within 45 days

B) Features of EPF package

- The government would pay the entire provident fund contribution of those who earn less than ₹15,000 per month in companies that employ up to 100 people, where 90% draw salaries of less than ₹15,000 per month support to eligible companies extended to for another three months.
- In order to provide more take home salary for employees and to give relief to employers in payment of PF,. For the next three months, all other private sector employers will need to pay only 10% contribution as against the 12%.

C) Features of package for NBFCs, MFI and Housing Finance Companies

- Rs 30,000 crore special liquidity scheme where government will buy investment grade debt papers (and not only high quality papers) of NBFCs, HFCs and MFIs. These securities will be fully guaranteed by Government of India. This is with the intention that these NBFCs - which do not have high quality debt papers, can then support the MSMEs dependent on them.
- Rs 45,000 liquidity infusion through partial guarantee scheme. Will cover commercial papers and borrowings. First 20 percent loss will be borne by guarantor - GOI. Double AA rated paper and unrated papers will all be eligible.

D) Features of Package for Electricity Distribution Companies

- For distribution companies facing unprecedented cash flow problems and are unable to pay electricity generation companies, a one-time emergency liquidity infusion of Rs 90,000 crore via PFC and REC is being provided. This will be a state issued guarantee and rebate will be provided to those distribution companies that pass benefit to end customers.

E) Features of Package for Contractors

- All Government of India agencies, such as Railways, highways or central public works, will give six months extension to all contractors without extra costs. This will cover construction work and goods and services contracts, completion of works and intermediate milestones, and also concessional period in PPP contracts. To facilitate greater liquidity, government agencies will partially release bank guarantees to the extent of the completed contract so that cash flow of the Contractor to make payments improves.

F) Features of Package for Real Estate

- The Urban Development Ministry shall issue advisories to states and UTs to treat the COVID-19 period as an 'Act of God' and thus allow force majeure extension and suspension. Fresh project registration certificates will be issued and registration and completion date to be extended suo moto for up to six months for projects registered on or after March 25, 2020.

G) Features of Package for Tax

- Reduction of TDS and TCS: TDS and TCS rates is reduced by 25 percent for financial year 2020-21. This is applicable on all payments - interest, rent, brokerage, supply, etc. This will be enforced from May 14, 2020 till March 31, 2021.
- All pending refunds to charitable trusts and non-corporate business & professions shall be issued immediately.
- Due date of all I-T returns for FY19-20 from July 31, 2020 and October 31, 2020 extended till November 31, 2020. Tax audits extended from September 30, 2020 till October 31, 2020. Date of assessments getting barred as of September 2020 is extended till December 2020. Those getting barred on March 31, 2021 is extended till September 31, 2021. Vivad se Vishwas scheme is extended till December 31, 2020 without any additional amount

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